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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 voluntary 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.
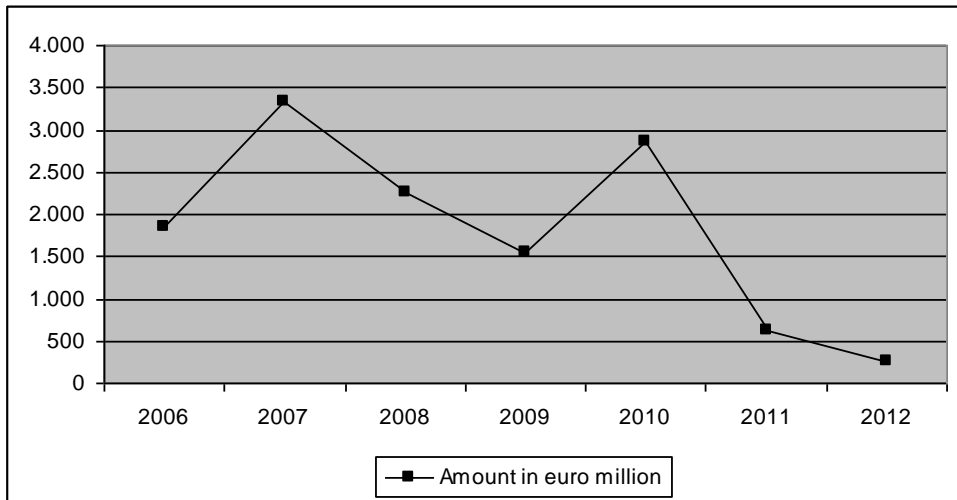
Chart no.1. The evolution of the fines' value, applied to cartels between 2006-2012
Source: made by the author based on data from http://ec.europa.eu/competition/cartels/statistics/statistics.pdf
* March 2012

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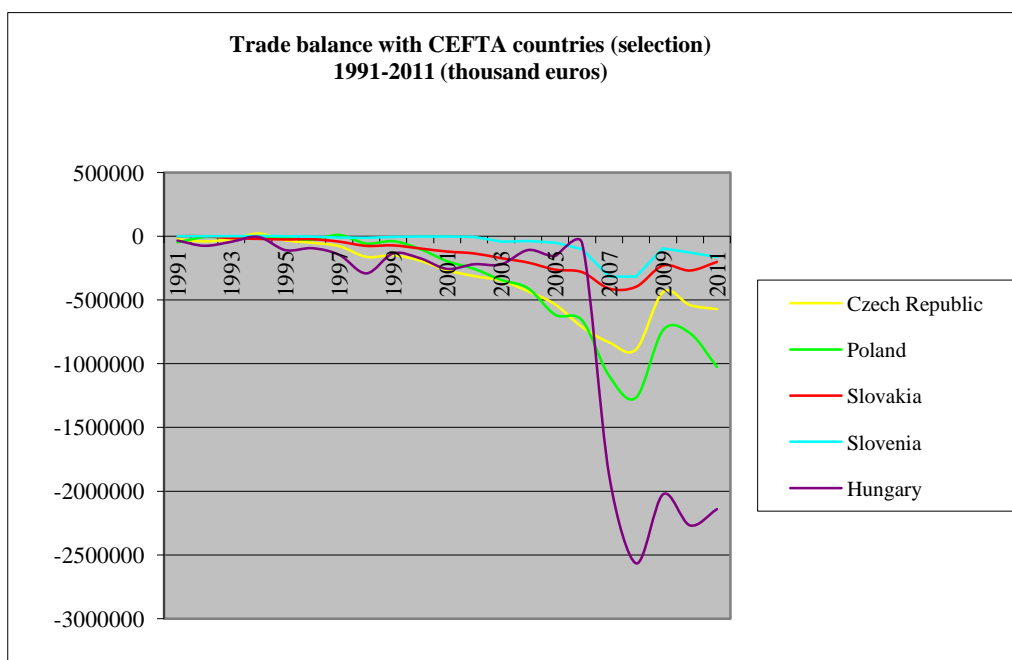
Figure 1
Source: Graphic made by author based on data in Table 1.

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	Liechtenstein	Switzerland	Norway	Iceland	Liechtenstein
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)
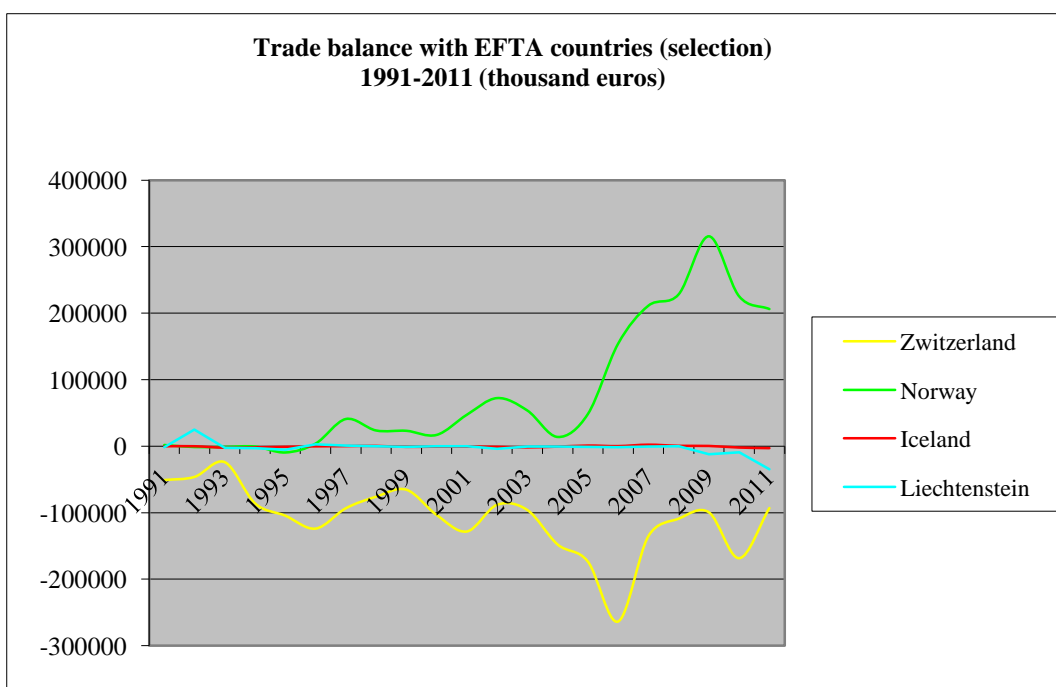
Figure 2.
Source: Graphic made by author based on data in Table 2.

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)

Country/Year	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
Country/Year	1998	1999	2000	2001	2002	2003	2004
Albania	3540	7288	11382	13533	21622	13156	15261
Bosnia and Hertzegovina	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
Country/Year	2005	2006	2007	2008	2009	2010	2011
Albania	11014	23299	34230	36664	27429	46119	39882
Bosnia and Hertzegovina	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.

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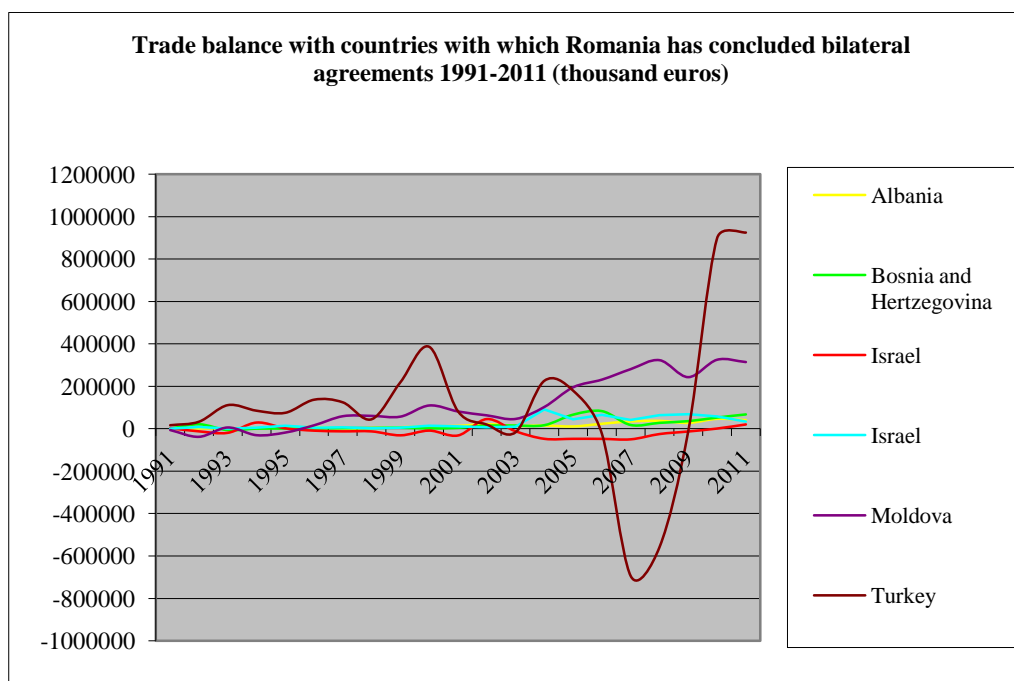
Source: Graphic made by author based on data in Table 3.

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

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

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This paper is a continuation of "Romania's EU accession. Gains and losses (I)" where we have been presented statistics on Romania's trade with major trading partners to whom, before, or after EU accession, the legal status has changed. In this paper we try to identify the benefits and costs of accession to the EU in terms of trade. In the first part we analyze the dynamics of trade with new partners, resulting from the accession. The last part is devoted to conclusions. The main idea that emerges from this work is that, unfortunately, Romania governors, did not know to take advantage of the opening to the biggest economic market although the financial and institutional support offered by the EU.

Romanian trade agreements after 2007

With the accession to EU Romania was bound to abandon its trade agreements, instead became part of the union agreements with third countries or regions. In this paper we try to identify any correlations and, obviously, the effects that these legal changes over Romania's trade. For this we analyze the dynamics of trade with the signatory states of the Euro-Mediterranean Association Agreement with the EU, and the trade dynamics with South Africa, Chile and Mexico. These are countries with which Romania has not concluded bilateral agreements before accession. Obviously, this analysis does not include all countries in the category with which Romania has not concluded trade agreements until accession; to name, as an example, EU agreement with ACP countries. In the latter case, however, for example, Member States are to 79 (of which 78 have signed the Cotonou Agreement), and an analysis of trade relations between Romania and each of them exceeds the objectives of this paper.

Table 1. The dynamics of trade balance between Romania and the main countries involved in regional agreements with the EU (thousand euros)

Country/Year	1991	1992	1993	1994	1995	1996	1997
South Africa	-30243	-15654	-32777	-6458	41162	-4267	-26008
Algeria	-454	797	445	17050	69576	35594	50296
Chile	708	1658	930	1013	6819	-3206	13107
Egypt	-207567	-63910	12340	29477	-155874	-5641	108621
Jordan	19081	28807	33328	27463	16707	27522	19713
Marocco	15681	3280	13155	23556	30212	28396	24143
Mexico	-1082	-1947	816	3382	-2790	1758	6796
Tunisia	5661	460	-1111	3341	35440	41273	23385
Country/Year	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
South Africa	-9425	-8559	-10931	-43308	-31142	-34977	-30113
Algeria	32070	34791	23865	20343	-1720	45051	48322
Chile	9118	5056	6601	11081	7858	1138	-789
Egypt	124502	112372	168245	82919	104183	80021	130616
Jordan	19265	17663	15832	18672	22099	10510	28692
Marocco	19730	12441	14653	23544	29398	19756	4025

Country/Year	1991	1992	1993	1994	1995	1996	1997
Mexico	32228	12362	21102	12563	4323	-14817	-17218
Tunisia	18605	14738	33108	27280	14507	9521	18197
Țara/Anul	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
South Africa	-16451	-20143	-41678	26248	12736	80347	127471
Algeria	55726	67304	75218	103698	97207	173269	181007
Chile	11771	-3378	2203	22832	-2253	106	32249
Egypt	94715	53687	85268	121436	158562	152946	218058
Jordan	23768	23203	26867	27067	43142	55737	116509
Marocco	34468	42666	73543	45197	66706	120625	149480
Mexico	-55613	-14752	-23306	20115	-32565	-31631	-122309
Tunisia	23804	44791	24480	26083	28682	-2301	30390

Source: compiled by author based on data from the INS website (www.insse.ro)
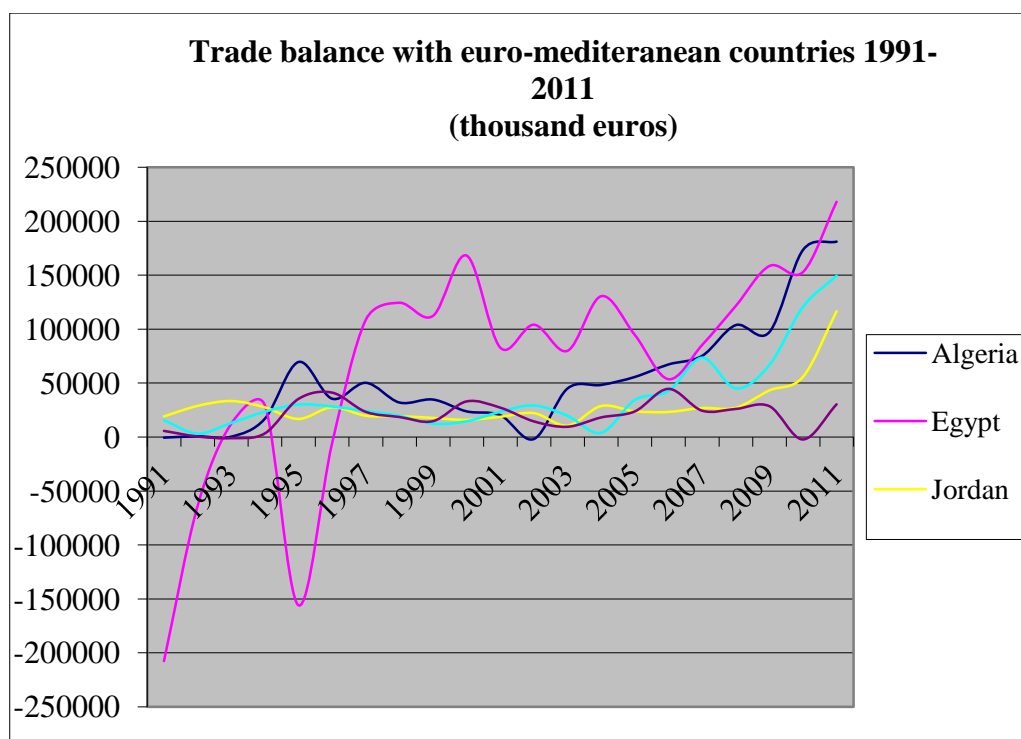
Figure 1.
Source: Graphic made by author based on data in Table 1.

After analyzing the trade balance Euro-Mediterranean countries, that are parts of the agreement with the EU, an increase, beginning with the 2000-2003 period, is seeing but it does not contribute significantly to analysis efficiency. However, after 2007, it seems that there is a sharp rise in trade surplus.
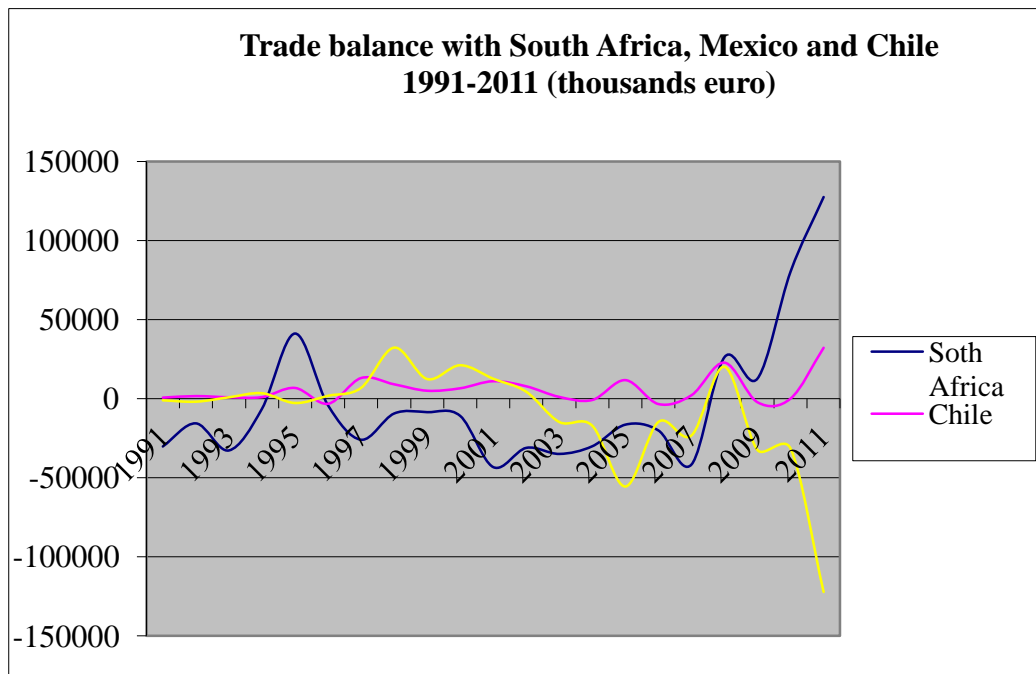
Figure 2.
Source: Graphic made by author based on data in Table 1.

Trade balance with South Africa and Chile is growing after 2009, which seems to be a correlation with the date of accession. However, supporting the EU's willingness to develop trade relations with South American countries, including the reduction or withdrawal of reciprocal custom duties, an increase of trade deficit with Mexico is observed. Mean time low level of trade surplus with Chile is maintained.

Commercial advantages and disadvantages of Romania accession to the EU
We will analyze, based on data presented in the previous paragraph, the dynamic changes in trade, separate for each partner.
a) CEFTA countries
First we will review trade with CEFTA member states that joined the EU, and therefore exit CEFTA, before Romania. We try to identify if the two time points 2004 (exiting CEFTA) and 2007 (Romania accession) has caused or not, fluctuations in the level of trade.
Charts, which are dynamic trade with the Czech Republic, Poland, Slovakia, Slovenia and Hungary, have obvious similarities. Remember, first, that in 1997, when Romania became a member, all these countries were already in CEFTA (Slovenia in 1996, the rest of 1992). In addition, all states listed have become EU members in 2004.
What stands out in these graphs are the two time points (1997 and 2007) which marks an increase of trade but, unfortunately, at the same time with Romania's trade deficit with all five states. This underlines that CEFTA membership, and then the EU membership caused an increase in trade with other Member States, which is natural situation because both moments generated legal status changes and reduction or elimination of customs duties.
The negative trade balance, unfavorable to Romania, increased after 2007, and can only be explained by low competitiveness of Romanian products compared with those of the five countries analyzed. This fact underlines the need for increased integration and obliges governments to identify and implement measures to justify efforts for accession.

b) EFTA countries

A second category of countries analysed is the signatory countries of EFTA. We recall that in 1993 Romania ratified the accession to EFTA agreement. The agreement is, in many aspects, similar to the European Agreement.

Analysis of trade with EFTA Contracting States has a special character determined, on the one hand, by the status of nonUE states and, on the other hand, by the low level of trade with Iceland and Lichstenstein. Perhaps the most important observation is that, although Romania has concluded trade agreements with EFTA since 1993, the year seems to mark a fact boost trade, the highest increases occurring in the periods before and after accession of Romania to the EU.

This rather suggests a trade connection between the EU and EFTA and not between EFTA and Romania. Unfortunately in this case also increasing trade relations implied rising of the trade deficit. This dynamic is justified by the fact that Romania and the EFTA agreement had provisions similar to the Europe Agreement.

c). Countries with which Romania has concluded bilateral agreements

A more interesting is that trade with countries with which Romania has signed agreements before 2007. We emphasize that we not do, in this paragraph, referrings to agreements before 1989.

The evolution of trade with Albania has experienced a pronounced upward trend since 2005 which suggests that there is a direct connection with the signing of bilateral agreement (2004) but not with Romania's EU accession. When analzsing trade relations with Albania we should kept in mind the effects of social tensions in the area have had on this country. However, the trade is very low compared with major trading partners which affects less any assumptions about the influence of accession.

Data for Bosnia and Herzegovina are strongly influenced by the wars of 1995 and the changes to the socio-political-administrative associated with these wars. Signing the agreement (in 2004) seems to have led to a sharp increase followed by a positive trade balance in 2007 and a sharp drop timid return after 2008.

Agreement with Israel was signed in 2001 and apparently had a major, but short, effect on trading in the pre-accession period. More important is to note that, after 2007, there is a growing trade balance, which tend to put him on account of Romania's EU accession.

The graph suggest a strong positive effect of the bilateral agreement (signed in 2004) on trade between Romania and Macedonia. As for Albania and Bosnia and Herzegovina should be noted that the wars in the region strongly affected the foreign trade of these countries.

Trade agreement with Moldova was signed in 1995. As shown in graph trade know a positive trend thereafter. EU accession seems to have not caused significant changes in trade relations.

Trade agreement with Turkey was signed in 1998 and, according to INS, had a positive effect for Romania at least for the next two years (1999, 2000). Note that elimination from 1 January 2002 of customs duties on industrial products of Turkish origin caused a steep increase in imports. Fortunately exports grew at the same time, thus avoiding (except in 2008) the trade deficit. 2008 marked the beginning of a trade deficit (based on increased imports from Turkey), but 2010 has led to a positive return generated by an increase of Romanian exports.

d) New partners as a result of Romania integration in EU

d1) Euro mediteranean countries

Except for Tunisia, where the year 2010 marks a decline in exports in all other cases, the year 2007 marked a significant increase in trade volume, together with a positive trade balance. The explanation may be the same as in trade with CEFTA partners with former difference, essential in fact that, in the latter case, Romania has more competitiveness. Unfortunately trade surplus recorded values with the Euro-Mediterranean countries is far from commercial shortfall relationship with former CEFTA member states.

d2) Africa, Chile, Mexic

Commercial relations with South Africa, Chile and Mexico marks, as expected, changes in the before and after accession periods. Even if in the relationship with Mexico, Romania is knows trade deficit, all trade with the three countries generates a trade surplus, which supports the idea that membership was a good solution for Romania.

Conclusions

We emphasize, from the beginning, that we analyze the EU accession only from commercial component point of view. Only mention that Romania, as a candidate for EU membership, has benefited over time, substantial financial and institutional aid from the EU.

All the actions taken by the EU had intended to prepare Romania for membership, a status that brought, among others, another level of commercial competition within the EU, on the one hand, and a different position in relation to third countries. We refer here to the transition from a preferences beneficiary country to a donor one.

It identifies two main components (commercial) of accession. On the one hand, the adoption of common customs tariff and common commercial policy and, on the other hand, the elimination of customs duties on intra-EU imports.

The elimination of customs duties on industrial products has gradually evolved and ended in late 2001. From 1 January 2002 suppression duties on imports of industrial products were extended to signatory countries of EFTA and Turkey. These actions have caused, among other things, an increase of trade deficit. As mentioned in previously published work (Caba 2010: 52) mutual reduction or elimination of tariffs tend to generate trade surplus to the country with most, or most important comparative advantages. Unfortunately for Romania, the comparative advantage in dealing with a large number of trading partners is the cheaper labor and less by the higher productivity or increased competitiveness generated be work quality. This advantage, however, is fleeting and, moreover, is affected by the low cost of labor in the Far East.

Romania and, in this case, Romanian companies should take advantage of free access to the largest global economic market (over 500 million inhabitants). This openness is, however, for the moment, rather a disadvantage. As long as it does not reach higher values of competitiveness and productivity and meanwhile trade is based on export of natural riches and the cheapness of labor Romania will be condemned to laggard positions among EU members. Government policies should be directed to supporting productive industry and to develop export opportunities.

If in terms of exports and imports extra-EU common commercial policy is very little influenced by the decisions of the Romanian political body, intra-Community trade, which represents most of Romania's total trade can be influenced, both in volume and the structure, only by the degree of industrial development that determine the competitiveness of Romanian products to export.

From our perspective the EU has done its duty of support, including financial, Romania accession and integrations process. A simple analysis of data provided by the former Ministry of European integration shows a calculated net benefit of over 18 billion resulting difference between the grants made available to Romania and its contributions to 2013 inclusive.

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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.

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:
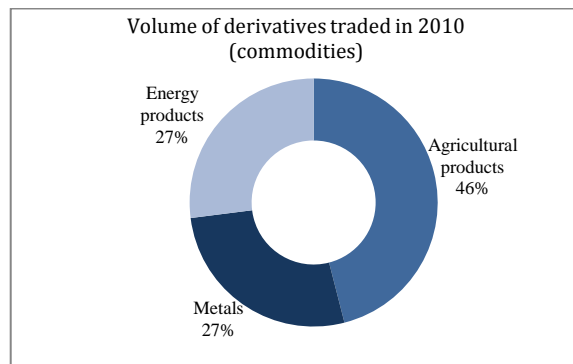
Figure no 1. Volume of derivatives traded in 2010 (commodities)
Source: made by author by data provided by the World Federation of Exchanges.

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 (CO_2). 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.
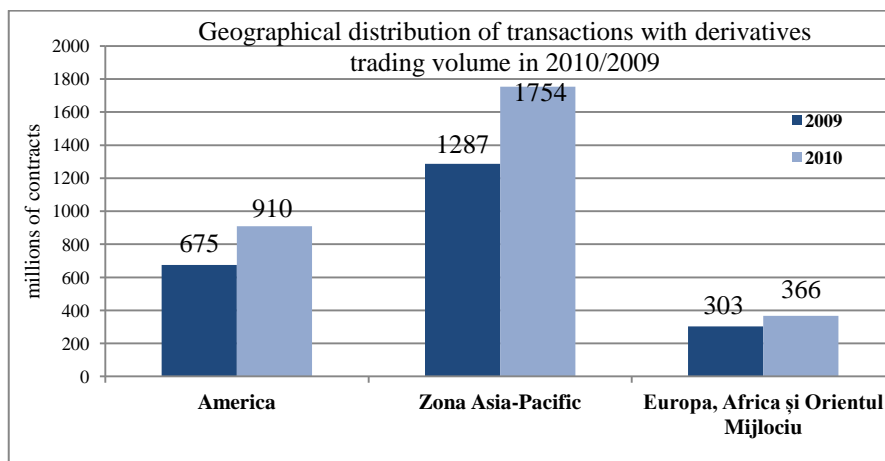
Figure no 2. Geographical distribution of transactions with derivatives trading volume in 2010/2009
Source: made by author by data provided by the World Federation of Exchanges.

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.
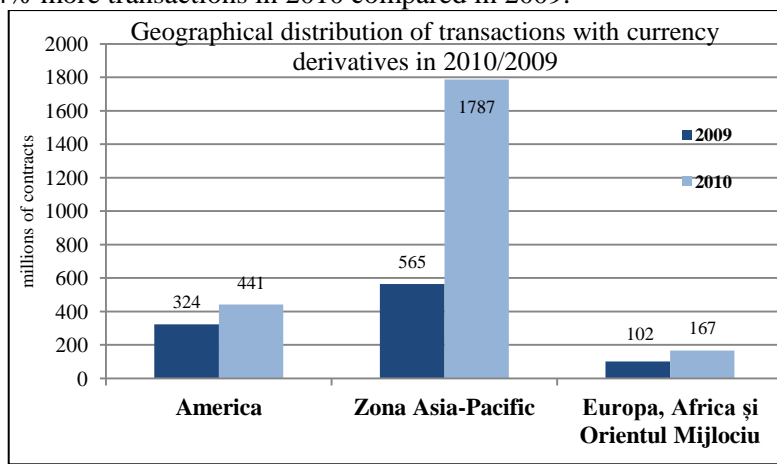
Figure no 3. Geographical distribution of transactions with currency derivatives in 2010/2009
Source: made by author by data provided by the World Federation of Exchanges.

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 (LTRI futures), 16% with options contracts based on short-term interest rates (STRI options) and 5% were concluded with options contracts based on long-term interest rates (LTRI options).

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.
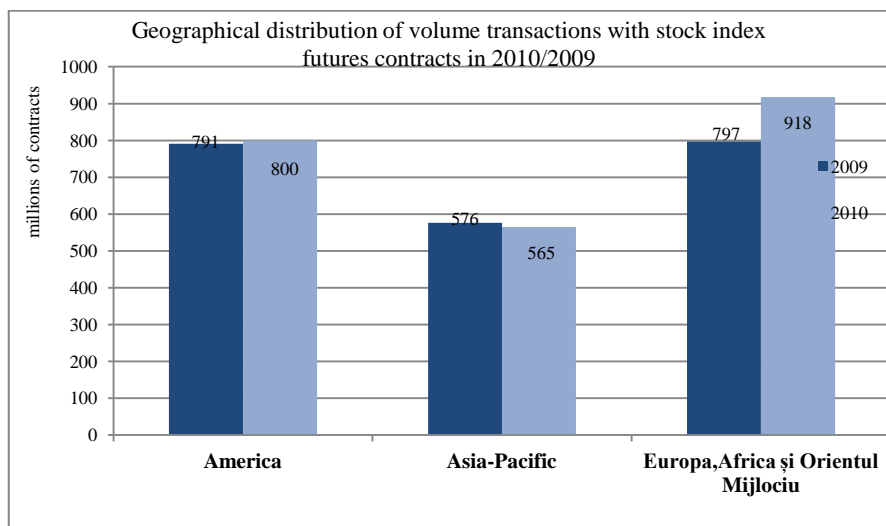
Figure no 5. Geographical distribution of volume transactions with stock index future contracts in 2010/2009.
Source: made by author by data provided by the World Federation of Exchanges.

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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LITTERATURE REVIEW OF THE EVOLUTION OF COMPETITIVENESS CONCEPT

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The concept of competitiveness can be reported – considering the level of disscution – 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 firms possibilities to survive the competition. On the other hand, a firms 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 fainted, 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 ita 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 it's 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 nations 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 firms capacity to produce in a profitably 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 controversed. Despite the fact that improving a nations 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 responsabilities 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 al 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 dhould 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 autarhic 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 Hecksher – 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 abundency 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:
- Thye central regions that have a productive advantage will maintain their positions ahead of the peripheric 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 determinat 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 firms 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 firms necessity to be competitive.

The Scumpeterian 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 lead 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;
- Compeating 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 amorpheous.

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 European Union as a whole. 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 European Union as a whole.

This study is based on the compare of the potential trade creation effects with the trade diversion effects resulting from 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 without any 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 composition of the 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 investigate the potential 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 discussed below.

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 states of joining a regional bloc like the EU may be small and possibly exceeded by the negative effects of TD. TC, as a result 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 altered 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 (Huand 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 dispersed 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 member countries in one industry is large, the TC effects in that industry should also be large. Furthermore, a large difference in the RCAs of member and non member countries would suggest larger TD effects, since imports originating from non member countries would be replaced 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 magnitude of TC and the difference in RCA's between the selected group and the rest of the world is used to determine the magnitude of TD.

The relationship between the RCA index and TC/TD

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

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

In contrast, the TD represents a shift from lower cost producers in the non member countries to higher cost producers within 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 certain country in a certain class of goods or services as evidenced by trade flows. It is based on the Ricardian comparative advantage concept and introduced by Balassa (Balassa:1965)[9].

A country is said to have a revealed comparative advantage in good *i* if its export share of good *i* is higher than the world average, i.e. the RCA index of good *i* for that country exceeds one.

On the contrary, a country is said to have a revealed comparative disadvantage in good *i*, if the corresponding RCA index is less than one.

As per Karakaya and Ozgen[10] the above concept may be restated as follows:

- Agree that
    X^i_k indicates the value of exports of good *i* from country or region *k*.
- Consequently
    $X_k = \Sigma_i X^i_k$ represents the total export value of country or region k
    and
    $S^i_k = X^i_k / X_k$ represents the share of commodity group *i* in the total exports for country or region *k*.
- Thus
    $X^i = \Sigma_k X^i_k$ would be the total exports of good *i* in the world
    and
    $X = \Sigma_i X_i$ represents total exports in the world.
- Then
    $S^i = X^i / X$ shows the *i*-th commodity group's share of the world exports,
    and the RCA index may be obtained by the formula
    $RCA^i_k = S^i_k / S^i$
- Interpretation
- if $RCA^i_k > 1$ country or region *k* has a revealed comparative advantage in good *i*, if $RCA^i_k < 1$ country or region k has a revealed comparative disadvantage in good *i*, 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 given commodity group, S^i_k were drown from the World Trade Organization statistics[11]. With S^i_k 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 $X^i_k = X_k \cdot S^i_k$.

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

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	Iron and steel exports	Chemicals exports	Machinery and transport equipment	Textiles and clothing export	Other exports	Total merchandise exports	Country or Group of countries

[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]

		exports				exports	s			
200 7	14.96	19.63	1.03	9.42	31.05	5.79	18.12	100	Croatia
	15.09	10.68	37.1 1	3.88	4.41	20.15	8.68	100	Macedoni a
	13.41	49.20	15.1 7	2.07	3.35	0.15	20.0	100	Monteneg ro
	23.79	14.99	12.3 9	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
200 8	13.10	17.20	1.24	9.88	33.48	5.27	19.83	100	Croatia
	12.85	9.09	38.1 3	3.10	5.13	21.82	9.88	100	Macedoni a
	13.61	49.91	23.0 1	2.59	5.51	0.16	5.21	100	Monteneg ro
	19.13	12.05	13.1 9	10.12	17.31	5.96	22.24	100	Serbia
	8.47	9.01	12.7 5	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
200 9	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	Macedoni a
	20.36	47.16	11.8 5	4.38	10.05	0.51	5.69	100	Monteneg ro
	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
201 0	15.00	16.92	1.04	11.38	31.74	5.10	18.82	100	Croatia
	14.74	10.38	27.0 1	10.38	5.81	28.37	3.31	100	Macedoni a
	20.36	56.75	5.94	3.89	8.23	0.45	4.38	100	Monteneg ro
	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 Statistics[12]

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

The data from Table 1 show 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 a significant trade creation effect after integration, if the trade barriers within the union will be completely removed.

These findings are also supported by RCA indices for the concerned countries and groups of countries. As noted before, an RCA^i_k that is higher than 1 implies a revealed comparative advantage of good *i* 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.

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[12] WTO Statistic, above quoted

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	
2008	1.37	1.67	0.31	0.66	0.87	1.60	1.03	RCA Croatia
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	
2008	1.34	0.88	9.39	0.21	0.13	6.61	0.51	RCA Macedonia
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	
2008	1.42	4.84	5.67	0.17	0.14	0.05	0.27	RCA Montenegro
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	
2008	1.99	1.17	3.25	0.67	0.45	1.81	1.16	RCA Serbia
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	
2008	0.88	0.87	3.14	0.28	0.77	5.28	0.96	RCA Turkey
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	
2008	1.00	1.00	1.00	1.00	1.00	1.00	1.00	RCA EU-27
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 potential 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 greater than value 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 greater than one.

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	
2008	TC	TC	TD	TD	TD	TC	RCA Croatia
2009	TC	TC	TD	TD	TD	TC	
2010	TC	TC	TD	TD	TD	TC	
2007	TC	TD	TC	TD	TD	TC	
2008	TC	TD	TC	TD	TD	TC	RCA Macedonia
2009	TC	TD	TC	TD	TD	TC	
2010	TC	TC	TC	TD	TD	TC	
2007	TC	TC	TC	TD	TD	TD	
2008	TC	TC	TC	TD	TD	TD	RCA Montenegro
2009	TC	TC	TC	TD	TD	TD	
2010	TC	TC	TC	TD	TD	TD	
2007	TC	TC	TC	TD	TD	TC	
2008	TC	TC	TC	TD	TD	TC	RCA Serbia
2009	TC	TC	TC	TD	TD	TC	
2010	TC	TC	TC	TD	TD	TC	
2007	TD	TD	TC	TD	TD	TC	
2008	TD	TD	TC	TD	TD	TC	RCA Turkey
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 sizeable intra European TC effect, as a result of next EU enlargement, would appear.

Conclusions

The aim of this paper was to estimate the degree of 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 competiting 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. Deniying 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.

I. Introduction

"International competitiveness" is a complex topic of global concern which raised over time many questions and theorieson 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 competiting 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 man 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. Deniying 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 tradeanalysis.The plan of the paper is as follows. The following section reviews the empirical literature on thecomparative 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 conclusionsbased 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, ţările care, în lipsa unei teorii mai bune a competitivităţii, mai utilizează în proiectarea politicilor lor teoria avantajelor comparative, riscă să neglijeze o gamă largă de opţiuni politice privind creşterea eficienţei şi promovării creşterii care ţin cont de prezenţa (pervasiveness) eşecurilor de piaţă 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 it's 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:

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

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 ecuation 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:

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

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 commoditygroups, 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 clothingand accessories
62	• not knitted or crocheted clothing and accessories
64	• footwear and parts thereof
76	• aluminium and articles thereof
86	• railways or tramway locomotivesand rolling-stock
89	• ships, boats and floating structures
94	• furniture; lighting fittings and other similararticles; 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 clothingand 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 influencethe industrial activity and exports of the Romanian economy. Economic shocks that will affectthese economies will be transmitted through trade in the Romanian economy and these willbecome 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-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.

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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) x 0.25   (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 0.73	LV 0.72	LT 0.71	EE 0.71	SK 0.68	HU 0.62	SI 0.59	CZ 0.58	BG 0.57	RO 0.53
	2007	PL 0.76	EE 0.76	LV 0.75	LT 0.75	SK 0.71	SI 0.69	HU 0.67	BG 0.65	CZ 0.65	RO 0.65
	2010	PL 0.83	LT 0.76	SI 0.76	EE 0.75	RO 0.73	LV 0.72	CZ 0.70	SK 0.70	HU 0.70	BG 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 710,11	SK 560,02	CZ 487,62	BG 436,13	HU 421,92	SI 413,38	PL 337,25	RO 294,60	LV 274,48	LT 225,43
	2007	EE 2028,97	BG 1621,52	LV 1017,81	CZ 1012,63	SI 752,50	SK 659,32	PL 616,94	LT 596,33	RO 458,37	HU 393,41
	2010	EE 1147,81	CZ 646,29	SI 410,96	BG 289,58	PL 252,93	HU 238,10	LT 189,39	RO 166,31	LV 155,19	SK 96,21

Source: UNCTAD, Authors' work

V. Conclusions

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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.

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 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 .

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 tellecomunications 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 oif the reasons was obvisouly 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 planing or through the natural course of action of using the ICTs): telecommuting or telework (the later is the EU preffered term for the subject).

The proliferation of high-speed, broadband Internet connectivity and the existance 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 Timiş 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

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).

V. Acknowledgements

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CONSIDERATIONS UPON ROMANIA'S MANUFACTURING COMPETITIVENESS IN THE EUROPEAN CONTEXT

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Manufacturing structure is essential to ensure the dynamic equilibrium of the whole economy. In fact, this industry is the one that disseminates through the organization and conduct of business as well as by the products delivered, elements of technological progress and new, modern work methods, with significant economic effects. Today in the Romanian industry, an urgent matter is material and energy cost savings thus increasing the value added. According to the economic development, within the industrial structural changes, usually occur the following main trends: the declining share of production from mining industry, while increasing the intermediate and final production, the declining share of industries with labor intensive and reduced complexity and diminishing, starting from a certain development level, of the share of industries with intensive natural resources deficits, especially energy resources, increasing the branches characterized by intensive and highly skilled labor, priority development of branches based on inventions vastly incorporating R&D, etc.. Some of those trends are increasingly emphasized by research, technological transfer and international trade, processes that enhance the interdependence between and within national economies. Labor-intensive industries reduce their share in total industry in developed countries. Demand for products manufactured by these industrial branches begins gradually to be met by developing countries. Production based mostly on the traditional technologies, easily transferable, is moving gradually from more developed countries to least developed ones. In contrast, in the industrialized countries are rapidly developing those industries incorporating important R&D results. These processes had been the subject for several specific research.
Although labor productivity decisively influence GDP per capita during long periods of time, the correlation between GDP annual growth rate and labor productivity growth rate differs between countries.
GDP per capita is strongly and positively correlated in most countries with labor productivity per capita relative to production and income per capita relative to consumption.
Keywords: Labor intensive industries, Energy intensity, Value added in manufacturing, Highly skilled labor, Capital intensive goods.
JEL Codes: F14 - Country and Industry Studies of Trade, F15 - Economic Integration

Introduction

Concept of economic structure and specialization in production of a nation has been dominated by Ricardian doctrine of comparative cost. (Krugman, Obstfeld and Melitz 2012: 25-26). Hence the need for countries in production specialization, considering the available resources and international trade advantage, as well as the possibility of a fair distribution of benefits resulted from international trade exchanges for all countries participating in the international division of labor, due to competition that occurs in world economy. It was concluded that this theory was based upon unacceptable and unverifiable assumptions, such as, for example, the fact that quantity and quality of production factors are immobile within the international relations, etc. and

considered a single production factor: labor. J. Viner, noted that such a simplification raised a barrier to exploring the consequences that differences between regions and countries have upon the production factors endowment.(Viner 1957: 19).The matter concerning the production factors endowment of a national economy in analyzing the production and foreign trade structure, has become a fundamental issue of economic research, first ones to tackle this were the Swedish E. Heckscher and B. Ohlin.(Ohlin 1967: 43-57; Krugman, Obstfeld and Melitz 2012: 97-99).According to their theory, the geographical distribution of the production factors is particularly important, influencing the specialization in production and development.

Previous research

In general, the inequity specialization is obvious for those countries to export only goods characterized by intensive unskilled labor and low productivity level for importing goods intensive in highly qualified labor and a higher productivity level.Emphasizing the independence of the industrial structures relative to natural sources is accompanied by increasing national dependency towards the world market. So, the dependence gradually moves from the national economy to the world economy through foreign trade. This tendency results from the development path in a large number of countries, for which the satisfaction degree for natural resources demand from own production decreased significantly. Within the development stage in which the tertiary sector starts to grow, the industries with high consumption of natural resources gradually reduce their weight, for capital-intensive ones and especially those that encounter highly skilled labor and apply the latest R&D results.

Methodology

G. Fels and F. Weiss point out that there are some characteristics of these structures, relative to the development stages mentioned: gradually moving, in accordance with the economic development, from labor intensive industries to large consuming natural resources and hence to the standard goods producing industries, where in general, production technologies are well known and easily accessible(Fels and Weiss 1977: 32; Trefler 2005:21-29;Eicher, Mutti and Turnovsky 2009:88 – 98).Labor-intensive industries reduce their share in total industry in developed countries. Demand for products manufactured by these industrial branches begins gradually to be met by developing countries. Production based mostly on the traditional technologies, easily transferable, is moving gradually from more developed countries to least developed ones. In contrast, in the industrialized countries are rapidly developing those industries incorporating important R&D results(Bowen, Leamer and Sveikauskas 1987: 791–809).These processes had been the subject for several specific research.Although labor productivity decisively influence GDP per capitaduring long periods of time, the correlation between GDP annual growth rate and labor productivity growth rate differs between countries. In the developed ones the association is stressed positive, productivity being the main engine of growth. In the less industrialized countries the mentioned correlation is weaker, suggesting that other factors determine the economic performance of a country in a given year. (Srebotnjak,Hizsnyik and Toth 2011:2). GDP per capita is strongly and positively correlated in most countries with labor productivity per capita relative to production and income per capita relative to consumption.

Results

Negative correlation between GDP per capita and energy intensity is apparently valid in most countries, highlighting the fact that economies, as they become richer use less energy to produce one unit of GDP.(Srebotnjak,Hizsnyik and Toth 2011:5). Compared with other EU countries, Romania registers a modest performance. As regards the value added in manufacturing, the country is ranked 18, as outlined in Fig. No 1.

Fig. No. 1: EUmembercountriesvalue added in manufacturing, 2007
Source: EUROSTAT, Annual detailed enterprise statistics on manufacturing (NACE Rev.1.1 D), 06.03.2012

Fig. No 2 shows a comparison regarding the position of different branches within the Romanian manufacturing industry, and EU27 as well as the share of this industry in Romania and in the corresponding industries at EU27 level.
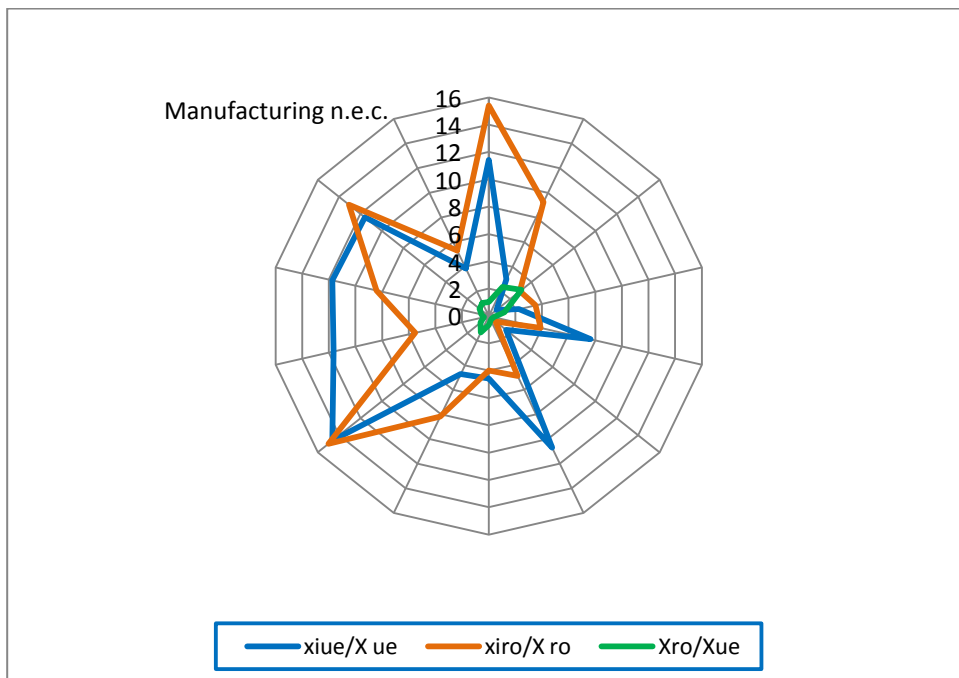
Figureno.2:ComparisonbetweenRomaniaand   EU27   regarding   theValue   Addedindicator, theposition of manufacturing components in total andthe shareof Romanian manufacturing branches in EU27, during 2007.
Source: EUROSTAT, Annual detailed enterprise statistics on manufacturing (NACE Rev.1.1 D),

06.03.2012

Another interesting comparisonistheRomania's position in theEU27 regarding the energy consumptionofmanufacturing sector, respectively the value added as shown in Fig. No. 3.
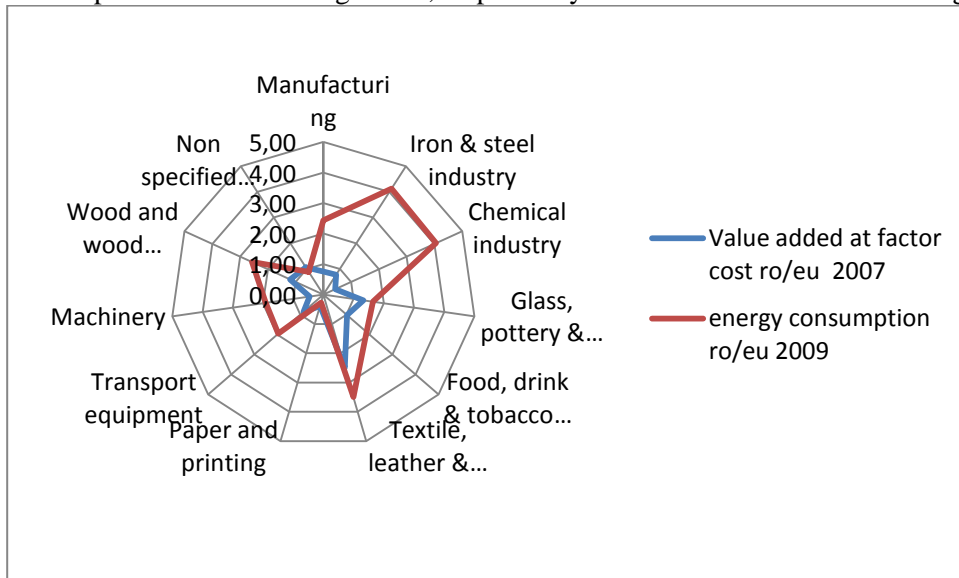
Fig. No. 3: Comparison between Romania and EU27 regarding the value added and energy consumptionofmanufacturing sector branches.
Source: EUROSTAT, Annual detailed enterprise statistics on manufacturing (NACE Rev.1.1 D), 06.03.2012 and Energy balance sheets 2009-2010,2012 edition

Conclusions

Only for a limited share, the supply of production factors can be adapted to different industries demand. In each region or country, the exported goods relatively contain in larger quantities the cheap factors, while imported goods incorporate scarce and expensive resources for the importing country. Romania exports particularly labor-intensive goods and imports capital intensive goods, hence the labor productivity aspect in general and especially in export industries being vital. Compared with other EU countries, Romania registers a modest performance. As regards the value added in manufacturing, the country is ranked 18. Comparison regarding the position of different branches within the Romanian manufacturing industry and EU27 highlights divergence,and the share of this industry in Romania and in the corresponding industries at EU27 level is almost insignificant. The Romania's position in the EU27 regarding the energy consumption of manufacturing sector, and the position regarding the value added are obviously divergent

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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.

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)
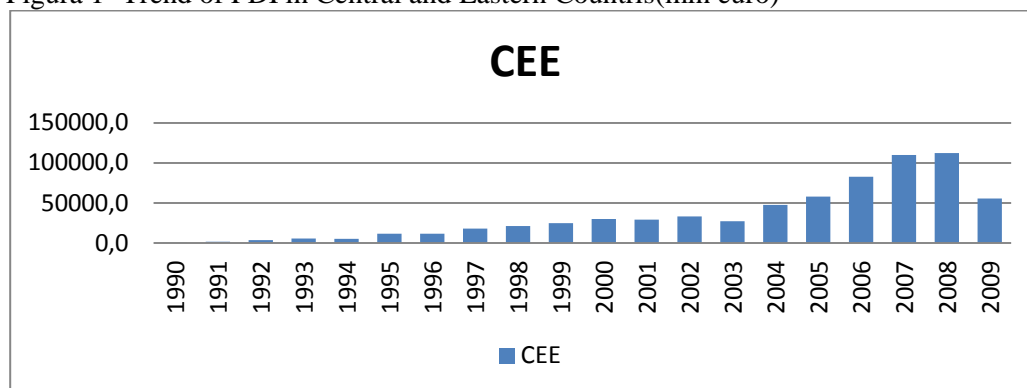
Source: created by author(WIIW database)

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. (Radosevic 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 iof 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)

Acknowledgments

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

TOGETHER OR APART? STRUCTURAL FUNDS AND REAL CONVERGENCE IN THE NEW MEMBER STATES

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The objective of this study is to analyze the relationship between the structural funds provided by the European Union (EU) and the real convergence of the New Member States that joined the EU in 2004. We also assess the effect of the crisis on this. According to the empirical studies in this area, the impact can be both negative and positive. Furthermore, in the latter case, the correlation is not very strong and depends on several factors. To meet the research objective, we have structured this paper into five parts. In the first part, we make a short presentation of the Cohesion policy and its evolution in time. In the second part, we explore the importance of the subject in the economic literature. In the third one, we explain the methodology used in this paper. We contribute to the literature by creating a Real Convergence Index (RCI) and by assessing the evolution of this index and of the structural funds payments from 2004 until 2010 in five New Member States (Hungary, the Czech Republic, Poland, Slovakia and Slovenia). The fourth part describes the results obtained. The structural funds payments reached a maximum level in 2007 in all the countries, with the exception of Slovenia. After this point, they recorded decreasing levels, mainly because of the economic and financial crisis. Within this group of countries, Poland and Slovakia recorded an increase in RCI during 2009 and 2010, even though the amounts of payments started decreasing. The highest level of structural funds payments and the maximum level of RCI are not synchronized, with the exception of the Czech Republic. This could come as a result of the lagging effects of structural funds on the economic convergence. The fifth part of the paper summarizes the conclusions of our research. The analysis confirms the previous work in this field. Specifically, it does not provide us with a clear result regarding the relationship between the absorption of structural funds and the real convergence. The implications for Romania are not very encouraging. This means that the efforts for increasing the absorption rate of EU funds will not necessarily lead to a faster real convergence process. Consequently, the effectiveness of the Cohesion policy remains under question.

Keywords: Structural Funds, Cohesion policy, Real Convergence Index, New Members States, European Union

JEL codes: F15, F43, O47

1. Introduction

It is very well known that the process of European integration does not lead to uniform benefits, due to the very different initial levels of national development. In this context, the EU designed the Cohesion policy as an instrument to support the convergence process within the Union. This policy should help to bridge the gaps of economic development between regions and countries, in order to achieve real convergence.

The Cohesion policy dates back to the creation of the European Economic Community. However, the first multi-financial programming period, between 1988 and 1992, was mainly created to smooth the integration of three peripheral countries: Greece, Spain and Portugal. Later on, the Treaty of Maastricht (1992) introduced the Cohesion Fund, the Committee of Regions and the principle of subsidiarity for the next programming period (1994-1999). The amounts allotted to the Cohesion policy increased with time. In 2000, this policy was adjusted according to the priorities established by the Lisbon Strategy (growth, jobs and innovation) and to the forthcoming accession wave of 2004. For the 2007-2013 period, the Cohesion policy brought new changes, in terms of simplified rules and structures, more transparency, stronger focus on jobs and growth (European Commission, Regional Policy, 2012). The financial instruments through which the EU supports the economic and social development of the countries and regions are represented by the structural funds (mainly The European Fund for Regional Development and the European Social Fund) and by the Cohesion Fund.

The enlargement process of 2004 and 2007 has added a growing challenge on the EU as a whole. It has led to more discrepancies in terms of economic development and income distribution within the Union. However, the EU funds received through the Cohesion policy does not automatically drive to real convergence. First of all, the effects of the EU funds on real convergence remain uncertain. Secondly, the absorption capacity of the New Member States puts additional pressure on the effectiveness of the EU funds. Marinaş (2007) even supports the view that because of the absorption deficiencies, the discrepancies between the EU regions have remained relatively constant and, furthermore, those within the EU Member States have increased.

2. The effectiveness of the Cohesion policy

There have always been contrasting views regarding the potential of the EU funds to boost growth and real convergence.

Manzella and Mendez (2009) make a short review on the criticism regarding the Cohesion policy. They state that a lot of analysts, academic people or even European governments continue to question nowadays the rationale behind this policy and its effectiveness. The debate focuses on the unclear mission of the policy, its insufficient concentration on growth, inadequate policy instruments, its complexity and bureaucracy. Furthermore, after decades of intervention, the contribution of the Cohesion policy to economic growth and development remains uncertain. The literature reports diverging results, ranging from positive correlations between structural funds and growth (Beugelsdijk and Eijffinger, 2005) to even negative correlation between the two of them (Miderlfart and Overman, 2002; Martin, 1999). Another study of Ederveen, Gorter, De Mooij and Nahuis (2003) analyzed the relationship between Gross Domestic Product (GDP) per capita evolution and cohesion support, but there was no consensus regarding the impact of the Cohesion policy on real convergence.

Marinaş (2007) supports the perspective of a weak Cohesion policy capacity to bridge the income and structural gaps between nations and regions. The first reason pointed out is the lack of coordination between Community's projects and the local policies. The second one refers to the existence of a national structure based on a center-periphery model, which encourages the concentration of benefits in the urban agglomerations.

There are also empirical studies focusing on a conditional view of the structural funds effects on real convergence. Martin (2003) analyzed the impact of the EU's structural and cohesion funds on real convergence and concludes that the funds can foster growth and real convergence if there is a stable macroeconomic environment and if the institutional and microeconomic structure are leading to growth. Stierle (2005) reported a possible substantial impact of the EU Cohesion policy on the catching-up process. However, he puts forward several factors necessary to

positively influence the effectiveness of structural funds in the real convergence process: stronger spatial concentration, better thematic concentration and more effective use of funds.

However, even though there are three main official objectives of the Cohesion policy (convergence, regional competitiveness and employment, European territorial cooperation), Tarschys (2008) identifies at least 32 goals of the Cohesion policy, which further question the effectiveness of the policy.

Table no.1 - Coping with 27 Member States and multiple goals of the Cohesion Policy

32 goals of the Cohesion Policy	
Solidarity	Urban development
Convergence (countries)	Retraining of the unemployed
Convergence (regions)	Fighting social exclusion
Regional growth	Integration of vulnerable groups
Regional competitiveness	Gender equality in labour market
European growth	Boosting small & medium enterprises
European competitiveness	Inter-regional network-building
Administrative modernisation	Inter-regional learning
Institutional development	Linking regional elites to Brussels
Environmental protection	Trans-frontier cooperation
Climate policy	Compensation for internal market
EU visibility to citizens	Compensation for monetary union
EU legitimacy	Making enlargement acceptable in some areas of the Old Member States
European identity	Making enlargement acceptable in disadvantaged regions of the New Member States
Redistributive justice	Territorial cohesion
Rural development	Cohesion (sense of community)

Source: Tarschys, Daniel. "The Budget Review and the Committee on Budgetary Control: Coping with Multiple Agents and Multiple Goals", 2008.

In this paper we study the impact of the structural funds (European Regional Development Fund, European Social Fund, The Guidance Section of the European Agricultural Guidance and Guarantee Fund, The Financial Instruments for Fisheries Guidance) on the real convergence of several countries that became EU Member States in 2004. We chose Hungary, the Czech Republic, Poland, Slovakia and Slovenia because they are the main regional competitors of Romania. In our analysis, we consider only the structural funds paid under the convergence objective.

In comparison with the majority of the studies that employ the GDP per capita indicator, we study the absorbed structural funds in correlation with a Real Convergence Index, made up of the GDP per capita at at purchasing power parity (PPP) and the productivity per hour worked during 2004 – 2010. Productivity is an important engine driving the real convergence process. These Central and Eastern Europe countries can provide some useful empirical results for Romania, for which we cannot yet provide the same analysis, due to its late accession in 2007.

We also enrich the economic literature on the relationship between structural funds and real convergence with new findings for the New Member States. The study assesses the impact of the financial crisis as well.

3. Data and Methodology

In this paper, we build a real convergence index (RCI). RCI comprises 2 sub-indicators: GDP per capita at PPP and labor productivity per hour worked, as percentage of the EU average. Values below 100 point to levels lower than the EU. The EU average is set to equal 100. When computing RCI, each of the sub-indicators is given the same share of 50%.

The RCI index is computed as follows:

$$RCI_{i,EU} = GDP/capita \times 0.5 + Labor\ productivity \times 0.5, \quad (1)$$

where $RCI_{i,EU}$ − real convergence index of country i with the EU.

The data used in the paper come from the Eurostat database and cover the period of time between 2004 and 2010.

We compare the level of structural funds payments, more exactly the amounts received by the countries, with the real convergence index which measures the degree of convergence with the EU.

4. Empirical results in the case of the New Member States

Almost all the territory of the 5 considered countries is under the convergence objective. More exactly, in the case of Poland and Slovenia, the whole countries are covered by this objective.

Out of these 5 countries, Slovenia reached the highest level of convergence, with an RCI of over 80 percentage points. Slovakia and the Czech Republic follow it with around 74% of the EU average. Poland's RCI amounts to only 58% even though it has received the highest share of funds from the countries analyzed.

As a general remark, the figures below emphasize that the maximum amount of structural funds payments was reached in 2007, with the exception of Slovenia. Since then, we notice a significant drop in the level of payments, the most important reason being the economic and financial crisis.

Taken separately, Hungary entered into the EU in 2004 with a Real Convergence Index of almost 60 percentage points that has slightly fluctuated around the same value and only in the recent years attained over 62 percentage points (Figure no.1). The structural funds payments increased until 2007, when they reached the maximum value. After this point, the amounts decreased significantly to 0.2 mil. Euro in 2009, while the RCI increased slightly. Consequently, we cannot assess a clear relationship between the two of them.

In the case of Poland, we observe a direct relationship between structural funds payments and RCI between 2004 and 2007, but the trend reverses starting with this year. After 2007, the amounts received by Poland from structural funds decreased constantly, but the RCI level increased to over 58 percentage points in 2010 (Figure no.2).

Figure no.1 – The case of Hungary	**Figure no.2 – The case of Poland**
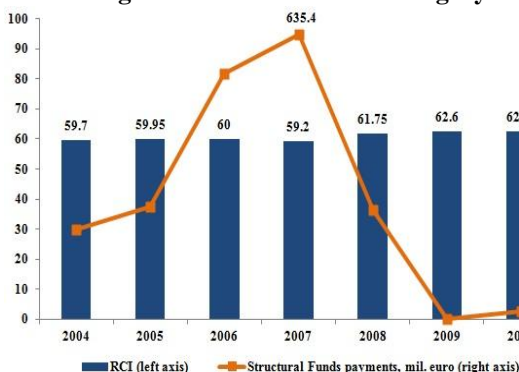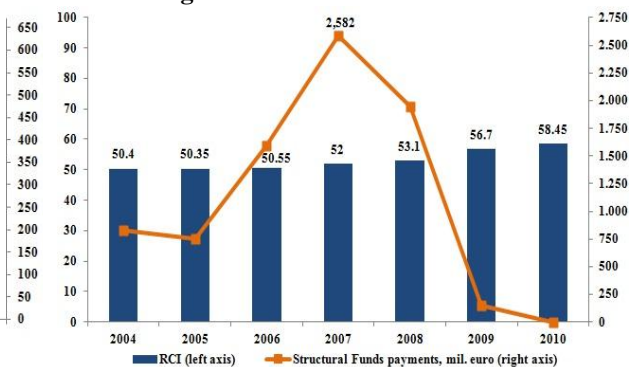
As regards the Czech Republic, again there is no clear relationship between structural funds and RCI. Besides the year 2007, when the two of them reach a maximum value, we cannot assess a definite positive or negative relation (Figure no. 3).

Figure no.3 – The case of the Czech Republic   **Figure no.4 – The case of Slovenia**
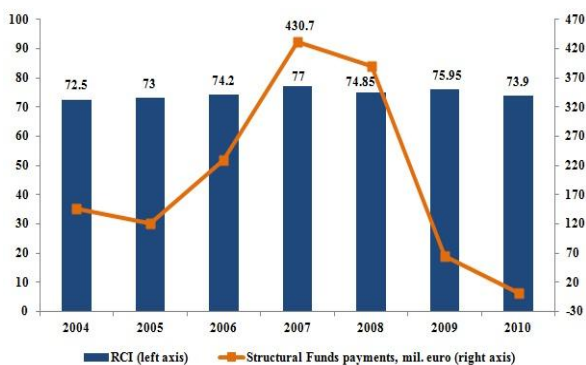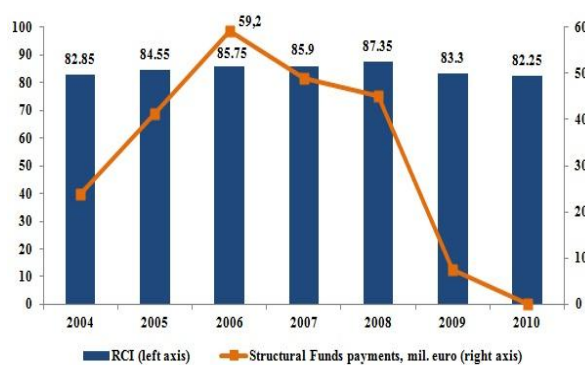
In comparison with the other countries analyzed, Slovenia recorded a maximum level of payments from structural funds in 2006. The highest level of RCI was reached two years later, in 2008, with 87.35 percentage points of the EU average (Figure no. 4). Again, there is no coherent relationship between structural funds and real convergence. However, in the case of the Czech Republic and Slovenia, during the last two years included in the analysis the real convergence decreased simultaneously with the amounts of payments received. This could indicate the need of a more important role of the Cohesion policy during bad economic times.

Finally, Slovakia recorded a permanently increasing RCI during 2004-2010, with the exception of 2009. The maximum level of 74.3 percentage points was reached in 2010. However, the payments had reached the highest level three years before, in 2007 (Figure no. 5).

Figure no.5 – The case of Slovakia

During the last two years of economic crisis, in 2009 and 2010, only Poland and Slovakia recorded increasing real convergence with the EU, while the amounts of payments decreased. This could also express lagging effects of the previous higher levels of the structural funds payments on the real convergence process. Hungary recorded almost the same RCI in 2009 and 2010, despite of the increase in the payments. In the case of the Czech Republic and Slovenia, the real convergence with the EU recorded lower levels during the crisis.

5. Conclusions and implications for Romania

Our study confirms the previous results of the economic research in the field of structural funds and real convergence. More exactly, the analysis on the five New Member States does not provide us with a clear answer regarding the relationship between the structural funds payments and the real convergence index computed in this paper.

However, there are four main conclusions derived from the study. First of all, with the exception of Slovenia, for all the other countries the payments from structural funds recorded the highest level in their fourth year of EU membership, in 2007. Secondly, the maximum level of structural funds payments does not match the maximum level of real convergence, with the exception of the Czech Republic. This may be due to lagging effects of the structural funds on the economic growth and development. Thirdly, there is a general decreasing trend of the structural funds payments in the second half of the analyzed period, with the exception of Hungary. Fourthly, during the economic and financial crisis in 2009 and 2010 only Poland and Slovakia recorded increasing values of the Real Convergence Index with the EU.

Romania currently records a very low absorption rate of the EU funds, of only 7%, and a real convergence index below 50% of the EU average. The challenge is very important on the medium and long term. However, the results of the current study are not very encouraging. There is no clear relationship between the absorption rate and the real convergence achievement. Consequently, a higher absorption rate of EU funds might not generate a faster real convergence process. This conclusion further questions the existence of the Cohesion policy of the EU.

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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

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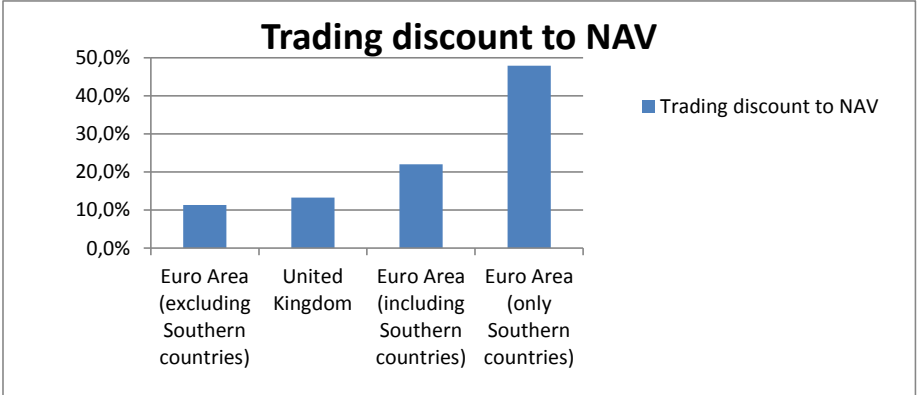
Source: own presentation based on historical market caps published by the European Public Real Estate Association *www.epra.com* and Kemper & Co press release, London, September 2011

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 precautious 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 way 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 seemly 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.

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 Nicolaides 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 builduing 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 seemly 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: Index = (Member State's aid)/ (EU-27 aid)
(Member State's GDP)/ (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

Equation : GDP(t) = C(1)+ C(2)*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

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

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 governement 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)

Equation : GDP(t) = C(1)+ C(2)*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

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

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.

VI. Acknowledgements

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THE GEOPOLITICS OF OIL AND CLIMATE CHANGE

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This paper aims to present the role of oil in today's world, society, and economy. It is important because anything nowadays is about oil, from economy, and society, to international politics. Since the development of air and road transportation, but especially after World War II, the transfer of wealth from some countries (the consuming countries) to another countries (the producing countries) is unique in human history; and the influence of the second group of countries in world politics is very high due to this situation.

Furthermore, past and present pattern of oil consumption have negative impacts upon environment and humans wellbeing. Oil used in energy generation, and especially its use in transportation makes it a resource with a strategic character.

In the literature of international affairs, and international economy, oil is found in almost in every article, and book; but of course, there are books and articles focused especially upon this resource, and upon its role in world politics. in last decades, there appeared another element which fight to capture world public opinion, and political agenda: this is climate change. The best reference in this context is the First report for the Club of Rome (Limits to Growth, 1972), which signaled the unsustainable way of how society works.

Taking account of this alarming signal, we intended to show (using research methods based upon numbers) that there are very negative effects of using oil in the future in the same way as in the past. There is needed another type of economy, and society, based on other types of resources than oil.

But in the same time this situation creates hardships for oil importing countries, many of western societies being vitally dependent in their mobility by oil. In the same time, transportation is responsible for some one third of oil consumption, generating huge quantities of CO2 emissions in the atmosphere, bringing what can be called climate change. Put shortly, the paper presents the negative impact of oil using from geopolitical and climate points of view, and which could be the solutions for escaping this situation.

The added value of our endeavors is connected to present the negative implications from geopolitical and climate changes points of view, and which are the actions which could put in practice.

Keywords: oil, geopolitics, energy, climate change, oil transportation routes
JEL Codes: F1; F5

The humans and environment are strong interconnected; hence environment influence human activity, but in the same time, human activity can create harm to the environment. The human society became dominant because of developing skills regarding energy production and use; and the activity which hurts a lot the environment is connected with energy. The energy production causes irreversible harm to the environment. Carbon and other greenhouse gases' rising concentration level in the atmosphere, due to fossil fuels burning for energy generation, influence the temperature patterns; and an increase of more than 2 degrees Celsius could have serious impacts globally, including the extinction on many plant and animal species, or even the collapse of the entire ecosystems (Bales and Duke 2008: 78).

Climate change would in the same time bring security risks; if the planet warms by 1.3 degrees by 2040, there will be "heightened internal and cross-border tensions caused by large-scale

migrations; conflict sparked by resource scarcity…; increased disease proliferation…; and some geopolitical reordering" (Bales and Duke 2008: 79; The Age of Consequences 2007).

Today every man can easily see that almost everything is influenced by the oil. The problem of oil is more and more politicized; oil and the secure access to it are aspects which are present on the top of all states' agenda. The problem of oil is more pressing, and it has become so, because of the fluctuation of oil prices. Stating in early 2000 oil price registered a constant rising, until summer of 2008, and since then the peculiarity of oil market was price fluctuation; this is a great problem because it can hit hard interests of the state (it can influence the balance of payments of importing states through rising expenditures for oil imports). Governments in nearly all the large consuming nations are preoccupied by energy security aspects like at no time since the oil crises of the 1970s (Victor and Yueh 2010: 61).

Starting with the middle of last century, another element started to be regarded with some attention, but its visibility was much lower in comparison with its importance; it is climate change.

Yet important shifts are taking place in global energy system (Victor and Yueh 2010: 62): one regards the changing of energy consumption countries, most of the future growth on oil demand will come from emerging economies, especially from China and India; the other concern regards the environmental impact of energy use, especial carbon dioxide emissions.

Unfortunately, man and society always pay attention to pressing problems, leaving other problems – which could be more important – unresolved, thinking they will never become pressing enough in order to impose strong hand decision. Oil is one of the most pressing problems on states' agenda, and for some states oil policy almost equates foreign policy (be they oil importing, or oil exporting countries). Climate change is recognized to be a certain fact, but this aspect is not so pressing; this is due to the fact that present situation is this: for modern society oil is a key-element, which sustains its present way of development, and oil is an extremely important asset because it is the essential element in today's transportation system, sustaining the movement of wealth and people, and being and extremely important ingredient in a lot of products which dominate modern lifestyle: 90% of the goods in one store implies the using of oil in one way or another (Giddens 2009: 10).

That for, it is important to fight to de-carbonize transportation sector: solely in OECD countries, in 2006 the oil consumption in transportation sector was 1252 millions tones, while for the 2030, there is expected to be 1289 millions tones of oil consumed in transportation sector (World Energy Outlook 2008: 508); in India the rise is expected to be from 37 (2006) to 156 millions tones (2030) of oil (World Energy Outlook 2008: 532), while in China it will rise in the same interval from 127 to 440 millions tones (World Energy Outlook 2008: 530). Globally speaking, the level of CO_2 emissions due to transportation (in million tones) is expected to rise from 6444 in 2006, to 8013 (2020), and 8921 in 2030, respectively (World Energy Outlook 2008: 393).

As these figures show, present world is characterized by a very strong dependence on oil, and the reduction of oil dependence should be one of the most important policies a state have to pursue; reducing oil dependence would not only prevent the climate change, but in the same time the capacity of oil to influence and determine the fate of world politics would significantly diminish (World Energy Outlook 2008: 12).

The peculiarities of oil geopolitics lies in the fact that it is a key-resource used in transportation, it is located in a handful of countries (which after 2000 went to resource nationalism, which can use oil as weapon, and where one can met civil unrest), it must be transported over long and (more and more) maritime risky routes (including crossing through straits), it can bring wars for access to oil resource or for control over oil transportation routes, and there are some emerging economies, very hungry for oil; but continuing the same path – of using oil more and more in industry, energy production, and transportation – will not only create greater pressure on remaining oil resources, even wars for access to it, but this trend could bring great havoc to

whole humanity, through climate changes which will affect both, rich, and especially poor countries. And all these things take place in a situation where since 1901 until 2000 world oil production had risen over 180 times (Maliţa 2009: 297). And doesn't matter which measures and steps are taken in the field of energy efficiency, the pursuing of clean energy, and alternatives oil in transportation, energy, and industry, oil will continue to be a very critical element in the stability of world economy, and regional and international security (Morse 2009: 52).

The consequences of this course of policy could be identified immediately: international role played by the states which poses important oil reserves would considerably diminish, and the role of Russia and Islam (especially Arab countries) in world politics would change (Friedman 2008: 92-102). As oil price rises, the petro-states tend to a more autocratic regime, the oil price and domestic politics being strong interconnected (Giddens 2009: 217). In this light, oil can be regarded as the enemy of democracy.

Each resource which could push up the power of the state which uses it, could be called a strategic resource. In this case, every resource which promotes economic and military power, or promote the mobility's rising, can be regarded as a strategic resource. Now, the peculiarities of oil geopolitics are due to the fact that it is a strategic resource – the whole world depends on oil as an energy resource, particularly in transportation sector. In the same time, the problem becomes more complex because the oil resources are concentrated in few countries. Coal can be found almost in each country, but oil is concentrated in Middle East, Russia, and some problematic countries in Africa, Latin America. It is noteworthy to specify that when price of oil is high, some producers resort to using energy as tool of leverage, as Venezuela (which uses incomes from oil exports to undertake anti-American activities through Latin America), or Iran (which uses its to promote its interests in Middle Eastern countries, Iraq, Lebanon, Palestine, Saudi Arabia) (Morse 2009: 48).

Regarding Russia, a low price of oil has immediate and strong impact on its domestic, and foreign policies. When price of oil is high, Moscow can easily play pipeline politics, using gas deliveries with political ends; when oil price is low, Russian state strongly needs to receive currency from its gas exports, reducing its capacity to use gas delivery as a political weapon.

Another state which has an assertive policy, and which can create trouble on regional scale, with global consequences, is Iran. As oil price is high, Iran has money to sustain subversive activities in Arab Sunni countries, and can influence the direction taken by Middle East peace process. If Iran has lower revenues, then the flow of petrodollars to terrorists would be reduced, and the adamant policy of Tehran could swift to a more moderate one.

Taking account of this situation, on short run, the main global consumers could establish and consolidate the connections with oil producing countries from Gulf, Central Asia, and Africa, forging an exchange concentrated on arms and military assistance for oil – a peculiarity of oil trade in the second part of 20-th century. The intensification of state's actions could become very present, rising even more the risks of militarization of oil trade, bringing the possibility of tensions and escalations, culminating in wars among the most powerful nations, through proxy allies.

On medium term, the intensification of tensions among the greatest oil consumers would bring a rising of their military expenditures, reducing in this way the available founds headed for the creation of a new, clean energy base. The opportunity of reorientation of founds from military destination to the development of alternative energy capacities, would simultaneously reduce the pressure on fossil fuels, and the carbon emissions which come from their burning process, too. In medium term, even if the states wouldn't enter a conflict in order to have access to oil resources, the rising of oil demand (due to developing economies, rising population at global level, the urbanization process, and of the income's rising), would bring a rising of oil price, hitting both the developed nations (because of rising cost of living, and especially the developing ones,

because, a greater part of the income there would be directed to food, whose price goes up when oil price rises).

On long term, the maintaining of the same course in oil consumption peculiar nowadays would bring a dramatic and irreversible climate change, with negative effects on the whole human civilization.

The climate change problem is the energy problem (Klare 2008: 242), and solving it depends upon the humanity's capacity to transform its way to produce, and use energy. The most important point here is the transportation, and energy sectors' de-carbonization.

Even the G-8 placed climate and energy issues high on its agenda nearly every year for the last decade, there hasn't done much beyond presenting empty propositions in the front of cameras (Victor and Yueh 2010: 68).

Present society is very dependent on oil, and security of oil supplies is a national security matter; security of oil supplies is a pressing problem not only because old supply reserves are depleting quickly, but because investors are not very open to risk in developing new supplies, in a very volatile global economical and political environment. There are massive risks (economical, as well as political) in developing new projects for oil supply, especially if they involve the transfer of oil over many national borders, facing a myriad of political uncertainties.

Facing these problems, the cross-point can be this: promoting investment to develop needed supplies of oil on short run, and incentives for climate-friendly energy capacities of production, that will change the energy system, in the long run.

Regarding geopolitics of oil, it can be specified that in 2020 India and China will depend on imported oil transported from Middle East and Africa, these two countries becoming more and more interested by African wealth (Chaponniere 2009: 24). In order to secure their economic interests and to promote their political ones, both countries intensify their military presence in this part of the world: China promotes the "Pearls Strategy", (Perelman 2005: 21-27) while India constructs military alliances in Eastern Africa on the base of agreements which she signed with Mauritius, Seychelles, Madagascar, and South Africa (Chaponniere 2009: 24). This could be simply regarded as a the geopolitics of the Indian Ocean, but taking account that these two countries will be the giants of world economy in the years ahead, the relationship between them in Indian Ocean, focusing on oil, will have global reaches, influencing even the most remote areas of the Earth.

To the scarcity and constant reduction of the quantity of non-renewable energy resources – which has brought, and will continue to bring tensions among nations – we need to add the carbon emissions generated by their burning; and both these things signal us that we must reorient to those energy sources which are renewable – but which have disadvantages regarding fluctuations in energy production (water, Sun, wind, geothermal) – and to unlimited energy resources, which work more constantly (nuclear power, and hydrogen).

Not only that the reduction – and possibly elimination – of fossil fuel energy resources will bring a type of society which embraces sustainable development, and which is not so greed in using natural resources to sustain its activity, but the importance of the resource – oil – which already has generated bloody wars would fade, creating the possibility of reducing military expenditure which would have been made in order to secure and maintain access to it in different places of the Earth. The money saved in this situation could be used in developing green energy projects in great energy consumers, and in developing countries, too, helping whole humanity to live in a better and cleaner world.

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GOVERNANCE MEASURES PROPOSAL FOR ROMANIA TO ACCOMPLISH THE EUROPE 2020 TARGETS AT NATIONAL LEVEL

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Abstract: Europe 2020 is a very ambitious strategy adopted by the European Commission for the coming decade. Its main target is to make Europe's economy become smart, sustainable and inclusive. The Lisbon Strategy was first adopted in 2000, but during the 2005 mid-term review, the Lisbon Strategy was revised and new targets for economic growth and employment were established. This change integrated the Cohesion Policy into Lisbon Strategy's implementation. In 2010, the European Commission published a new strategy, known as Europe 2020, a strategy that includes priorities meant to help the European Union and the Member States to defeat the weaknesses that they have experienced in the last period. Although the targets set are impressive and might seem very attractive, the results acquired so far, both at EU and Romania's levels are not very encouraging. Even though some progress has been made, it is too unassertive to be considered the expected result. The article presents the results obtained up to this stage by Romania in achieving the national targets set through Europe 2020, using the time-distance method to calculate the time advance or delay in implementing the Europe 2020 targets in Romania. It formulates governance proposals that must be taken into account by the Romanian authorities in order to reach the targets set at national level.

1.Introduction

Romania joined the European Union in 2007, and was determined to accomplish the targets set at national level through the Lisbon Strategy. A knowledge-based economy, the main objective of the Lisbon Strategy, represented the great chance for Romania to bring added value to its products and services and increase their competitiveness (Dăianu, 2004). In 2007 Romania adopted the National Reform Programme for 2007-2010, whose main objective was to create a stronger economy and an attractive business environment in order to provide the welfare that every citizen wishes for himself and for his family. The targets set at national level were in accordance with the Lisbon targets but they proved to be unachievable.

Results obtained in 2009 show that the Romanian economy suffered the worst contraction in its latest history as a result of the world's economic and financial crisis. Romania's GDP decreased by 7.1% after a year before it had increased with the same magnitude (Voinea, 2010:3). Because of the world economic crisis, which was felt in Romania in the last trimester of 2008, at the beginning of 2009 Romanian authorities had to contract a loan from the International Monetary Fund. The Romanian government obtained a loan of 19.5 billion Euros. Through this loan, the government financed the external and internal deficit. On the other side, the International Monetary Fund imposed measures to guarantee the loan reimbursement and to obtain a transparent fiscal policy.

The article presents the results obtained up to this stage by Romania in achieving the national targets set through Europe 2020, using the time-distance method to calculate the time advance or delay in implementing the Europe 2020 targets in Romania. It formulates governance proposals

that must be taken into account by the Romanian authorities in order to reach the targets set at national level.

2. Europe 2020

Europe 2020 is a strategy for smart, sustainable and inclusive growth marks a new beginning, as the President of the European Commission, Jose Manuel Barroso, states in the preface of the Strategy. There was a stringent need for EU to take position in order to help its Member States recover from the world economic crisis. The required reforms necessary in order to pull Europe out of the crisis had to cover fiscal consolidation, sound macro-economic conditions and front loading growth-enhancing measures (European Commission a). The first semester report on Europe 2020 strategy states that *"the EU and its Member States have the collective responsibility of undertaking the necessary – but difficult– structural, forward looking reforms at the same time as they put the fiscal situation in order and restore healthy macro-economic conditions"* (European Commission a).

The targets set through the Europe 2020 strategy, to be met until the end of 2020, consist of five indicators that are in direct relation to citizens' welfare. One of the targets refers to increasing the employment rate to 75 % of the population aged 20-64. Another target refers to increasing the percentage of investment in research and development (R&D) to 3% of the EU's GDP. The third target, "20/20/20", consists of a trinomial target regarding climate/energy that should be met until 2020 (if the conditions are right, even up to 30% reduction of emissions). The fourth target refers to lowering the share of early school leavers to 10%, and increasing the percentage of young people with a tertiary degree to at least 40%. The fifth indicator stipulates that the number of people living at risk of poverty should decrease with 20 million. In the following part we will identify the situation of Romania regarding the achievement of two targets, employment rate and R&D investment using the S-time-distance method.

3. Calculation of time distances and leads or lags for Romania, in meeting the Europe 2020 targets

Nowadays, time is a very important factor for the daily life. We live in the so called "speed century", and we frequently use the catch-phrase „time means money". On this base we decided to use the time distance method, identified by Pavle Sicherl, a method that uses time in order to simplify and to ease the access of general public to information. The time distance approach, as a new view of the information, uses levels of variables as identifiers and time as the focus of comparison. The advantage of this method is that *"it is theoretically universal, intuitively understandable and can be usefully applied as an important analytical and presentation tool to a wide variety of substantive fields"* (Sicherl, 2003:2).

The statistical measure S-distance helps us determine the period of time until two compared series reach the indicated level of the indicator X. For a given level of XL, $XL = X_i(t_i) = X_j(t_j)$, and the S-distance (or the time span separating unit (i) and unit (j) for the level XL) is defined as:

$S_{ij}(XL) = \Delta T(XL) = t_i(XL) - t_j(XL)$ (1)

In order to characterize a specific value of the S-time distance, we need three subscripts: (1 and 2) two units are used to measure the time distance and (3) the third subscript is used to measure the level of variable X. In addition, a fourth subscript (4) is required to indicate the point in time defining the time distance (T1, T2… Tn). In order to determine whether we are dealing with a lead or lag we need to use the sign of the time distance used for comparing two units. In a statistical sense, the "-" sign represents a lead in time, while a "+" sign represents a delay in time, or a lag.

$$S_{ij}(XL) = -S_{ji}(XL) \qquad (2)$$

To calculate the S-time distance at macro level, two time series are needed: the time series of the actual values of indicator and the time series of the anticipated target values (line to target). Time

distance is therefore the distance between the actual time and the time on the line to the target for each actual value of the variable (Sicherl, 2008, p. 2.):

S(Xt) = actual time t – time on the target line T for each actual value of variable Xt   (3)

$$S(Xt) = t(Xt) - T(Xt) \qquad (4)$$

Through introducing the time distance in the analysis of differences is intended to broaden and enrich the conventional static methods and measurements and obtain a better understanding of the actual situation of the indicators studied. An advantage of the S-time distance lies in the fact that the latter is expressed in time units and is thus understandable by everyone, while another advantage is its ability to leave all previous methods and results (not necessarily the conclusions) unchanged since the time distance adds a new dimension rather than replaces other perspectives (Sicherl, 2003:189). To evaluate time distances and deviations from the Europe 2020 strategy was used the application of the Socio-economic Indicators Center (SICENTER) in order to calculate the time lead or lag in implementing the Europe 2020 targets at the level of Romania. Even though the Europe 2020 strategy is at the beginning of the implementation period, we need to know from the very beginning which is the situation we find ourselves in and what needs to be done in order to achieve the highest levels expected. Using the Provisional Europe 2020 targets that Romania set for itself, we tried to identify the trends of employment rate and investment in R&D in the last period using data available on the official European statistic website.

3.1 Employment rate of population aged 20-64

The first headline target of Europe 2020 strategy regards the employment rate registered in the European Union and aims to reach to the point when 75 % of the population aged 20-64 will be employed. The national target for Romania, as Annex 1 of the European Commission's First Progress Report on Europe 2020 shows, was set at 70%, a lower percentage than the one set for EU27.

We notice in Figure 1 a general decreasing trend with a slight increase from 2006 to 2008 when, on the background of the economic crises it started dropping again. The red columns in Figure 2 represent the delay that has been increasing yearly in the last decade. In 2001 the lag in time was of one year, while in 2010 the lag is of 10 years so the distance in time deepened until 2010 (Figure 2). We notice that the measures taken so far by the Romanian government of encouraging employment did not have the results expected. It seems that a very high level of wage taxes and the fact that they have been constantly raised intimidated the potential employers and let to high levels of unemployment. We notice that the employment rate drastically decreased during the year 2001 and then suffered a slight increase up to 65% in 2006, but once the economic crisis was felt the employment rate begun to decrease again and at the end of 2010 registered a value slightly over 63%.

Figure 1: The national target of 70% of the population aged 20-64 to be employed and its evolution in Romania
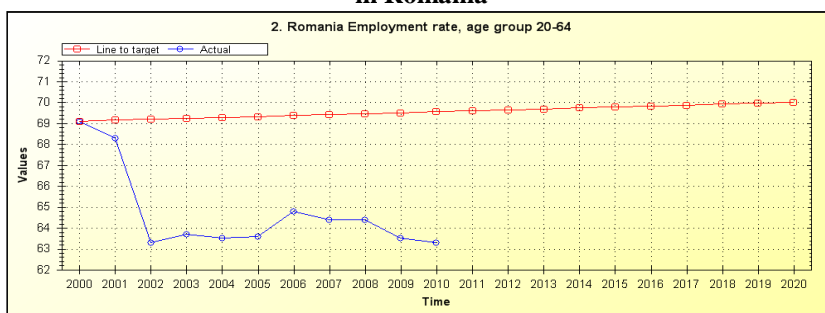
Source: Eurostat, own calculations using SICENTER web tool application;

Figure 2: Time distance of Romania in meeting the national target of 70% of the population aged 20-64 to be employed by 2020
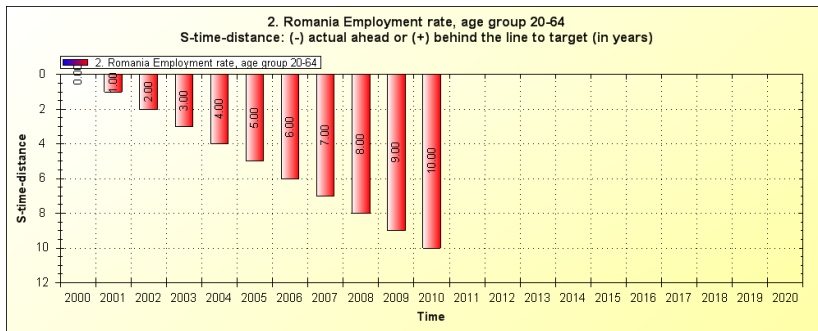
2. Romania Employment rate, age group 20-64
S-time-distance: (-) actual ahead or (+) behind the line to target (in years)

Note: S-time distance: (-) actual ahead or (+) behind the line to target (in years).
Source: Eurostat, own calculations using SICENTER web tool application;

The Romanian economy is characterized by high tax burden felt by economic operators, often changing of fiscal measures, which led to the bankruptcy of an important number of companies, especially SMEs. As a result we obtained a severe decrease in workplaces and a deepening of the targets set through Europe 2020 strategy.

3.2 Investment in R&D up to 3% of the EU's GDP by 2020

According to the second indicator analyzed, investment in R&D, EU should reach the target of 3% of its GDP by 2020. At present, the level of investment in R&D in Europe is below 2%, compared to 2.6% in the US and 3.4% in Japan, mainly as a result of lower levels of private investment. It is not only the absolute amounts spent on R&D that counts – Europe needs to focus on the impact and composition of research spending and to improve the conditions for private sector R&D in the EU. EU's smaller share of high-tech firms explains half of its gap with the US. It is obvious that without a strong R&D oriented industry, the level of products will not become the highest on the international market. This is why the European Commission considered that it is important to raise the percentage of R&D investment.

In the case of Romania the national target set is 2% of the GDP invested in R&D. We set a national target lower than EU27's in this field too in order to be attainable. As we observe in Figure 3, at the beginning of 2000, the percentage of investment in R&D out of the GDP was under 0.5%. As we notice in Figure 3, the percentage of investment in R&D had an increasing trend until 2008, when the crisis came and the indicator dropped down to the value of 0.5% (2009).

Figure 3: The national target of 2% of Romania's GDP to be invested in R&D and its evolution in Romania

2. Romania Investment in research & development
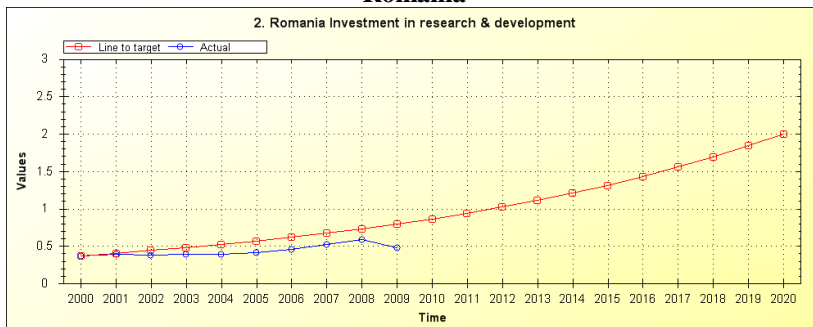
Source: Eurostat, own calculations using SICENTER web tool application;

The distance in time of Romania reaching the targets set at national level shows a delay of 6.17 years in 2009 (Figure 4). The situation got worse in 2009 when the percentage of investment in R&D decreased considerably. Through the values registered by this indicator we realize that the Romanian industry is technically speaking left behind, with a high rate of wear. This directly affects the performance and profitability of the industry sector - most of the products that

Romania exports have a low processing degree. It seems that the first measure taken in order to reduce expenditures when the crisis came was to cut the share of the budget meant for R&D. The government has reduced the share of budget given for R&D, and as a result our economy is not competitive, we cannot compete on the international stage and we cannot attract foreign investors with anything else than cheap unspecialized labor force.

Figure 4: Time distance of Romania in meeting the national target of 2% of GDP to be invested in R&D
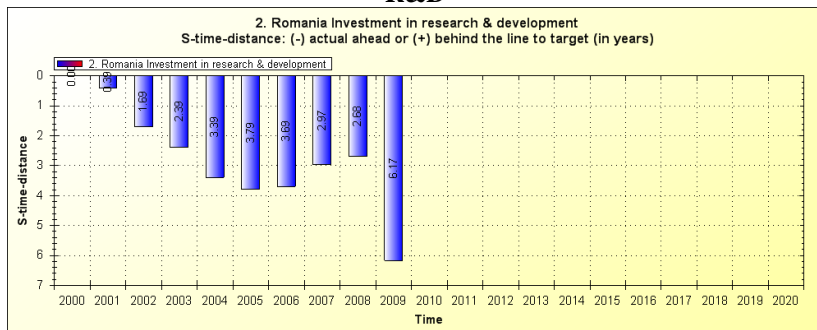
Note: S-time distance: (-) actual ahead or (+) behind the line to target (in years).
Source: Eurostat, own calculations using SICENTER web tool application;

4. Governance measures proposal for Romania

As expected, starting with Romania's accession to the European Union, important steps needed to be taken so as to achieve as many of the targets set at European level (through the Europe 2020 Strategy) as possible . As a result of the international economic and financial crisis which we are undergoing, the National Objectives set for the previously mentioned five areas have also been affected, and were not established in all cases at the level expected by the European Union.

Regarding the two indicators taken into consideration in analyse taken in the present paper, it was noticed a serious issue determined by the decrease of the two indicators, instead of an increase. The political instability, the often changes of the Fiscal Code and the lack of transparency and predictability intimidates any entrepreneurial initiative and therefore workplaces cannot be created. Also, regarding investment in R&D it was identified a lack of interest from the government towards increasing the competitiveness of the industry and services through this type of expenditures. These issues impose concrete measures to be taken by the authorities. In the short term, proactive measures are needed in order to handle the crisis and its effects, and also to revive the Romanian economy through creating workplaces and obtaining a knowledge-based economy. So far, the authorities chose to adopt radical measures for reducing government spending and also contracted important external loans from International Financial Organizations. These measures proved to be insufficient, as the renewed economic growth is quite weak. Therefore, we consider that measures should be taken to encourage investments in the private and public sector especially. These could have revived the Romanian industry and determine it invest in R&D and create workplaces and urged the economic development trend, felt until 2008, to be resumed. The measures that we suggest in order to increase those indicators are reducing the tax burden felt by economic operators, exempt fiscal measures which lead to the bankruptcy of companies, especially SMEs. In change, SMEs should be encouraged through exemption from paying taxes if employing redundant people, also private sector should benefit from exemption from taxes and subventions for investing in R&D, creating labs, employing researchers and specialists in the field and so on. Those measures would certainly have a positive influence over other indicators of Europe 2020 strategy that are not satisfying in our country, namely the young persons' interest towards higher education and the number of people living at the risk of poverty. In opinion those measures would have a major contribution to enhancing

Romania's performance and bringing it as close as possible to the targets set by the Europe 2020 Strategy and help Romanian citizens increase their welfare.

Acknowledgements

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SOCIAL ECONOMY – POSSIBLE SOLUTION TO ECONOMIC CRISIS

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Resume
This paper is about the concept of social economy and tries to explain why it is so important that European Union shows so much interest in its development.

The aim of the paper is to reveal the social economy impact on society and its ability to respond proactively to the challenges of modern day society. The methodology was based on self documentation which involved a wide range of materials: reports, case studies, paper works, articles, specific sites, European Union guides. This paper underlines the influence of third sector and the way it constitutes insurance for the economic growth.

This paper plays a key role in the understanding of the evolution of this concept and mostly the fact that social economy found a new place in society. Its role was redefined, social economy starts to be in the center of attention at European level since is the key to the economic growth.

Social economy doesn't rely on a specific definition but through its characteristic and principles it refers to a third sector in economies between the private sector and business or, the public sector and government.

Even though social economy states with its benefits and importance for the community and economic growth it is not a concept well implemented in all countries and among other things it is characterized by a lack of legislations and specific literature compared to other concepts. The concept is present in the European Union development strategies, policies and they get to decide how social economy will extend in each country.

In the attempt to provide a more comprehensive concept of social economy terms such as third sector, active inclusion or employment should be mentioned because until now, there is no universally accepted definition of social economy, since is one of the few terms which enjoys multiple definitions, but focuses on the same principles or features.

The paper provides an overview on how the concept of social economy entered the daily life of European communities and has settled itself as a phenomenon, essential for economic progress of the countries and in Romania where it is still disputed the way it will develop.

What is to be notable is that Romania gives a big important to this new concept of social economy and different practices shows that our community is ready to promote the third sector organizations. We cannot base on much documentation but informatics society showed again to be useful so that internet can offer a wide range of papers and studies, some more documented than others.

The results of the study demonstrated that social economy will define a new order in the economic market and will play a significant role in the overcoming of economic crisis.

The added value of this paper consists in the fact that it brings more approaches to the related literature and personal reflections about its function in Romania, based on the way it is financed and promoted at national level.

Keywords: social economy, sustainable development, third sector, economic growth, social inclusion
JEL codes: Z13

I. Social Economy – Theoretical Approaches

The term "social economy" first appeared in France during the first third of the 20 century. For a big period of time, its definition was much broader and amorphous than it is today.

Social economy is a sector that lies between the private and business sector and the public and government sector. This designated sphere consists primarily of nongovernmental organizations,

charities, and nonprofit cooperatives. Sometimes this social economy includes another sector referred to as the "informal sector" where casual interactions and relationships are included. Social economy represents a fundamental aspect of daily European life.

In economics, "the private sector" and "the public sector" are the known terms used respectively to describe privately owned, profit-driven enterprises and government-controlled ventures. The designation "social economy" has been given to a third sector of the economy that represents cooperative concerns like community associations, volunteer organizations and businesses whose objectives are primarily social. Market activities associated with the social economy resemble market activities in the private and public sectors: people are employed, goods and services are often sold and money is occasionally made – with one critical difference: monetary surpluses are typically reinvested in the business or community rather than skimmed off the top as profit.

The importance of the European economy and society of cooperatives, mutual societies, associations, foundations and social enterprises is now receiving greater recognition at Member State and European levels. Not only are they significant economic actors, they also play a key role in involving their members and European citizens more fully in Society.

Social Economy enterprises are helping to meet the demands of a changing Europe. They are important sources of entrepreneurship and jobs creator in areas where traditional "investor driven" enterprise structures may not always be viable.

II. The Evolution of Social Economy in Europe

The beginnings of social economy in Europe lies to early XX century when nobody was suspecting yet the development that the concept will have until second war came.

Charles Gide was the first to give these organizations a central place in the social economy, whose meaning in 1900 was nonetheless still quite broad.(1) During the 1970s, when the French co-operative, mutualist and associative movements rediscovered their common traits, they would appropriate his vision and thus reaffirm their kinship. They gave a collective title, "social economy" to the family of movements they had thereby formed, and in so doing set an entire process in motion, one that has led to increasing institutional recognition for the third sector.(2)

In the Anglo-Saxon world, it is primarily the non-profit organization (NPO) and the non-profit sector which have revived interest in the third sector. Consequently, it is useful to point out their contribution to social economy analysis. While this contribution is limited, it facilitates an understanding of the concepts we have selected.

While the social economy may have been born of necessity, it still has a long way to go. Instead, individual survival strategies predominate in many of these environments, particularly in large cities. In fact, the history of the social economy teaches us that it is driven by a second force, one that is as powerful and as vital as the first: membership in a social group unified by a collective identity or shared destiny. For example, during the XIX century and the first half of the XX century, the dynamic social economy reflected a class culture that was, to be sure, dominated, but which showed considerable solidarity.

Athough at EU level there is no defined budgetary policy for social economy, finance measures are being given through communitary sources. The finance system slowly developed because of innovative sources of insuring ressources and the development of institutions that offers support in obtaining finance and management agencies of EU funds. EU funds for social economy are oriented to professional insertion, development of specific services, fight against black market work etc. In our way to a durable development social economy is caracterized also through ethic and soliday finance mecanisms which responds to the general aim of making economy to society.

The development of social economy involves, for most of the citizens awarness activities because more and more citizens want to to be sure that their money are not being used to finance imoral activities, or that are not respecting human rights or that can influence or even change the quality of life for the next generations.

According to the different cultural life models, european social economy develop solutions to current economic crisis through jobs creation, in a time where jobs are less and less on the market. Towords this, social economy comes as an impuls to the development of innovative entrepreneurship through continuous training that is necessary on high and performant economy.

III. The Power of Social Economy in Romania
III.1 First Steps of Social Economy in Romania
Social Economy is known in Romania rather late and does not present a quick growth because of the unclear specifications of the concept in the appropriate legislation.

In Romanian legislation the term of Social Economy appears for the first time in GD 829/2002 in which it was approved the National Plan Against Poverty and Promotion of Social Inclusion. Only in 2008 social economy is brought to light once with the structural funds absorption. Social economy benefits in 2008 of a second Romanian legislation definition, together with its inclusion as an eligible area for funding from ESF: Social economy is supported as a key area of Human Resources Development Operational Program, whose Framework Implementation Document was approved by Order of the Minister of Labour, Family and Equal Opportunities and the Minister of Economy and Finance 254/1169/2008.

Although social economy is for the first time conceptualized in a national document, it is not present as a crosscutting element within all major objectives related to the social situation, as one would expected. The presence thereof only in the area of increasing the employment degree of disadvantaged persons also influences the profile of aid measures and support of social economy in the future. No direct connection is made however between the social economy and the need to continue the development of integrated and high quality social services programs, as main way to avoid social exclusion.

III.2 Evolution of Social Economy in Romania
In Romania social economy is conducted by Priority Axis 6 "Promoting social inclusion" of the Operational Program Human Resources Development. The overall objective of this priority is to facilitate labor market access of vulnerable groups and promoting inclusive and cohesive society in order to ensure the welfare of all citizens.

This priority aims to develop specific programs for personal development, both in order to strengthen motivation for training and labor market integration of vulnerable groups, as well as improved access to the labor market.(3)

Specific actions to combat direct and indirect discrimination will be complemented by measures to increase the activity rate. Social inclusion can be successfully achieved only by using a comprehensive approach that addresses all aspects (employment, education, housing, health care, social protection, etc). And at the same time, using available resources effectively and focused.

Implementation of ESF (European Social Funds) in Romania is through HRD (Human Resources Development), coordinated by the Ministry of Labour, Family and Social Protection as the main component of structural funds impact on Social Economy.

In the call for proposals opened in 2010 on 6.1 "Promoting social inclusion" financing line, in the first 5 hours, there had been submitted more than 1,500 projects. One of the obligations imposed by the Applicant's Guide was the creation of social enterprises and social networks.

The high number of potential beneficiaries of European Union-financed projects demonstrates the growing interest to this field and high degree of knowledge of the characteristics and advantages of these forms of organization. Romania has made enormous progress in this plan and demonstrates the ability of organization and cohesion across the new concepts.

Social economy in Romania has brought and will bring benefits throughout the economy. Will be enhanced to create innovative and flexible forms of employment for vulnerable groups, promote local development policies, including active citizenship, cooperation and social solidarity.

At the same time, new groups and functional partnerships will be established in the economy, such as cooperatives and mutual aid associations, foundations and other voluntary associations, which will offer new services and new opportunities for people with difficulties in the integration or reintegration into the labor market.

The objectives pursued by the ESF funding lines open for Romania ends with impact on social inclusion and economic development: improving access to employment and sustainable inclusion in the labor market of those looking for a job and inactive people, including strengthening social disadvantaged people in order to ensure sustainable integration and combating all forms of discrimination in the labor market, promoting partnerships, agreements and joint initiatives by creating links between social partners and NGOs (National Nongovernmental Organizations) at the (trans)national, regional and local level.

In Romania, although social enterprises existed and still exist, they were not the ones that generated the debates on social economy. It was the non-governmental, nonprofit sector that started such debates, especially from the perspective of social services provider confronted with the public sector incapacity, on one hand, to cover the need for social services and, on the other hand, to finance or facilitate the private, non-profit initiatives in this field. A field with high potential where social economy could play a decisive role is that of community services and residential or home long-term care.

In Romania, all forms of organization with potential of being involved in social economy are present, but the extent to which such forms are involved varies. The absence of registration systems makes any evaluation difficult.

In Romania, the fiscal and financial support framework does not target directly social economy enterprises, but includes measures from which they may also benefit.

In the further years we are expecting government to implement more ways of promoting an protecting the social economy organizations.

The social economy usually develops because of a need to find new and innovative solutions to issues (whether they be socially, economically or environmentally based) and to satisfy the needs of members and users which have been ignored or inadequately fulfilled by the private or public sectors.

By using solutions to achieve not-for-profit aims, it is generally believed that the social economy has a distinct and valuable role to play in helping create a strong, sustainable, prosperous and inclusive society.

Successful social economy organizations can play an important role in helping deliver many key governmental policy objectives by: Helping to drive up productivity and competitiveness; contributing to socially inclusive wealth creation; enabling individuals and communities to work towards regenerating their local neighborhoods; showing new ways to deliver public services; and helping to develop an inclusive society and active citizenship.

Social Economy in Romania is important because it: contributes to efficient competition in the markets, offers the potential for job creation and new forms of entrepreneurship and employment, is largely founded on membership-based activities, meets new needs, favors citizen participation and voluntary work, enhances solidarity and cohesion, contributes to the integration of the economies of the candidate countries.

IV. Conclusions

Social economy is a general term used to refer to a group of people that get together to assume an active economic role in social inclusion process, eg. cooperatives, social enterprises, NGOs (foundations and associations) and other non profit organizations which have an important role in managing and building activities.

Social economy will bring benefits to the entire economy, the creation of innovative and flexible forms of employment for vulnerable groups will be enhanced, the local development policies, including active citizenship, cooperation and social solidarity will be promoted.

At the same time, new groups and functional partnerships will be established in the economy, such as cooperatives and mutual aid associations, foundations and other voluntary associations, which will offer new services and new opportunities for people with difficulties in the integration or reintegration into the labor market.

Social inclusion can be successfully achieved only by using a comprehensive approach that addresses all aspects (employment, education, housing, health care, social protection, etc.) and at the same time, using available resources in an efficient and focused way.

In Romania, there will be implemented in the next 2-3 years almost 200 projects on social economy and this is equal to 200 or more social enterprises created that will contribute to reducing unemployment, creating jobs with special work conditions to persons that need this, reducing poverty and social inclusion increasing. All these cannot be something else but the path to a sustainable economic development and a possible solution to economic crisis.

V.Notes:

(1)At the 1900 Paris World Fair the social economy had its own pavilion, which Charles Gide described as a "cathedral". He wrote: "In the large aisle, I would put all forms of free association that help the working class free itself through its own means" (quoted by A. GUESLIN, 1987, p. 5).

(2)For example, in 1981 the French government established an interministerial delegation on the social economy (Délégation Interministérielle à l'Economie Sociale), which was at times headed up by a secretariat on the social economy (Secrétariat d'Etat à l'économie sociale).

(3)According to Solicitant's Guide - Priority Axis 6 "Promoting social inclusion" of the Operational Program Human Resources Development

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ECONOMIC BENEFITS OF DEVELOPING INTERMODAL TRANSPORT IN THE EUROPEAN UNION

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Transport plays a crucial role in economic and social development and its contribution goes beyond what is normally captured in traditional cost-benefit analyses. Transportation investments can have large long-term economic, social and environmental impacts.

The European Commission when developing transport policy, focuses on the intermodal transport, which is seen as a sustainable mobility solution, environmentally friendly and efficient in terms of resources, especially in terms of freight. European transport policies promote co-modality - combining different modes for a single supply chain - as a solution to the adverse effects of transport: pollution, traffic congestion, energy consumption.

Intermodal transport is found to be consistently cheaper than all-road solutions, and its external costs significantly lower, thereby confirming the high potential of intermodal transport in increasing the sustainability of the transport sector. So, freight intermodality is increasingly considered as major potential contributor to solving the sustainability problems of the European transport sector.

This paper addresses the pricing issues specifically related to intermodal transport. The focus in on the main economical advantages of developing intermodal transport, but also on the usage limits brought by particularities of transport modes. Special attention is given to intermodal transfer terminals with solutions for activity efficiency increase, with major implications on the quality and cost of transportation.

The theme discussed in this paper is of great importance, many authors and specialists developed it in their studies. Some names are needed to be mentioned: Todd Litman, Dr. Yuri V. Yevdokimov, John J. Coyle, Kenneth D. Boyer and few more. But, a special attention for this subject is paid by the European Commission and its subordinated institutions, that are interested in developing sustainable strategies and promoting concrete solutions for economic efficiency in the transportation field.

The methodology used for this subject is based on the statistics data from the official documents and on the research made by the authors of the paper regarding the advantages from the economical point of view derived from the development of intermodal transport.

The results we have reached show that the intermodal transportation is rapidly gaining acceptance as an integral component of the systems approach of conducting business in an increasingly competitive and interdependent global economy.

The information on this paper have implications on other related fields: social, environmental and even political and the authors brought significant contribution raising the problem of the total costs of investments in the intermodal transport infrastructure and the long-term economical benefits if it.

Keywords: intermodal transport, economic advantage, investments, costs, infrastructure
JEL Codes: L91, R41

Introduction

Infrastructure sets the degree of mobility. No major change in the transport sector will not be possible without an adequate network support and a more intelligent use of its. Overall, investment in transport infrastructure boosts economic growth, create wealth and jobs and promote geographical accessibility, trade and mobility. It must be planned so as to maximize the positive impact on economic growth, minimizing negative environmental impacts.

Transportation is a multiple service to multiple users. It is produced in transportation networks that provide infrastructure for economic activities.

The transport industry itself is an important part of the economy: within the EU, it directly employs about 10 million people and is the source of about 5% of GDP. Establishing a reliable measure of intermodal market shares is hazardous. Official statistics are few and outdated. The basic figures available and the corresponding trends however show that the market share of intermodal transport in total European transport is limited: 8% of all intra EU transport (in tkm) takes place via intermodal transport. Nevertheless, all forms of European intermodal transport have shown a considerable growth over the last decade.

Under the flagship initiative "An efficient Europe in terms of resource use", presented at the within Europe's Strategy 2020 and the new Plan 2011 on energy efficiency, the main objective of the European transport policy is to help create a system which supports European economic progress, to enhance competitiveness and provide high quality mobility services, while ensuring more efficient use of resources.

The demands of the transport industry on logistics services, and therefore also the efficiency of the logistics infrastructure is growing with the steadily increasing competitive pressure.

The development of transport system was done as a necessity of meeting the transport demands made by society. The growing needs for mobility of goods and passengers have been offered more sophisticated transport modes, both technically and infrastuctural. When designing it financial considerations always prevailed, the social considerations being in a more distant plan.

Intermodal transport: evolution and application in the economy

According to a commonly agreed definition of the main regional and international organizations and cooperation structures: UN, CEE, ITF, EU, ICB, ICC, intermodal transport is that transport system involving the successive use of at least two modes and where the intermodal transport unit is not divided to change modes.(1)

This entails that:

- two or more different transport modes are deployed, and therefore at least one transshipment takes place
- the main haulage is not carried out by road, but by rail or water, while trucks/lorries are used for the initial and final legs of the goods movement (pre and post haulage).

David Collenette (1997), the Transport Minister of Canada, noted: Intermodalism today is about safe, efficient transportation by the most appropriate combination of modes. (The Summit on North American Intermodal Transportation, 1997)

These statements define intermodal transportation as a macroeconomic concept, because an effective transportation system is a vital factor in assuring the efficiency of an economic system as a whole.

The structure of intermodal transport system is based on three elements (Fig. no 1):

1. a system of freight over long distances (usually involving modes of shipping, rail, inland waterways and / or air);
2. transport terminals to ensure efficient transfer of cargo units on a modal transport to another
3. a collection and distribution of freight flows at points of origin, respectively destination of the transport chain (usually made by road transport).
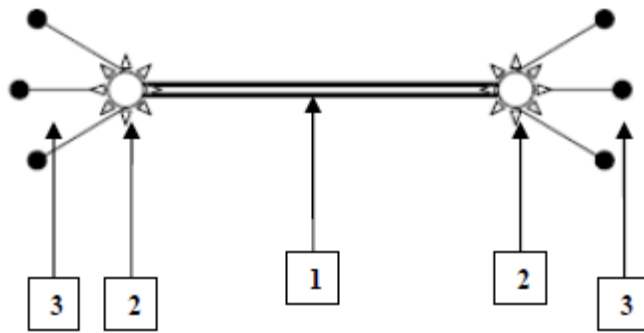
Figure 1: Basics elements of intermodal transport
Source: Ankner 2006

Intermodal transport involves a large number of operators from the private sector. The market environment in which they operate is highly competitive. As opposed to the general situation observed for many other transport services, direct competition can often be found among players operating on the same network segment. This situation largely influences the pricing strategies of operators and their overall market attitude:

- published prices, when they exist, are often found to be substantially different from real prices offered to customers. Discounts for high volumes, for frequent and/or regular shipments, and, more generally, for strategically preferred customers are common practice, and hardly documented

- similarly, cross subsidisation between routes is frequently adopted by operators seeking to gain dominant positions on specific itineraries and services. (Ricci 2002: 4)

Expansion of the intermodal transportation network is associated with economies of scale and better accessibility to input and output markets. The overall impact of intermodal transportation can be divided into four elements:

- an increase in the volume of transportation in an existing transportation network;
- a reduction in logistic costs of current operations;
- the economies of scale associated with transportation network expansion;
- better accessibility to input and output markets. (Yevdokimov 1997: 3)

Intermodal transportation is characterized by optimal frequency of service and modal choice and increased reliability. Combined, these two features define the just-in-time delivery – a major service produced by intermodal transportation. (Blackburn 1991: 27)

It appears that just-in-time delivery reduces the burden of inventory holding costs. Reduction in the inventory holding costs directly improves the productivity of an economic system.

Investments in infrastructure

Traditionally, the benefits of a transportation investment have been primarily evaluated through reduced travel time and reduced vehicle maintenance and operation costs. In order to measure total economic benefits of investing in intermodal transportation, it is necessary to understand their basic relationships with different economic activities.

Improvements in transportation reduce transportation costs. The immediate benefit of the reduction is the fall in total cost of production in an economic system under study which results in growth of the system's output.

An efficient transport network requires substantial resources. EU cost of infrastructure development, so as to meet the demand for transport, was estimated at over EUR 1 500 billion for the period 2010-2030. Completion of TEN-T requires about EUR 550 billion by 2020, of which about EUR 215 billion to eliminate critical bottlenecks. These figures do not include investments in vehicles, equipment and charging infrastructure, which may require an additional

EUR 1 000 billion, to reach emission reduction targets for the transport system. (European Commission)

There must be diversified funding sources, both public and private. It is necessary a better coordination of structural and cohesion funds with the objectives of transport policy and Member States must ensure that their budget planning provides sufficient national funds and sufficient capacity planning and project implementation. Other sources of funding to be considered are systems to internalize external costs and user charges of infrastructure, which could create additional revenue streams, which in turn would encourage private investment in infrastructure.

The biggest hurdle in the development of adequate combined traffic offers the necessary infrastructure requirements. The construction of terminals is challenging and unrealistic to expect the operators themselves to manage it. In general, as in the railway infrastructure, the public sector has to pay for it, at least in part. The installation of terminals in turn is a complex task, whose success with the integration of technology and modern logistics connected by rail and also the market potential is very closely linked. The market opportunities in combined traffic, depending on the quality of combined transport terminals vary considerably. Investment requirements for transport companies, however, are manageable. The additional costs for crane lifting containers in road transport, as compared with conventional semi-trailers, are small. (Bakukin et al. 2010: 7)

Price signals play an important role in many decisions with long-term effects on the transport system. Transport charges and fees must be restructured towards a wider application of the principles of "polluter-pays" and "user-pays". They should strengthen the role of transport in promoting European competitiveness and cohesion objectives, while the total load of the sector should reflect the total costs of transport, including infrastructure costs and external costs.

Pricing the intermodal transport

The most important criterion in the transport organization is the economics of transportation.

To organize intermodal transport economically from the perspective of market participants, many parameters are important. In particular, the efficiency of the ports (terminals, as well as countries and systems boundaries) and the economic orientation of the rail companies are of the utmost importance in order to determine the marketability.

Over longer distances, the intermodal transport offers, theoretically, significant advantages in terms of the road driving and rest periods.

The main cause of the relatively low development of intermodal transport is its inability to respond in a satisfactory customer's requests in the new logistics environment.

Road transport is recognized as being more flexible, cost-effective, transparent, effective and thus provides a good quality service.

Intermodal transports are cost-effective over long distances and it is known that in Europe most of the shipments of goods are made on short distances; about 57% of the transported goods moving within a radius of 50 km. (European Commission)
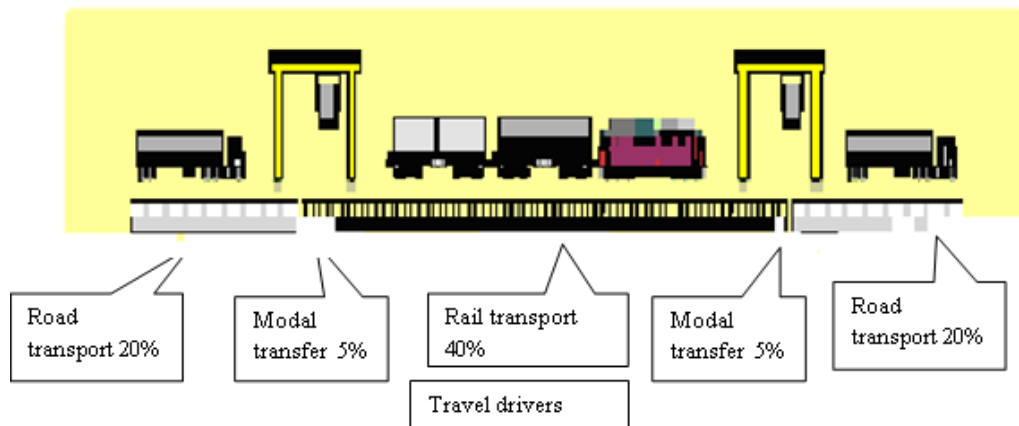
Figure 2: Share of costs involved in intermodal transport

Multimodal freight transport and combined rail-road transport are two strong axes of sustainable development policy of the European Union, because such operations are carried on long distances and in large quantities. These transport present the following economic advantages: transport in a single train of 20-25 swaps, in a single barge of 130-175 containers or in a single ship of 8,000 or more containers, replace the same number of trucks and leads to significant gains in economy energy, personnel costs, vehicle maintenance and other costs that are considered internal and external.

Intermodal interfaces, strategically located where networks of different modes converge, allow goods, particularly those in standard containers, to be transferred efficiently between transport modes, thereby ensuring optimal usage of the networks as a whole. These intermodal interfaces are not only important at seaports, but are increasingly being recognized as beneficial at inland points of intersection as well.

Socio-economic benefits and positive externalities justify a certain level of public funding, but in the future transport users will probably have to pay a larger cost than today. It is important that users, operators and investors receive fair and consistent monetary incentives.

Internalize externalities, removing tax distortions and unjustified subsidies and free and undistorted competition are, therefore, part of an effort to align market choices to sustainability needs (and taking into account the economic costs of "non-sustainability"). They are also required to establish fair market conditions between modes that are directly in competition.

Oil will become more rare in the coming decades and sources of supply will become increasingly uncertain. As shown recent by IEA, the success of the global economy in terms of decarbonisation is lower, the oil price will be higher. In 2010, bill of EU oil imports amounted to about EUR 210 billion. If we do not solve the problem of oil dependence, people's ability to travel - and our economic security - could be seriously affected, with serious consequences on inflation, trade and global competitiveness of EU economy.

It is important that new transport models appear, in which large volumes of freight and more passengers are transported in common at destination with the most efficient (combinations of) ways.

Future development should be based on:

- performance optimization of multimodal logistics chains, including increased use of inherently more efficient ways in terms of resource use, where other technological innovations are inadequate (eg. freight over long distances)

- more efficient use of transport and infrastructure by using a series of improved traffic management systems and information (eg ITS, SESAR, ERTMS, SafeSeaNet RIS), by using an advanced logistics and implementation of market measures such as developing a comprehensive

integrated European railway market, elimination of cabotage restrictions, removal of barriers to short sea shipping distances, no distortion rates, etc. (Raoul 2009: 12)

On long distances, decarbonisation of road transport options are limited, and multi-modality freight should be attractive from the economical point of view, for carriers.

EU needs corridors especially developed for freight, optimized in terms of energy consumption and emissions, in order to minimize environmental impact, but which can be also attractive because of their reliability and reduced congestion and due to the low administrative and operational costs.

Recommendations and conclusions for increasing the efficiency of intermodal transport

Regarding intermodal transport has been found that a significant amount of time is lost in terminals where the transfer of goods to / from the means of transport in the deposits or their transshipment between different modes of transport is realized. Efficiency measures of the intermodal chain also apply to investment and organizational solutions applicable to intermodal terminals.

Main economical obstacles to the development of intermodal transport refers to the high investment costs for both intermodal transport units and terminals, high costs of transfer and storage; cost structure is often unknown and the division between infrastructure, terminals, traction, rolling stock operation, handling, etc., is unclear.

Development and profitable solutions of the business in intermodal transport terminals relate to measures of investment and organization. Investments measures are:

- modification of terminal groups of lines by increasing the number and length of tracks;
- improving access to train in the terminal area by reconfiguring the diagonals in order to increase the number of simultaneous paths and reduce the duration of the terminal input and output;
- expanding the area in which the transfer of road - rail cargo units is realized;
- improve terminal access road and increased parking spaces;
- the provision of transfer equipment performance and with high productivity
- the equipment with means for automatic identification of vehicles (cars, tractors and trailers) and of cargo units (containers, swap).

Organizational and operational measures aimed at:

- increase uptime daily of the terminal;
- superior organization of activities by simultaneous operation of terminal
- sizing technological processes and work teams
- increased use of electronic computing equipment (optimization solutions by setting optimal order of introduction to the activities of loading / unloading) and of information systems, command, control and communications.

Since most finished products are transported in containers and that they are the primary means to facilitate intermodality, it is estimated that, in the twenty-first century, intermodal transport, with technological improvements of used transshipment systems, is the cornerstone of international trade, being considered the most effective way of managing international transport activities from "door to door". This is because intermodal transport allows the combination, advantageously in a certain way, of the specific advantages of each mode of transport, such as road transport flexibility, high capacity of rail transport, low costs of shipping transport and high speed of air transport.

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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 ol 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 lavel 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 stoped 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) mentaned to a lower level than the foreseen one.

Ussualy, 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 producersnot 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*
Sunndal, 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 Norwey.

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 showen in Fig. 1

Figure 1
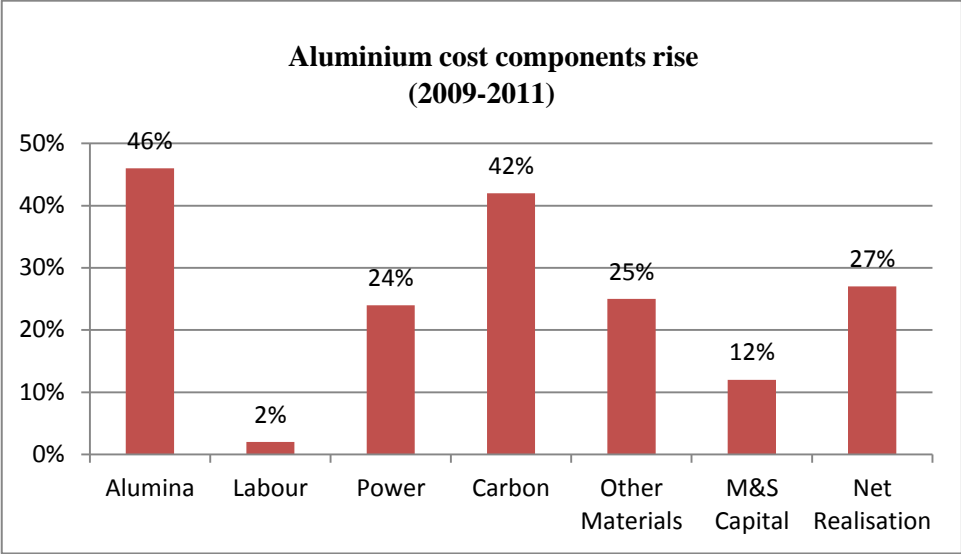
Source: Driscoll, Kelly (2011), Trends in the costs of production throughout the aluminium value chain, 15th ARABAL, Oman

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-termcontracts (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 referes 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.

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, who's 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 Strategu (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 sintethic 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 ndicators 9.01, 9.03, 9.04 and 9.05 **Degree of business sophistication** Indicator 11.07	↓ ↑ ↑
KC4 – Resources conservation and management Target 2	**Inovation** 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 ndicator 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 indicatorsfor 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 corespondence between sustainable development indicators (SDI) and competitiveness indicators (CI)

Theme / Level 3 SDI	CI
T1. Economic Development	**Pillar 3**
6.Inflation rate	3.03 Inflation level
7	3.02
	Pillar 5
9	5.08
	Pil1ar 2
10, 11	12.03
	Pillar 4 and Pillar 5
12	4.09, 4.10, 5.01, 5.02, 5.03
	Pillar 7
13, 14	7.03, 7.09
T2. Poverty and social exclusion	**Pillar 7**
5	7.09
	Pillar 4 and Pillar 5
9	4.10, 5.01
T4. Public Health	**Pillar 4**
1	4.08
T5. Climate change and energy	**Pillar 9**
3	9.01
4, 5, 6	9.03
T6. Consumption and production models	**Pillar 9**
12	9.01, 9.03
T7. Human resources management	**Pillar 2**
2, 3	2.04
4, 6	2.01
10	2.02, 2.03
T8. Transport	**Pillar 2**
4	2.02
7	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 tarets 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 almos 23,5% of them.

The highest correspondence degree between the two sets of indicators may be be the 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 nusiness 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.

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 & 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 & 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 & Bettis,1986; Harrison & 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, 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, 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 & 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 (Beth Kytle, 2005, p. 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 & 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 (Borzaghi, 2003).

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

In order to enhance its reputation (Figge & 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 & Kurke, 1997) of the stakeholders, which often differ from those of the firm (Schmidheiny & 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 & 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 2004a) 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 & 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 & 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 & 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
Alpha
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)
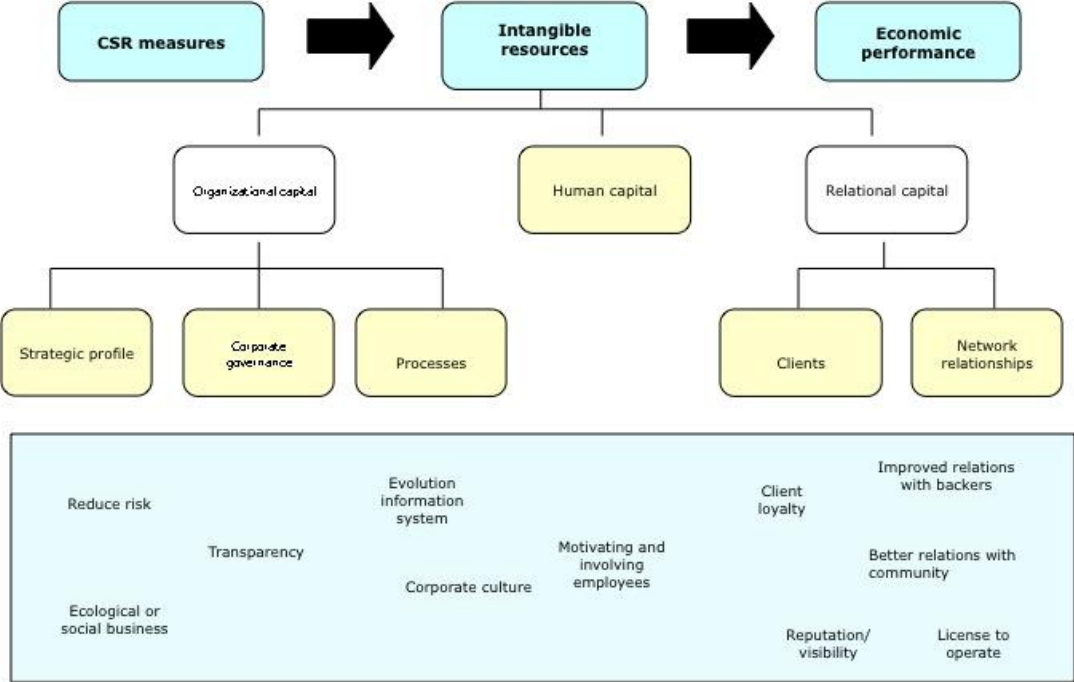
We can link CSR to the firm's economic performance through a causal network whose elements are for the most part *intangible resources* (Molteni, 2004a) capable of providing a fundamental contribution to the economic performance over time and that, according to time-tested views, can be divided into three classes (Edvinsson 2002), as shown in Fig. 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 & 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 & Al.);
- *a good reputation* for the firm in its environment (Carter & 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 & 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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INVESTMENTS' VALUES AND EU FOUNDED PROJECTS

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Being value based is one of the principles project management has to respect in order to be sustainable. Values are guidelines for human behavior that are shared by a large group of individuals. As projects can be differentiated from investments, also projects' values can be differentiated from investments' values. Connecting projects with investments' values contributes to projects' success, to a sustainable project management process and to a sustainable investment. The article explains the differences between investments and projects and presents how the investment's values can be related to the project. The topic is applicable when dealing with projects in general and can have benefic effects on investments initialized through projects financed by the European Union.

Key words: project, investment, value, project management

JEL classification: M10

1. Introduction

In a dynamic environment, with an increasing level of competitiveness, projects might be a solution for handling complexity. Projects are the principal way of creating and dealing with change (Cleland and Gareis, 2006), being used with increasing frequency in all fields.

Significant investments were made in Romania, before and after the accession to the European Union, through projects financed by the European Union in order to implement European strategies and to achieve sustainable development, one of the principal European objectives.

When dealing with projects and investments, not only goals achievement and results evaluation is important, analyzing and managing values is also a topic to be considered.

The article concentrates on how the investment's values can be related to the project, a current topic in project management, which can improve the results obtained through project implementation and increase the success chances of the project.

The central research question of this article is: "Can investment's values be related to the project?"

In order to answer the research questions, we present below the concepts of investment, project and values and the connection between values of investments and projects.

2. Methodology

Considering the high frequency of projects financed by the European Union in the last years in Romania, we consider that a better correlation between investments' values and projects might increase the efficiency of European funds spending. The goal of the research is to present a literature research on the connection between values of investments and projects. To conduct the research we:

- Define the concepts of projects, investments and values;
- Present the difference between projects and investments;

- Present the values that can be indentified in the literature in the case of investments and projects;
- Analyze the connection between the investment's values and the project – how can investment's values be transmitted and integrated into the project.

3. Projects, investments and values

Different approaches regarding the perception of projects exist (Gareis, 2005: 39-41). Projects can be seen as tasks with special characteristics: "A project is a temporary endeavor undertaken to create a unique product, service, or result. The temporary nature of projects indicates a definitive beginning and end" (PMI, 2008: 5).

Some authors also define projects as temporary organizations and social systems: A project is a temporary and transient organization surrounded by inherent uncertainty (Turner and Muller, 2003). A project can be defined as "a temporary organization of a project-oriented organization for the performance of a relatively unique, short to medium term, strategically important business process of medium or large complexity" (Gareis, 2005: 41). Organizations and also projects can be viewed as social systems which have clear boundaries to differentiate them themselves from their environment, according to social system theory (Gareis, 2005).

On the other hand, investment is defined traditionally as "the purchase of a financial product or other item of value with an expectation of favorable future returns" (Mills and Turner, 1995: 3). Investment involves diverting scarce resources – land, labor and capital – from the production of goods for current consumption to the production of capital goods (Campbell and Brown, 2003). According to Gareis, "investments are long-term employment of capital in assets, in customer relationships, in products, in the organization or in personnel" (Gareis, 2005: 48).

In project management literature the concepts of project and investment are often not differentiated (Gareis et al, 2010). But, *projects can be differentiated from investments*. Projects can be used to initialize an investment (Figure 1) (Gareis, 2005). Projects initialize investments in new products, markets, organizations, or infrastructures, contributing to the achievement of long-term objectives (Gareis et al, 2011).
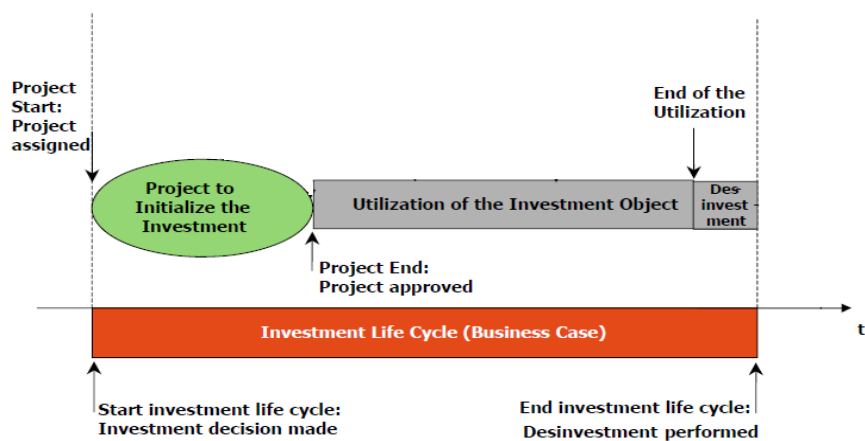
Figure 1. The relationship between projects and investments
Source*: Gareis, 2005*

"Values are motives or frame of reference, which are fairly stable and influence actions" (Feather, 1999). Values are important and enduring beliefs or ideals shared by the members of a culture about what is good or desirable and what is not. Values exert major influence on the behavior of an individual and serve as broad guidelines in all situations (Business Dictionary).

Values are setting sense and meaning within a social system, they represent necessary constructional elements of a society and they can serve as guidelines for human behavior. Values can change over time and are influenced by many factors such as religion, age, sex, education etc. (Oelmüller, 1996).

Investments' values

In general, investments' values reflect the value of an asset to its owner, depending on his or her expectations and requirements (Business Dictionary).

From the economic point of view value is created when the net benefits resulting from an investment exceed the costs of capital (Copeland et al, 1995). Ex ante evaluation of investments require calculating the Net Present Value (NPV) by discounting future expected cash flows against the costs of capital.

But not just economic values are to be considered when talking about investments. Other types of values also have an important influence in investments, being strongly related to investor's values and beliefs, the type of investment and the desired outcomes.

It is difficult to set a border between values in a complex and dynamic business environment. Usually investment decisions are influenced by more than one value type. A concept which might be used as an example of mixing the values when dealing with investments is the *socially responsible investment*. Socially responsible investment is broadly defined as the integration of personal values, social considerations and economic factors into the investment decision. Socially responsible investment has emerged in recent years as a fashionable and increasingly popular topic.

Projects' values

Contrary to traditional professions like doctors or lawyers, no commonly recognized professional ethics or values nor universally accepted codes of professional conduct exist for project, programs and portfolio managers (IPMA).

Values appear to significantly contribute to a compelling sense of purpose beyond making money (Mengel et al, 2009). For project environments in particular, an attractive vision and a shared set of values and beliefs is important (Keegan and Den Hartog, 2004; Kendra and Taplin, 2004), being a significant project success factor.

"Project values provide benchmarks for what is considered good, valuable and desirable in a project. They determine the behavior of the members of the project organization consciously and unconsciously and provide orientation for their actions" (Gareis, 2005: 260).

In defining project values the following questions can be used as an aid (Gareis, 2005):
- What is specific about the project results?
- What is important and what is not important to the project team?
- What differentiate the project from other projects?

4. The connection between values of investments and projects

As social systems, projects develop their own culture, identity and their own values. Investments unlike projects are non-social systems; therefore they cannot have their own values. It is the investor and the investing organization that can develop and act on values which they can transfer to the project organization. The investor has to communicate their aimed values parallel to their investment. When speaking about investments initialized through projects financed by EU, the investor is considered to be the European Commission and also the funding recipient that has the obligation to co-finance the implementation of the project.

The investor as an important stakeholder

The concept of stakeholders was first approached in 1984 by Freeman that defines stakeholders as "any group or individuals who can influence or are influenced by an organization's objectives" (Freeman, 1984: 46). This definition is considered a starting point for stakeholder theory (Achterkamp and Vos, 2008). In 1986 Cleland related stakeholders' theory to project

management, highlighting the importance of identifying stakeholders, their classification and analysis. In the Project Cycle Management guide (2004) stakeholders are defined as persons, groups of people, institutions, professional organizations, companies, etc., which can be related, directly or indirectly to the project or program (European Commission, 2004).

Many authors have stressed the importance of stakeholders in project management. Littau, Adlbrecht and Jujagiri published in 2010 a meta-analysis that summarizes developments in stakeholder theory literature related to project management. Of the 2.026 articles published in the period 1984-2009, in the most important international project management journals, they identified 116 articles on stakeholders, meaning that 5.7% of the articles published in these journals mentioned the word stakeholder in the title, abstract or keywords section (Littau et al, 2010).

Identifying and analyzing the stakeholders' expectations is an important step in project management. Therefore, the question which stakeholders should be consulted or how they should be involved in the values formation process, is of great importance. From the project's point of view, the investor always plays an important role when it comes to stakeholder priorities. On the other hand, an investor could have different investment projects with different priorities in his portfolio.

Project management approaches start to integrate stakeholder value judgments into the project process. As the investor is one of the main stakeholders the value transmission process between the investor and the project has to be considered.

Transmission of values between the investor and the project

Depending on his priorities, the investor will direct his influence on the project organization in different ways. The value transmission can take place active or passive. An active transmission requires active communication though different tools. The danger of the passive transmission is the assumption of the leading role of the investor by the project organization, following the assumption of his values. *"Leaders embed their values within a culture because people are guided by what leaders pay attention to, measure and control"* (Mills et al, 2009).

Project organizations will consider the values of their investors, especially when they play the role of the dominant stakeholder. If these values are not communicated properly, the project organization will try to interpret the behavior of the stakeholder.

Values can be transmitted easier between the investor and the project, if the management paradigm of the investor and of the project is similar. Project managers should have an understanding of their own values, those of the organization (project) and of the investor (Mills et al, 2009).

Considering the project duration, the transmission of values as a management tool between the investor and the project will play an important role for short term projects as well as for mid and long term projects. As the creation of values takes time, mid and long term projects will develop their own values, similar or different of those of the investor. For short term projects it is more likely to adopt the values of the dominant stakeholder. The evolution of project values in time is a topic the project management and the investors have to consider.

Considering the phases of the investment, conception and realization projects can be differentiated (Gareis and Stummer, 2008). Concept development projects require openness and creativity. It might be necessary to deal with different project values depending on the phase of the investment. To maintain specific values through the different phases, the investor, as one of the main stakeholders, has to participate in all investment and project phases.

Integrating the values of the investor into the project

Project values and the investor's values can positively affect employee satisfaction, work attitude, commitment, effectiveness and staff turnover (Mills et al, 2009). Values are a management tool within organizations and projects. Priorities, defined as values statements alone, will not be

enough to guide day-to-day activity. They can be communicated with the aid of a project mission statement, but the main multipliers of values are the role models.

Stakeholders' values and expectations can be integrated into the project. VALiD (Value in Design) is a new approach to value delivery that integrates stakeholder value judgments into the project process (VALiD). According to its creators, the approach has proven effective in construction projects and building management in the pharmaceutical, education and project management sectors. The concept is based on the following principles:

- value delivery is the goal of all projects;
- value is subjective and based upon stakeholders' underlying values;
- successful projects deliver value for all stakeholders;
- project teams have provider and customer stakeholders, each with their own understanding of value and expectation for its delivery;
- value is judged by each stakeholder from their own perspective and aggregated to provide a project view;
- effective project value delivery requires an ongoing dialogue between all stakeholders to negotiate appropriate compromises and balance stakeholder views (VALiD).

Value is the trade-off between what each stakeholder gets and what they have to give up. It is essential that value from each stakeholder's perspective is analyzed and understood. According to the VALiD framework there are three elements which contribute to the integration of values into the project: understanding values, defining values and assessing value proposition. Through this elements VALiD helps stakeholders express the "get" and the "give" of their value as the benefits they seek from the project, the sacrifices they are willing to make in order to get those benefits, and the resources they consume in doing so (VALiD).

5. Conclusions

Values are the basis of human behavior and important factors in the decision making process. Understanding and analyzing the values when dealing with projects and investments contributes to better results and creating sustainable investments.

The principal way of connecting the investment's values to the project is through the investor, as one of the most important stakeholders. The European Commission, as the investor, in EU funded projects defines its values through the objectives formulated in its policies. But it is not enough to communicate the values as a statement. The investor has to be involved in all the investment and project phases in order to ensure that the values are correctly transmitted and understood. Transmitting and integrating the values of the investment into the project increases the efficiency of European funds and has positive effects when dealing with projects in general.

Considering the complexity and importance of the topic, future research can be done in this field. Using interviews or focus groups to find out the stakeholders' opinion on this topic might be a future point of interest in our research.

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SOME REFLECTIONS ON FLEXICURITY-THE EUROPEAN APPROACH TO LABOUR MARKET POLICY

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The notion of "flexicurity" promises to overcome the tensions between the labour market flexibility on the one hand and social security on the other hand, by offering "the best of both worlds". In this review the development of the concept will be set against the background of changed economic circumstances in the last two decades. Flexicurity is seen as a way to preserve the European Social Model while maintaining and improving the competitiveness of the European Union. It is argued that, in the context of globalisation and technological change which place greater demands on business to adapt continuously, high levels of employment security will not depend only on protection of workers' specific job, but mainly on the means for workers to stay on the job market, manage smooth transitions between jobs and make progress in their careers. At the end of the day, the aim of flexicurity policies should be to ensure the welfare and well-being of our societies and all their members, now and in the future. It can therefore be argued that flexicurity is ultimately about security and sustainability. At the same time, the European ideas and principles on flexicurity first and foremost need to be seen as a framework which may offer inspiration and guidance to Member States to review and improve their labour markets in terms of establishing a sound balance between flexibility and security. Member States can and should come up with their tailor-made policies and regulations that are geared towards their specific history, starting-position and political, institutional and cultural context. As quasi prototypes of flexicurity, policies pursued particularly in Denmark and the Netherlands have been portrayed as having successfully achieved new combinations between (greater) labour market flexibility without compromising social protection. At this point in time, it remains to be seen whether flexicurity will be more than a buzzword which has outlived its temporary political purpose or an enduring component of particularly European approach of combining employment and social policies. 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, labour market policy, unemployment benefits, employment protection, European Union.
JEL classification: J08.

I. Introduction

In recent decades, European labour markets have been characterised as lacking sufficient flexibility for a new and more internationalized economy and a more dynamic nature of labour demand. At the same time, traditional social protection programmes, largely modelled on male dominated, full-time and continuous career patterns, have become both increasingly inadequate for a growing section of employees engaged in non-standard types of employment and more difficult to sustain financially due to economic and demographic pressures. Clearly, a tension has arisen between demands for greater labour market flexibility on the one hand and the need to provide adequate levels of social protection for workers and their families on the other. In this context, much of the literature on labour markets has emphasized the existence of a potential trade-off between flexibility and security.

The notion of "flexicurity" indicates a carefully balanced combination of flexibility where it matters for job creation and protection where it is needed for social security. Flexicurity is based on the co-ordination of employment and social policies. Employment policies must create the best conditions for job growth, while social policies must guarantee acceptable levels of economic and social security to all, including those who enter deregulated labour markets. Some countries, notably Denmark and the Netherlands, have been regarded as models of how labour markets can be made more dynamic without compromising social protection. Recently, the policy theme has also been prominent in several EU activities, most notably the European Employment Strategy.

II. The concept of flexicurity
From the perspective of neo-liberal theory, persistent levels of unemployment and widespread long-term unemployment in many European countries underline the need for greater flexibilization and the deregulation of labour markets. At the same time societal trends of individualization and pluralization of lifestyles have questioned whether the "standard employment contract" should remain a reference point within European welfare states. In recent decades,"atypical"forms of labour market participation have gained weight particularly in countries with restrictive employment legislation. However, while this trend might have enhanced the flexibility of firms, it has arguably weakened the degree of employment and income security for many, as well as promoted segmented labour markets with a coexistence of well protected core sectors and relatively unprotected sectors "at the margin". As a consequence, greater flexibility needs to be reconciled with satisfactory levels of security, which in turn is also a precondition for the improvement of skills and a more sustainable integration into the labour market. In short, ongoing labour market reform would need to be accompanied with appropriate types of welfare state reform.

However, the European Commission (2006) has criticized that often "policies aim to increase either flexibility for enterprises or security for workers; as a result, they neutralise or contradict each other" (European Commission 2006: 5). Flexicurity principles might be seen as a response to this one-sided approach, satisfying the needs of both employers and workers. The concept rests on the assumption that flexibility and security are not contradictory, but complementary.

The idea of flexicurity dates back to developments and debates in two European countries in particular, i.e. Denmark and the Netherlands. According to some observers, the concept of flexicurity was first used by the Dutch sociologist Hans Adriaansens in the mid-1990s in connection with the Dutch Flexibility and Security Act and the Act concerning the Allocation of Workers via Intermediaries (Wilthagen and Tros 2004: 167). Arguably, the neologism was picked up by academics in the Netherlands (e.g. Wilthagen, 1998) and subsequently in other European countries, such as Denmark, Belgium and Germany, before reaching the European Commission's agenda, as well as other European actors (Keune and Jepsen, 2006).

There is no universally agreed definition of flexicurity. Some authors define the concept rather broadly, for example as a policy aimed at "achieving a new balance between flexibility and security"(Klammer and Tillmann 2001: 15) or as "secured flexible employment"by reconciling labour market flexibility with measures to counter growing social exclusion and the emergence of a class of working poor (Ferrera, Hemerijck and Rhodes 2001: 120). The European Commission defines flexicurity simply as "an integrated strategy to enhance, at the same time, flexibility and security in the labour market"(European Commission 2006: 5).

The absence of a common definition is underlined also by the fact that at times flexicurity has been used to describe a type of public policy and at other times as a condition of a labour market, even by the same authors. For example, Wilthagen and Rogowski (2002) regard flexicurity as a deliberative and coordinated strategy for weaker labour market groups :

"A policy strategy that attempts, synchronically and in a deliberate way, to enhance the flexibility of labour markets, work organisation and labour relations on the one hand, and to enhance security-employment security and social security-notably for weaker groups in and outside the labour market, on the other hand". (Wilthagen and Rogowski 2002: 250).

On the other hand, Wilthagen and Tros (2004) suggest a more institutional definition:

"Flexicurity is (1) a degree of job, employment, income and 'combination'security that facilitates the labour market careers and biographies of workers with a relatively weak position and allows for enduring and high quality labour market participation and social inclusion, while at the same time providing (2) a degree of numerical (both external and internal), functional and wage flexibility that allows for labour markets' (and individual companies') timely and adequate adjustment to changing conditions in order to maintain and enhance competitiveness and productivity". (Wilthagen and Tros 2004: 170)

Turning to its components, four different types of flexibility and security have been identified respectively:

- External-numerical flexibility: the ease of hiring and firing workers and the use of flexible forms of labour contracts.
- Internal-numerical flexibility: the ability of companies to meet market fluctuations (e.g. via over-time, flexi-time, part time, temporary work, casual work or sub-contracting).
- Functional flexibility: the ability of firms to adjust and deploy the skills of their employees to match changing working task requirements.
- Payment or wage flexibility: the ability to introduce variable pay based on performance or results. (Wilthagen and Tros 2003, 2004).

Similar to types of flexibility, four different forms of security are usually presented in the literature:

- Job security: the certainty of retaining a specific job (with the same employer), e.g. via employment protection legislation.
- Employment security: the certainty of remaining in paid work (but not necessarily in the same job or with the same employer), e.g. via training and education (and high levels of employment).
- Income security: the certainty of receiving adequate and stable levels of income in the event that paid work is interrupted or terminated.
- Combination security: the reliance on being able to combine work with other-notably family-responsibilities and commitments, often discussed under the heading of "work-life balance". (Wilthagen and Tros 2003, 2004).

Flexicurity policies can be analysed as types of combinations between these different forms of flexibility and security, which might involve individual workers, groups of workers, or certain sectors or the economy as a whole.

III. Diverse labour market problems, policy components and obstacles to more flexicurity

According to the European Expert Group on Flexicurity , one element for the implementation and success of flexicurity policy is a supportive and productive social dialogue between the social partners and public authorities. Recognizing differences in labour market conditions and challenges, the Expert Group is less prescriptive in other respects, offering alternative pathways to flexicurity (see also European Commission 2007: 3). These are:

- Tackling contractual segmentation.
- Developing flexicurity in the workplace and offering transition security.
- Tackling skills and opportunity gaps among the workforce.
- Improving opportunities for benefit recipients and informally employed workers.

These different security pathways respond to different problems that are visible, to differing degrees, in European labour markets. For example, some countries might be faced with the

problem of segmented labour markets, characterized by a large share of "outsiders"lacking security and limited opportunity to make transitions to more permanent and secure jobs due to the impact of strict employment regulation. Such a situation might be regarded as typical for Southern European countries, and the first pathway seems more relevant there. Another challenge might be labour markets with a large share of workers with high levels of job security, especially within large industrial firms, but few opportunities to find new employment in the event of redundancy. Labour flexibility is thus generally confined to the firm level, labour turnover fairly low and long-term unemployment typically high. Such a challenge might be most commonly found in some continental Western European countries, and the second flexicurity pathway is intended to offer a response.

The third pathway responds to the challenge of flexible labour markets with a large share of low-skilled workers and a clear segmentation between low-paid and high-paid workers. Accordingly raising job quality in the low-skilled sector and tackling low productivity rates are the major policy priorities. A country which might fit this description is the United Kingdom. Finally, the fourth pathway seems particularly relevant to the situation of Central and Eastern European transition countries, where high proportions of non-active working age people receive long-term benefits and face few activation incentives. This is coupled with problems of low productivity and high numbers of workers employed in the informal sector.

The European Commission (2007) proposes to address these particular challenges by focusing on four policy domains:
- Flexible and reliable employment protection arrangements.
- Comprehensive lifelong learning strategies.
- Effective active labour market policies.
- Modern social security systems. (European Commission 2007: 5).

Given that these four areas are often regarded as the core components of flexicurity policy, I will briefly review these in turn.

According to analytical evidence, strict employment protection appears to reduce the numbers of dismissals, but hampers the transition from unemployment to work (OECD 2006: 34). Arguably it thus contributes to divisions between labour market insiders and outsiders, particularly where regulations differentiate between regular and other forms of employment contracts. Boeri et al. (2003) showed that only few countries reduced the strictness of employment protection for regular workers in recent years, while the majority of changes in employment protection took place at the margin (Boeri et al 2003:16). Deregulation at the margin of the labour market tends to favour the creation of segmented labour markets in which employees with atypical contracts carry the burden of adjustment to economic shocks. This has led to more precarious employment, a lack of adequate provision of training for those with atypical contracts, and negative impacts on productivity.

Clearly, the effect of employment protection legislation is contested. Those in favour of liberalization have argued that stringent regulation tends to encourage less dynamic labour markets, worsening the employment prospects of women, youths and older workers. However, whether employment protection reduces labour turnover and prolongs unemployment is debatable. For example, provided that severance payments and advance notice of termination are chosen optimally, Pissarides (2001) argues that unemployment insurance does not hamper job creation (Pissarides 2001: 140). Moreover, the positive effects of employment protection, such as providing incentives to enterprises to invest in training, promoting loyalty and raising productivity of employees, has been widely acknowledged (European Commission 2007: 6).

Second, lifelong learning has become another buzzword within the current EU debate on flexicurity. High participation in lifelong learning is positively associated with high employment and low long-term unemployment. Encouraging flexible labour markets and ensuring high levels of security will only be effective if workers are given the means to adapt to change and to make

progress in their career. Ongoing education and training is seen as the key to employability and adaptability throughout an individual's life course, thereby also contributing to the high productivity economic model the EU aspires to. Investment in human resources over the life course and strategies of so-called active ageing are strongly promoted by the EU as a response to rapid technological change and innovation in the face of demographic pressure. It is seen as increasing both the competitiveness of firms and the long term employability of workers (European Commission 2007: 10).

Third, unemployment benefit systems are now more readily connected with active labour market programmes. Depending on their design, unemployment benefits are able to protect more effectively against labour market risks than employment protection, offsetting negative income consequences during job changes. Their arguably negative effects on the intensity of job search activities is regarded to be counteracted by efficient activation strategies that coordinate unemployment benefits with active labour market policies. Finally, supporting transitions between jobs as well as from unemployment to jobs, active labour market schemes are regarded as essential for achieving a balance between flexibility and employment security while reducing the risk of labour market segmentation and lowering aggregate unemployment (European Commission 2006:17; OECD 2006: 12). Closely connected are policies aimed at customizing career advice and supporting equal opportunities, e.g. by improving the so-called "work-life balance" (European Commission 2006: 17).

The flexicurity debate emphasizes the interactions between these policies and institutions; flexicurity might be seen as an integrated approach aiming to optimise the combination between these four components.

IV. Concluding remarks

Despite attempts to arrive at a more precise definition, the review has shown that the concept of flexicurity has remained ambiguous. To some extent this might not be surprising given its multi-dimensional character and the emphasis on particular policy components in some countries but not in others. In addition, flexicurity has certainly a buzzword character with apparently little regard for policies which have been practiced for some time, such as active labour market policies and lifelong learning programmes. Adopting a critical, if not cynical approach, it could be argued that to some extent flexicurity has replaced the previous EU-discourse on activation and is likely to be replaced by the next fashionable and politically useful concept before long.

Clearly, for analytical purposes the concept of flexicurity needs to be specified in order to be employed in a meaningful way. However, its vagueness might have political advantages, especially at an EU discourse level, making it acceptable to a large number of actors. Yet, while its openness makes the idea of flexicurity easy to disperse to EU Member States in a sort of "pick-and-choose" approach, there is a risk of loosing the crucial emphasis put on the simultaneousness of flexibility and security. Thus, many observers might be forgiven to suspect the term to be little more than an instrument for an old agenda aimed at making labour markets more flexible and curtailing employees' rights. At this point in time, it remains to be seen whether flexicurity will be more than a buzzword which has outlived its temporary political purpose or an enduring component of particularly European approach of combining employment and social policies.

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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 Demark, 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 loose 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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ROMANIA ON THE PATH TO SUSTAINABLE DEVELOPMENT. COMPARATIVE ANALYSIS WITHIN THE EUROPEAN UNION

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Nowadays, the issues of sustainable development are of great interest and importance, as countries, organisations, institutions worldwide are still searching for the right solutions leading to human well-being and life quality in a society socially acceptable, economically viable and environmentally sustainable, in an integrated vision between states and generations. Due to the difficulties of measuring such a complex, multi-dimensioned concept, one of the main questions refers to necessity and the possibility of determining countries' progress towards sustainable development. In this respect, there are a very large number of initiatives and efforts to develop the appropriate indicators; yet, there is no one agreed method.

In this generous context of analysis, the paper aims to offer some answers regarding Romania's progress towards sustainable development, based on a comparative analysis within the European Union, using data provided by three of the most widely used indicators for measuring sustainable development: Human Development Index, Environmental Performance Index and Ecological Footprint. The research methodology uses the comparative analysis and synthesis of data, followed by a dissemination of the results in order to express a personal opinion on the topic.

The research results are far from being optimistic, highlighting a serious gap between Romania and the other member states in terms of progress towards sustainable development. Therefore, they call for immediate action and increased efforts, so that European Union's objectives of real cohesion and of becoming one of the global leaders in supporting sustainable development can be reached. The merit of this study is its contribution with an original research to the efforts of assessing Romania's progress on the path to sustainable development, which may be particularly important for both researchers and policy makers. Due to some limitations induced by the methodology, the research opens the way for future studies, using complementary data and methodology.

Key words: sustainable development, sustainability indicators, human development, environmental performance, comparative analysis
Cod JEL: Q01, R11

1. Introduction

Sustainable development has become in the last decades the development paradigm of the world we live in today and countries, organizations, institutions worldwide have committed towards its goals. Nowadays, the subject is of great importance, as society is still searching for the right solutions leading to sustainable development. In this respect, one of the greatest challenges is to evaluate the progress towards sustainable development, as any decisions for further action can not be taken without having a clear picture of the current situation. Therefore, measurements are necessary. There are a very large number of initiatives and efforts to develop the appropriate indicators to measure sustainable development and, although there is no agreed method due to the complexity of the subject, some of the indicators are widely recognized and used.

In this generous context of analysis, the paper aims to offer some answers regarding Romania's progress towards sustainable development, based on a comparative analysis within the European Union, using data provided by three of the most common used indicators for measuring sustainable development: Human Development Index, Environmental Performance Index and Ecological Footprint. The paper is structured in two parts: the first part is dedicated to present

some landmarks in literature regarding the current issues of sustainable development and the second part presents the research results, according to our objective. The paper ends with a section of conclusions regarding the main ideas of the empirical research, with implications for further research.

2. Literature review

Sustainable development is today a landmark of a world in change, one of the key themes emerged from the collective concerns and aspirations of the world's peoples in the last half of the twentieth century (National Research Council, 1999: 22).

The study of sustainable development has been of great interest for researchers and policy makers and it has been the subject of very complex debates worldwide, its approaches evolving along with the permanent changes in our globalised society, in the common effort to offer the right solutions for that kind of development "that meets the needs of the present without compromising the ability of future generations to meet their own needs", as stated by one of the most frequent used definition, given by the Brundtland Commission (WCSD, 1987:8).

The original emphasis on economic development and environmental protection has been broadened and deepened to include the commitment to advancing human well-being (including increased life expectancy, education, equity and opportunity) and life quality in a society socially acceptable, economically viable and environmentally sustainable, with the added constraint that this development needs to take place within the ecological limits of the planet. Current debates focus on considering interconnections and interdependences between systems which call for an integrated approach and coordination, simultaneously pledging for equity between states and generations.

Sustainable development has received a global political dimension: an action plan for sustainable development, called Agenda 21, was launched in 1992 at Rio's Earth Summit (UNCED), followed by other initiatives: commitment to sustainable development was reaffirmed in 2000 when the UN Millennium Development Goals was adopted (UNGA), in 2002 at the World Summit on Sustainable Development in Johannesburg (WSSD) and more recently, during the preparations for the 2012 Earth Summit (UNCSD).

In the interim, sustainable development as a concept, as a goal and as a movement has been integrated in strategies, calling on all countries to integrate its principles into national policies and programs. Locally and globally, sustainable development is now central to the mission of countless international organizations, national institutions, corporate enterprises, sustainable cities and locales (Kates, Parris and Leiserowitz, 2005: 3).

As one of the key players in the present era of globalization, The European Union responded to all these efforts and adopted in 2001 its first Strategy of Sustainable Development (European Commission), as sustainable development has become one of its major political objectives. Due to the persistence of some unsustainable trends in many areas and the necessity to intensify efforts, the strategy was revised in 2005 and 2009 for a unitary and coherent strategic vision, completing The Lisbon Strategy and aiming to become a catalyst for changing the behaviour of the European society towards sustainability.

For Romania, as well as for the other EU member states, sustainable development is a perspective of the national becoming, resulting into a new development paradigm. More formally, Romania committed to sustainable development since 1990, when it changed its development model, but, as a member state, Romania has the obligation to adhere to and respect EU commitments in this direction. Thus, in 2008 Romania adopted its National Strategy of Sustainable Development (Romanian Government).

Still, one of the main issues of the subject refers to necessity and the possibility of determining countries' progress towards sustainable development, as it is difficult to measure such a complex concept and there is no one agreed method. Combining global, national and local initiatives, there

are literally hundreds of efforts to define appropriate indicators and to measure them (Parris and Kates, 2003), as these indicators must not only reflect changes in quality of life, but must also show if these changes are compatible with the planet's current ecological limits. Three of the most widely used indicators, recognized as relevant for measuring sustainable development, are: Human Development Index (UNDP, 2011) as an indicator of development, Environmental Performance Index (Yale, 2012) as an indicator for environmental sustainability and Ecological Footprint (Global Footprint Network, 2010) as an indicator of sustainable consumption.

UN Human Development Index (HDI) provides an overview of human well-being, measuring development in terms of life expectancy, educational attainment and income and serves as a frame of reference for both social and economic development. *The Environmental Performance Index (EPI)*, developed by [Yale University](#) and [Columbia University](#), evaluates environmental sustainability relative to the paths of other countries, covering both environmental health and ecosystem vitality. *Ecological Footprint* is a tool that measures our natural resource consumption and our global environmental impact, allowing us to work out whether there are enough resources in the world to sustain our activities. A large body of literature exists examining the strengths and shortcomings of the Ecological Footprint approach; yet despite acknowledged limitations, judging from the vast number of references, it remains a leading biophysical accounting tool for comparing present aggregate human demand on the biosphere with the Earth's gross ecological capacity to sustain human life.

3. Research Methodology

The research goal is to provide a representative imagine of Romania's progress towards sustainable development, in comparison with performances of the other EU member states.

The research methodology is specific for the purpose and the nature of the research and includes literature review, comparative analysis and synthesis of data, followed by a dissemination of the results in order to express a personal opinion regarding the research results. *The literature review* is based on bibliographic resources (books, studies, articles) and official documents (e.g. declarations, strategies, reports) in order to highlight the importance and the opportunity of the subject. *The comparative analysis* is based on processed and summarized data, according to the three indicators mentioned above: Human Development Index, Environmental Performance Index and Ecological Footprint. We use this triple set of indicators evaluating human development and ecological sustainability as together, they offer a potentially more meaningful evaluation of progress and trade-offs than would be possible using either of them, on their own.

The merit of this study is to contribute with a relevant research in an area more difficult to approach, due to its complexity. Although providing a clear imagine of the research topic, the research methodology generates some limitations, as the metrics employed are approximations and do not cover the full spectrum of sustainable development, offering information for specific moments and therefore, representing only a moment in the evolution of the phenomena. Certainly, more complete indicators for measuring progress toward sustainable development are necessary. However, the study may be a starting point for further research, by analyzing other dimensions of the topic, using complementary methodology.

3. Research results

As stated in the research methodology, our analysis is based on data according to Human Development Index, Environmental Performance Index and Ecological Footprint. We note that the research results must be interpreted in the specific context of the fact that Romania, unlike other countries with tradition, has become preoccupied with sustainable development issues only recently.

Human Development Index provides a composite measure of three basic dimensions of human development: health, education and income, expressed as a value between 0 (minimum value)

and 1 (maximum value). UNDP defines an HDI score of 0.8 as the limit between high human development and very high human development.

According to 2011 Ranking, Romania's HDI is 0.781, which gives the country a rank of 50 out of 187 countries with comparable data. Considering the EU countries in this ranking (Fig. no.1), Romania occupies the second last position (only Bulgaria has a lower score, the lowest in EU).
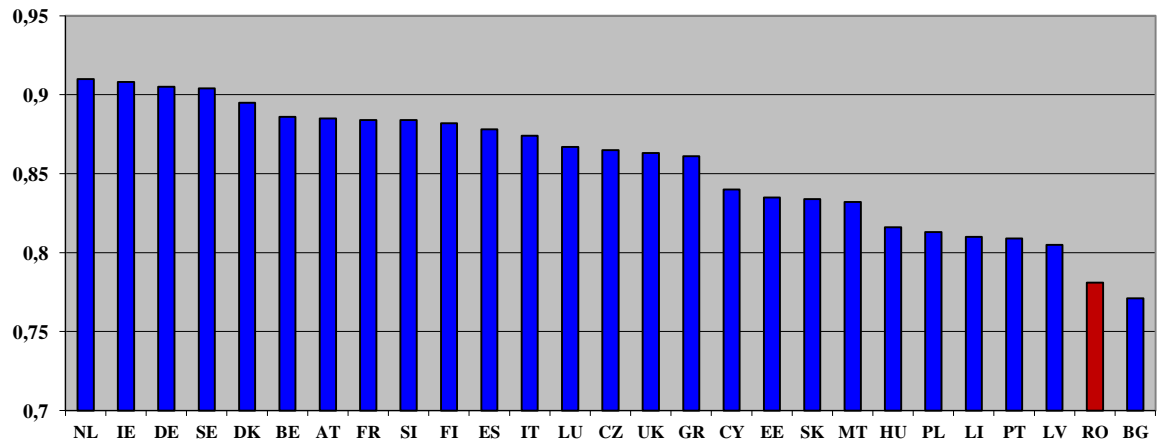
Figure no. 1 HDI 2011 Ranking for EU countries

Sourece: UNDP**,** The 2011 Human Development Report, 2011

Romania and Bulgaria are the only two countries in EU with scores below 0.8, therefore included in the group of high developed countries, while all the other EU member states score above 0.8 and are considered countries with very high human development (Netherlands has the highest score of 0.91). Although, as a trend Romania is placed above the regional average, figures still highlight its very large gaps in well-being and life chances, as compared to other countries in EU. According to Environmental Performance Index 2012, based on 22 performance indicators in the following policy categories: environmental burden of disease, effects on human health and ecosystem effects of water and air pollution, biodiversity and habitat, forestry, fisheries, agriculture and climate change, results are even more concerning: Romania has a country rank of 88 out of 132 investigated countries, with a score of 48.34. Among EU countries (Fig. no.2), Romania occupies the last position and it is also very far from EU average. Considering EPI Trend, Romania has one of the best performances (3rd in EPI Trend Ranking), but that seems not to be enough and there is still more to be done in order to reduce gaps.
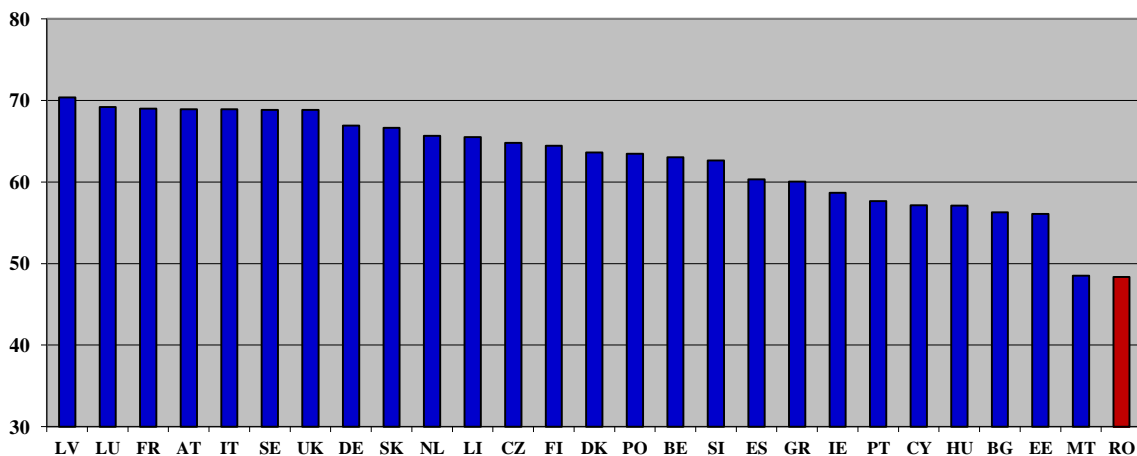
Fig. no. 2 EPI Ranking 2012, EU countries

Source: Yale University and Columbia University**,** 2012 Environmental Performance Index and Pilot Trend Environmental Performance Index, 2012

The Ecological Footprint is another measuring tool, allowing us to calculate human pressure on the planet. It represents the amount of biologically productive land and sea area necessary to supply the resources a human population consumes and to assimilate associated waste. In contrast to the Footprint, which addresses demand on ecosystems, Biocapacity describes the supply side, the productive capacity of the biosphere and its ability to provide a flux of biological resources and services useful to humanity. The world-average Ecological Footprint in 2007 (latest available results) was 2.7 global hectares per person. With a world-average Biocapacity of 1.8 global hectares per person, this leads to an ecological deficit of 0.9 global hectares per person. For ecological footprint (Table no. 1), Romania scores as the world average, best score in EU, but as shown by the Biocapacity score, which is lower than the Ecological Footprint (among the lowest in EU), it proves not to have enough ecological resources within its own territory to support the consume, so it is an ecological debtor country.

Table no. 1 Ecological footprint of EU contries, 2007

Country	Ecological Footprint in gha/pers	Country	Biocapacity in gha/pers	Country	Ecological remainder (if positive) in gha/pers
Romania	*2.71*	Sweden	9.75	Finland	6.30
Hungary	2.99	Estonia	8.96	Sweden	3.87
Slovakia	4.06	Latvia	7.07	Latvia	1.43
Bulgaria	4.07	Denmark	4.85	Estonia	1.08
Poland	4.35	Lithuania	4.36	Lithuania	-0.31
Portugal	4.47	Ireland	3.48	Hungary	-0.76
Lithuania	4.67	Austria	3.31	*Romania*	*-0.76*
United Kingdom	4.89	France	3.00	Slovakia	-1.38
Italy	4.99	Slovakia	2.68	Bulgaria	-1.94
France	5.01	Czech Republic	2.67	Austria	-1.99
Germany	5.08	Slovenia	2.61	France	-2.01

Austria	5.30	Hungary	2.23	Poland	-2.26
Slovenia	5.30	Bulgaria	2.13	Slovenia	-2.69
Greece	5.39	Poland	2.09	Ireland	-2.81
Spain	5.42	Finland	12.46	Germany	-3.16
Latvia	5.64	*Romania*	*1.95*	Portugal	-3.22
Czech Republic	5.73	Germany	1.92	Denmark	-3.41
Sweden	5.88	Greece	1.62	United Kingdom	-3.55
Finland	6.16	Spain	1.61	Greece	-3.77
Netherlands	6.19	Belgium	1.34	Spain	-3.81
Ireland	6.29	United Kingdom	1.34	Italy	-3.85
Estonia	7.88	Portugal	1.25	Czech Republic	-3.06
Belgium	8.00	Italy	1.14	Netherlands	-5.16
Denmark	8.26	Netherlands	1.03	Belgium	-6.66

Source: Global Footprint Network, Ecological Footprint Atlas 2010, 2010

As a general appreciation, research results highlight that there is a serious gap between Romania and the other member states in terms of progress towards sustainable development and immediate action is needed.

4. Conclusions

As presented above, the research results regarding Romania's progress towards sustainable development in comparison with the other EU countries are far from being optimistic. Romania still has an intensive resource consumer economy, a society and an administration still in search for a unitary vision of sustainable development. Romania has to reduce considerable economic, social and technological gaps, as compared to EU countries. The goal of reducing these gaps is, truly, the way to follow towards human development, in order to reach a real cohesion within the European Union.

The merit of this study is its contribution with an original research to the efforts of assessing Romania's progress on the path to sustainable development. This may be particularly important for both researchers and policy makers, since it provides a clear image of an area currently perceived as difficult to approach and it opens the way for future studies, using complementary data and methodology.

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DOES THE MAASTRICHT CONVERGENCE CRITERIA WORK?

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During its 13 year history, the euro area experienced the most severe economic downturn in the late 2000s as a result of the 2007 financial-economic crisis stemming from the US banking sector. The crisis in the monetary union, besides posting a significant economic and social cost, revealed several weaknesses not just of the currency block as a whole, but also of its constituting members, which were masked by the prosperous economic environment characteristic for the 2000s. These conditions have put to the test the solidarity among the euro zone members, or in other words the existence of the currency block. One important problem of the currency block is the lack of harmony between the fiscal and economic policies of the member states, creating several and occasionally very divergent parts of the currency block. The aim of this research is to enhance the Maastricht convergence criteria's and the Stability and Growth Pact's role as a monitoring mechanism, allowing them to become more informative tools for the policy makers.
For this, based on the relevant literature, we propose new potential explanatory variables which could enhance the role of the Maastricht convergence criteria and the Stability and Growth Pact. Some of the studied variables, like indebtedness of the private sector, capital flow compared to the size of the economy, government revenue compared to total public debt and current account balance help in enforcing the nominal convergence, while others (real labour productivity) contribute to the real convergence. The explanatory power of the proposed variables are investigated in the case of France, Germany, Greece, Ireland, Italy, Portugal and Spain for the period comprised between 2000Q1-2011Q4.
Results of the research show that with the exception of government revenue compared to total public debt, all proposed variables have significant explanatory power regarding the evolution of the state of the economy in all seven countries analyzed. France and Germany, characterized by healthy fiscal and economic policies is also exposed to risks stemming from the evolution of the private debt. In case of Greece, Ireland and Spain the high current account deficit represented a significant explanatory variable, while the outstanding loans to the private sector proved to be significant in the case of Ireland, Italy and Portugal. The significance of real labour productivity for Greece and Italy proves that real convergence should also be obtained beside nominal convergence by economies in the currency block. All significant variables had explanatory power through their lagged value, hence counterbalancing policies can be elaborated in a timely manner in order to stabilize the economy if signs indicate a potentially unsustainable economic path.

Keywords: Maastricht convergence criteria, real convergence, macroeconomic processes, private sector.
JEL codes: E61, E63, H12, H3, C51

I. Introduction

According to a comprehensive and thorough research conducted by the World Bank in 2001, in the period comprised between the end of the 1970s and the end of the 20th century there were 112 bank crises in 93 countries all over the world. A very large bulk of the studied crises caused significant economic downturns in developed countries, as in emerging economies as well (Wolf, M (2010)). Another research showed that since the early 1980s sovereign debt distresses grew exponentially until the mid 1990s (Cohen and Valadier 2010). Baldacci et al. (2011) based on a research found that from 1970 to 2010 there were 41 fiscal distress events in advanced economies and 135 events in emerging economies. The costs of these crises mainly reflected in the low

economic growth – which in most of the cases remained significantly under its potential level – and the nationalization of banks created a very large pressure on the society through the reduction of welfare. A very important feature of banking crises is the spillover effect which they can cause in the public sector (Freydl 1999; Laeven and Valencia 2008; and Rogoff and Reinhart 2009). The current sovereign debt crisis in Europe is a very recent and acute example for this. It is clearly not a desirable situation – from many point of view – to be in, when after seemingly resolving one crisis, the economic actors face themselves with another one. In order to avoid these costly crises or at least to create a more powerful monitoring mechanism, we propose a review of the Maastricht convergence criteria and an enhancement of its current form. The aim of this paper was to conduct an analysis which would provide a guide on what type of additional variables would be useful to include among the Maastricht convergence criteria.

II. Literature review

There is a vast amount of researches regarding macroeconomic variables and their role in different Early Warning System (EWS) models. Most of these studies focus on currency and banking crises, with only a few papers assessing the risk of public debt default. The fundamental of this is that many crises from our recent history (last four decades) can be included in one of the two mentioned types of crises. These studies on EWS models can be differentiated according to: (i) the definition of crisis events; (ii) the methodology adopted; (iii) country coverage, and (iv) the set of indicators used. Country coverage tends to be limited due to the quality of data or its unavailability, hence there can be found only a few studies focusing on both advanced and emerging economies.

Baldacci et al. (2011), developed a fiscal stress index which provides a signaling tool to identify and assess exposure to fiscal sustainability risks and also helps identify the underlying factors which drive changes in fiscal stress risks. However, like similar signaling tools, the developed stress index does not attempt to predict crises, as these are typically triggered by the interaction of economic, financial and political events. Results show that the top predictors of fiscal stress are different for advanced and emerging economies. In advanced countries the top predictors of fiscal stress are indicators of gross financing needs and fiscal solvency concerns. In emerging economies, the best predictors of fiscal stress are risks associated with public debt structure and liquidity constraints.

Regarding the methodology used in the studies, two approaches are common: the univariate "signaling" approach and the multivariate regression analysis of the crisis determinants. Kaminsky, Lizondo and Reinhart (1998) presented the "signaling" approach on determinants of currency crises. Berg and Patillo (1999) and Berg et al. (2005) use the multivariate regression analysis to predict crises episodes. Most of the researches which compared the performance of these two approaches concluded that overall, the signaling performance depends on the type of crisis risk assessed (Baldacci et al. 2011).

Abdih et al. (2009) propose the investigation of the impact of remittances on the sustainability of government debt. The results indicate that countries with differing balance of payments structures should consider developing and evaluating alternative measures of debt sustainability. In particular, remittance-dependent countries may need to monitor the state of the economy through several indicators, including both debt-to-GDP and debt-to-GDP adjusted with remittances.

Articeles regarding the Maastricht convergence criteria and the creation of the euro started to spread immediately after the signing of the Maastricht Treaty back in 1992. Many observers and economists warned against establishing EMU without adequate fiscal controls (Glick 1991, Walsh 1992, Schuknecht et al. 2011). In the same times there were numerous academic economists who questioned the economic rationale behind the convergence criteria of the Maastricht Treaty (Kenen 1992). A very important question mark for the skeptics was that the Maastricht Treaty aimed for a rather nominal convergence for the future members of the currency

block (Jonung and Drea 2009). The Stability and Growth Pact – which ensures that after an EU member state joins the currency block it will continue to meet the fiscal convergence criteria – has also been identified with many weaknesses (Schuknecht 2005).

III. Methodology

The relationship between the state of the economy and the Maastricht convergence criteria is studied with the help of the classical linear regression model:

$$Y_t = \beta_1 + \beta_2 \cdot X_{t2} + \beta_3 \cdot X_{t3} + \ldots + \beta_k \cdot X_{tk} + u_t, \qquad t = \overline{1,n}, \qquad (1)$$

where Y_t denotes the state of the studied economy in quarter t, n is the number of quarters, k-1 is the number of explanatory variables, β_i is the coefficient estimate for variable i ($i = \overline{1,k}$), X_{it} represents the value of variable i in quarter t, while u_t is the error term in quarter t. In order to achieve a more robust estimation process, the effects of the different explanatory variables were tested both in a bivariate and a multivariate regression model. As a time series analysis is undertaken, a great attention has been allocated for the assurance that the studied variables are stationary. For the testing of the stationary property of a variable, the augmented Dickey-Fuller (ADF) test has been used.

IV. Data and empirical results

1. Data

The dependent variable of the regression model needs to represent through a quantitative measure the state of the economy. Two approaches were considered: (i) ratings of long term sovereign debt and (ii) yearly volatility of benchmark stock market indices. Ratings of long term sovereign debt are published periodically by Standard and Poor's rating agency division (S&P, 2012). The theory behind using ratings of sovereign debt as a measure of instability of an economy is that the public sector has a very strong relationship with the other three main sectors of an open economy (1). The second approach has its basis coming from the empirically proved fact that evolution of stock indices represents the opinion of the market participants with respect to the outlook of the economy. Stock market indices tend to forecast, usually in advance with a year the evolution of the real economy. Hence, a sharp decline in the stock prices represents a potentially significant decline in the economic activity. Volatility in the context of stock market prices stands as an important parameter to capture the uncertainty surrounding an asset's price. In this paper we use the benchmark indices of the analyzed economies in order to capture its state.

The empirical research was conducted for seven economies: France, Germany, Greece, Ireland, Italy, Portugal and Spain. The first two economies are in focus due to their healthier fiscal positions and higher growth prospects, while the remaining five economies are closely monitored as a consequence of the difficulties which they have encountered in recent years. The proposed variables for inclusion in the Maastricht convergence criteria and the Stability and Growth Pact have their grounding coming from the optimum currency area theory. In order to achieve a more functional currency block, the member counties need to achieve not only a nominal convergence but a real convergence as well. Beside the inclusion of variables representing real convergence, other variables for nominal convergence should also be considered. The proposed variables are as follows: indebtedness of the private sector, capital flow compared to the size of the economy, government revenue compared to total public debt, current account balance and real labour productivity. The data used for the analysis refer to the period comprised between 2000Q1 – 2011Q4.
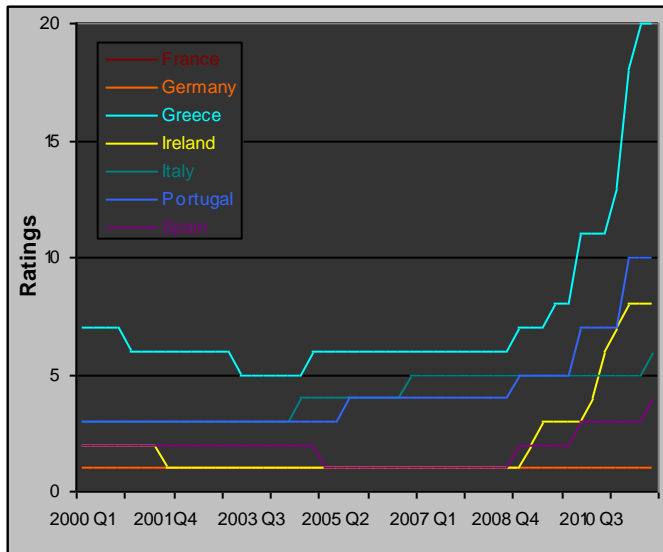
Figure 1: Evolution of sovereign ratings
Source: Standard and Poor's

Figure 1 shows the evolution of the ratings for long term sovereign debt (2). During the analyzed period, Germany and France retained their AAA rating. The other analyzed countries were downgraded as a consequence of the sever effects of the 2007 financial-economic crisis, signaling a more instable state of the economies. The volatility of the benchmark stock market indices were generally under 30% throughout the mid-2000s, however in the last quarter of 2008, when many financial institutions were exposed to the risk of default, the volatility reached its peak value of 60%. Due to governmental interventions, the state of many economies has been stabilized, hence the volatilities dropped, however, not in case of all the studied economies. For Greece, Portugal, Spain and Italy volatility remained at en elevated level (Figure 2).
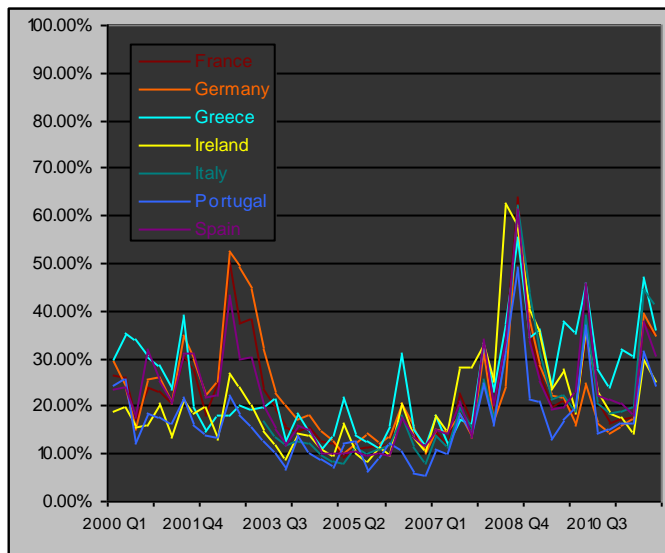
Figure 2: Yearly volatility of benchmark stock market indices
Source: authors' calculation

2. Results for the econometric analysis

The estimations did not yield significant results in the case when sovereign ratings were used as dependent variable. A possible reason for this could be the very low variability of sovereign ratings. Table 1 presents the estimated coefficients and *p* values for each analyzed country in the case when volatility of the benchmark stock market indices were used as dependent variables of the regressions.

For France two variables were found to have significant impact on the evolution of the stock index volatilities. Both variables belong to the group of indicators regarding private sector debt. The anticipated positive sign of the variables show, that continuous growth of private debt and its raising share in GDP will eventually lead to increased volatility levels. Other studies also showed similar relationships between debt levels and corporate default rates. In the case of Germany we have also two significant variables. During the 2000s Germany was one of the few euro area economies with relatively healthy macroeconomic policies, however this does not mean that it can afford itself to loosen policies with respect to private debt. It is important to see that for the two biggest economies of the euro area the evolution of the private debt holds an important role in determining the state of their economy.

Turning to the countries which currently face important pressure both from market participants and European politicians to implement socially painful austerity measures in order to bring back their economies on a sustainable path, we can notice that real convergence has a significant effect on their stability. Focusing on Greece will highlight the importance of three variables: current account balance, financial account balance and real labour productivity. All three variables' coefficients have the expected signs. Sustained increase in the indebtedness of the public and private sector, inflow of foreign capital and decline in real labour productivity will all lead to an increase in instability. It is not a surprise to see the significant influence of the financial account balance, as Greece funded its growth mainly through loans from foreign creditors. The effect of lag of more than four quarters suggest that if an adequate monitoring of the mentioned variables is implemented, counterbalancing policies could be elaborated in a timely manner in order to stabilize the economy.

Ireland was also a victim of private sector indebtedness, mainly due to the financial sector. This is signaled by the significance of the current account balance, financial account balance and the share of private sector loans in the GDP. For Italy besides having to deal with a high public debt, issues in the labour market are also creating significant pressure on the economy's stability. Further decrease in labour productivity could lead to more pressure from financial markets. Portugal is also one of the countries with major issues due to high public and private sector debt. Spain had a quite solid fiscal position prior to the financial-economic crisis, though it also had a fragile private sector due to the continuous current account deficits. Ultimately private sector imbalances will spill over to the public sector, mainly as a result of decreased economic activities and bailouts, hence assuring a balanced private sector could create the premises for a balanced public sector.

V. Conclusions

The 2007 financial and economic crisis and the 2010 sovereign debt crisis in the euro area are a symptom of policy failures and deficiencies in – among other things – financial regulation and fiscal and economic policy coordination. Our aim with this research was to assess the relationship between the state of the economy and macroeconomic processes in the case of seven euro area economies for the period comprised between 2000Q1-2011Q4. In our analysis we propose a new set of variables, in order to enhance the Maastricht convergence criteria and also the "preventive arm" and "protective arm" of the Stability and Growth Pact. The studied variables are as follows: indebtedness of the private sector, capital flow compared to the size of the economy, government revenue compared to total public debt, current account balance and real labour productivity.

Stability of economies with healthy fiscal and economic policies is also exposed to risks stemming from the evolution of the private debt. During the analyzed period in case of Greece, Ireland and Spain the high current account deficit represented a significant explanatory variable for the state of the economy. Outstanding loans to the private sector proved to be significant for Ireland, Italy and Portugal. The significance of the current account balance and the outstanding private loans indicate that macroeconomic variables regarding the private sector should also be included in the Maastricht convergence criteria and the Stability and Growth Pact. Real convergence should also be obtained along nominal convergence by economies in the currency block, this being underlined by the significance of real labour productivity in the case of Greece and Italy.

Overall, all of the proposed variables expect for the government revenue compared to total public debt have a significant explanatory power regarding the evolution of the state of the economy. All significant variables had explanatory power through their lagged value, hence counterbalancing policies can be elaborated in a timely manner in order to stabilize the economy if signs indicate a potentially unsustainable path of the economy.

There are several unexploited areas of this paper's topic which still need to be investigated thoroughly. For instance a future research could address the problem of modeling the state of the economy using sovereign ratings. Most probably the development of a composite index using different variables would be the most adequate approach. Another important area would be the assessment of critical threshold values for the variables proposed in this paper.

VI. Notes
(1) An open economy has four main sectors: government sector, enterprise sector, household sector and external sector. The enterprise and household sector together represent the private sector of an economy.
(2) Sovereign rating classes are ranked in order to transform them into a quantitative variable. The highest rating class received rank 1, while the lowest rating class received rank 21.

Table 1: Results for the econometric analysis

	France		Germany		Greece		Ireland		Italy		Portugal		Spain	
	Coefficient	Lag of variable	Coefficient	Lag of variable	Coefficient	Lag of variable	Coefficient	Lag of variable	Coefficient	Lag of variable	Coefficient	Lag of variable	Coefficient	Lag of variable
Constant	-0.0505673 (0.69657)	-	0.226036*** (0.00001)	-	0.143012*** (0.00096)	-	0.0301129 (0.53902)		-0.404413*** (0.00288)	-	-0.255922** (0.02274)	-	0.138669*** (0.00237)	-
Current account balance (% of GDP)			-0.0271445* (0.06129)	5	-0.00678573** (0.01665)	4	-0.0148713*** (0.00727)	3					-0.0136455** (0.04063)	6
Financial account balance (% of GDP)					0.00678349** (0.03797)	5	0.00395759** (0.01255)	4						
Total general government revenue (% of total public debt)														
Real labour productivity (% chg. compared to corresponding period of the previous year)					-0.0176071*** (0.00778)	4			-0.0164217* (0.05602)	1				
Outstanding loans to the private sector (% change on previous period)	3.02948** (0.01547)	6	6.43668** (0.01554)	4							1.95729** (0.01609)	4		
Outstanding loans to the private sector (% of GDP)	0.0662135* (0.07833)	5					0.0219377*** (0.00879)	4	0.170061*** (0.00003)	4	0.0714857*** (0.00041)	5		
Adjusted R-squared	0.147217		0.106662		0.406375		0.437279		0.430875		0.240245		0.078169	
Log-likelihood	35.41320		34.37431		43.38117		46.73907		34.40020		51.81721		34.65704	

Source: authors' calculations

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

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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 over-arching 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 gaols, 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 Bruntland 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 Fond, 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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NEW PUBLIC MANAGEMENT ELEMENTS IN ROMANIA'S PUBLIC SERVICES IN THE EUROPEAN CONTEXT

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New Public Management (NPM) is considered as a global paradigm emerging in response to economic, institutional, political, and ideological changes.

Many attempts to define the New Public Management have been made and there are several definitions of this notion, referring to the implementation of management ideas from business and private sector into the public services.

Over the past few years, Romania has been facing a great challenge as it has to enhance its public management for achieving the European standards and values of transparency, predictability, accountability, adaptability and efficiency.

The necessity of a modern administration at European standards exists both at the level of the citizen, and at the level of institutions delivering public services.

According to the provisions of its last stand-by arrangement with IMF, Romania placed emphasis on restoring medium- and long-term sustainability and paved the way for future growth. Structural reforms were a large component of the program, including tax administration, pensions, public wages and employment, and social benefits, improving public sector efficiency, as well as enhancing the business environment.

Since 2009 a public financial management structure was introduced for multi-year budgeting while limiting intra-year budget revisions. Fiscal rules were introduced on spending, public debt and primary deficit, and a framework for managing guarantees and other contingent liabilities was approved. Local public finance law was amended to bolster fiscal discipline and limit risks from local governments.

Thus, presently, the legal framework envisages the use of new instruments and structures to support local administration authorities to increase their administrative capacity in order to perform in accordance with their new authority and thereby increases the quality of the already decentralized public services.

The Common Assessment Framework (CAF) – the total quality management tool was introduced in Romania, public institutions acknowledging the need for change and improvement, the importance of people's involvement within the organization's self-assessment process, the importance of measuring the results, objectives prioritization, the need to assume responsibility for the identified improvement actions, as well as the need to share knowledge and experience.

Most of the Romanian public institutions apply the diagnosis obtained through CAF implementation as a solid ground to develop and implement their Multi-annual Modernizing Strategies, thus assuring the sustainability of the results accomplished so far.

Concluding, we consider that the changes incurred and the significant transformation of Romanian public services include important elements of NPM.

Theoretical approach
New Public Management (NPM) evolved from a range of reforms in Western public sector, including public services, originating from new ways of thinking about the role and nature of government and public administration.

Nowadays, New Public Management (NPM) is considered as a global paradigm emerging in response to economic, institutional, political, and ideological changes.

Many attempts to define the New Public Management have been made and there are several definitions of this expression, the common element being "the implementation of management ideas from business and private sector into the public services"(Haynes, P. , 2003).

The starting point of New Public Management is considered to be Christopher Hood's article in 1991 "A Public Management for all Seasons". The main characteristics of NPM, according to Hood, are: applied and entrepreneurial management; specific standards and measures of performance; output controls; desegregation and decentralization; competition in the provision of public services; implementation of private-sector styles of management; and discipline and cost-cutting in resource allocation (Hood, C. 1991).

NPM changes the emphasis from traditional public administration to public management (Larbi, G. A., 1999), thus orienting the state toward managerialism. The traditional model of organization and delivery of public services, based on the principles of bureaucratic hierarchy, planning, centralization, direct control and self-sufficiency, is apparently being replaced by a market-based public service management.

The new public management, according to the OECD report (OECD, 1998) is characterized by:

- a focus on results in terms of efficiency, effectiveness, quality of service and whether the intended beneficiaries actually gain;

- a decentralized management environment which better matches authority and responsibility so that decisions on resource allocation and service delivery are made closer to the point of delivery, and which provide scope for feedback from clients and other interest groups;

- a greater client focus and provision for client choice through the creation of competitive environments within and between public sector organizations and nongovernment competitors;

- the flexibility to explore more cost effective alternatives to direct public provision or regulation, including the use of market type instruments, such as user charging, vouchers and the sale of property rights; and

- accountability for results and for establishing due process rather than compliance with a particular set of rules, and a related change from risk avoidance to risk management.

Public administration reform

In this context, we may consider that the public administration reform is an important element of NPM, due to increased efficiency and market-based reforms leading to contemporary change and innovation.

Romania has pursued a consistent public administration reform (PAR) strategy since 2001. The current government reaffirmed the general direction of the reform effort, but placed a higher emphasis on reform of service delivery through a decentralization process.

The following actions have been taken for putting into practice the public administration reform in Romania, based on NPM main directions:

- the implementation of the strategy regarding the acceleration of the public administration reform, in order to create a new legislative framework in providing the services by the public administration, to create new institutional structures, to increase the efficiency and the effectiveness of civil servants activity, to change the perception and the organizational behavior and, last but not least, to create a citizen oriented administration;

- establishing the Governmental Council for Monitoring the Public Administration Reform, having in its composition 8 ministers of most representative ministries, responsible for supervising the whole process of the public administration reform;

- establishing the Central Unit for Public Administration Reform (CUPAR) within the Ministry Administration and Interior (previously named Ministry of Public Administration), in order to ensure the implementation of the decisions of the Governmental Council;

- National Institute of Administration was created as a specialized institution for training the civil servants and local elected officials;
- National Agency of Civil Service has as task to provide the civil service management and to draw up the normative documents regarding civil service.

Strategy of the Ministry of Administration and Interior during 2007-2013 on public administration reform, foresees the following measures:
- continuation of the process of decentralization of basic public services: education, health and social assistance;
- limiting the functions of de-concentrated services through the transfer of competencies to the authorities of local public administration;
- implementing a system of strategic planning for each authority within the system of central and local public administration in accordance with the public services it provides;
- establishing a system of evaluation and monitoring of the public service performances;
- developing and implementing instruments in order to increase the performance of public administration;
- elaboration and implementation of the chart of public services that would include the quality standards for services and their assessment methodologies;
- introduction of quality standards by the competent public authority that can allow the monitoring and assessment of a public service;
- introduction of the cost standards corresponding to the quality standard of a public service, so that the public expenditure become justified, transparent and submitted to financial control;
- simplification of administrative procedures for increasing the efficiency of public services delivery.

In 2009, Romania signed a stand-by arrangement with IMF that also placed emphasis on restoring medium- and long-term sustainability and paved the way for future growth. Structural reforms were a large component of the program, including tax administration, pensions, public wages and employment, and social benefits, improving public sector efficiency, as well as enhancing the business environment.

Since 2009 a public financial management structure was introduced for multi-year budgeting while limiting intra-year budget revisions. Fiscal rules were introduced on spending, public debt and primary deficit, and a framework for managing guarantees and other contingent liabilities was approved. Local public finance law was amended to bolster fiscal discipline and limit risks from local governments.

Decentralization
Since the early 1990s the decentralization of the competencies of the central public administration authorities has been an important policy initiative in the process of transition to a market economy and a democratic society, becoming a major priority for the reform of public administration. The legislative framework includes: Law No. 195/2006 on decentralization with further amendments, Law No. 273/2006 on local public finance with further amendments, Law No. 215/2001 on local public administration with further amendments, Law No. 188/1999 regarding the civil servants statute with further amendments, as well as the GEO No. 179/2005 regarding prefect's institution with further amendments.

The legal framework envisage the use of new instruments and structures to support local administration authorities to increase their administrative capacity in order to perform in accordance with their new authority and thereby increase the quality of the already decentralized public services. For example, the Law on Local Public Administration introduced concepts such as: City Managers and Intercommunity Development Associations. It is also recognized that decentralizing new competencies and increasing the quality of the public services requires proper financial support through continuing the fiscal and financial decentralization reforms.

Other very recent examples include:
- Decentralization strategy in the health sector approved by GD No. 562/2009;
- minimal standards of quality and costs for decentralized public services approved by GF No. 961/2009;
- Decentralization strategy in the youth sector approved by GD No. 886/2010.

Total quality management – common assessment framework (CAF)
CAF, especially designed for public-sector organizations, taking into account their characteristics, is an efficient instrument in supporting public-sector organizations to use quality management techniques to improve their performance. The CAF is a total quality management (TQM) tool which is inspired by the major Total Quality models in general, and by the Excellence Model of the European Foundation for Quality Management in particular.
The model is based on the premise that excellent results in organizational performance, citizens/customers, people and society are achieved through leadership driving strategy and planning, people, partnerships, resources and processes. It looks at the organization from different angles at the same time; a holistic approach to organization performance analysis. CAF is a result of the co-operation among the EU Ministers responsible for Public Administration. The pilot version was presented in May 2000, being revised in 2002 and 2006.
In the first phase CAF focused on the self-assessment, in the second one on the improvements after the self-assessment and in the third phase is drawing attention to the mature culture of excellence in an organization.
Nowadays, there are more than 2000 CAF users spread all over Europe and beyond Europe's borders (Patrick Staes and Nick Thijs 2010).
European CAF Users' Events are organized regularly to act as an inspiring meeting point for CAF users and to further spread TQM across the public sector in Europe. In 2003, 2005 and 2007 CAF Users from all over Europe met in Rome, Luxembourg and Lisbon at the first three European CAF Users' Events. The Romanian Presidency organized the 4th European CAF Users' Event in Bucharest in 2010. The 4th Event had a special focus on the 8 principles of excellence and the newly developed CAF External Feedback as well as the tailor-made CAF version for the education sector (Patrick Staes, Nick Thijs, Ann Stoffels and Sven Geldof, 2012).
The promotion of Common Assessment Framework in Romanian public administration started in 2005 and there was delivered several training sessions for the civil servants within the public institutions, both from central and local level. The implementation of the self assessment instrument is done on a voluntary basis, without being imposed by the Government yet.
So far, 54 public institutions from central and local level have implemented the self-assessment instrument, assisted by CUPAR, and eight of them have already run the second cycle of CAF implementation, thus enabling them to measure the progress and the level of performance achieved.
Through the use of the CAF model, public institutions have succeeded in accepting the need for change and improvement, the importance of people's involvement within the organization's self-assessment process, the importance of measuring the results, the importance of prioritizing the objectives, the need to assume responsibility for the identified improvement actions, as well as the need to share knowledge and experience.
Most of the Romanian public institutions use the diagnosis obtained through CAF implementation as a basis to develop their Multi-annual Modernizing Strategies, assuring in this way the sustainability of the results achieved.

Further support for enhancing NPM in Romania – Operational Programme Administrative Capacity Development

The Operational Programme Administrative Capacity Development (OPACD) is designed to substantially contribute to the implementation of the methodologies and procedures that have been prepared under the PAR process to date and to invest significantly in the training of personnel who hold responsibility for the new administrative methods.

In this context, the Priority Axes of the OP ACD are designed to:
- address horizontal management problems at all public administration levels (central and local) with a focus on key attributes that strengthen the reliability of the administration, in particular decision making, better regulation, accountability and organizational effectiveness;
- specifically target improvements to the decentralisation of service delivery in certain prioritized sectors (Health, Education, Social Assistance) and improve the quality and efficiency of service delivery.

OPACD targets real improvements in the delivery of public services and the emergence of a more open, efficient and cost effective public service, knowing that:
- efficiency in public services lead to increased productivity in the economy, e.g. through simpler procedures, improved customer services, etc.;
- well-functioning institutions and public administrations are a pre-condition for the successful design of public policy and implementation of strategies in order to promote socio-economic development and to contribute to growth and employment;
- effective institutional and administrative capacity is the key to good governance – an essential element of the Lisbon Strategy.

Concluding remarks

Over the past few years, Romania has been facing a great challenge as it has to enhance its public management for achieving the European standards and values of transparency, predictability, accountability, adaptability and efficiency.

The necessity of a modern administration at European standards exists both at the level of the citizen, and at the level of institutions delivering public services. Within the process of changing the public administration, administrative simplification is fundamental for the modernization and reform of the administration. Complicated procedures, long and sinuous circuits of documents, delayed deadlines to solution an action and the multitude of required forms are certainly decreasing productivity. Bureaucracy and resulting complications are remediable deficiencies when the manner to approach administrative actions changes. This translates into new working methods, thus simplifying administrative procedures.

Today, the trend in building a sound public management service is to have a more direct approach toward the matter, relying on a fairly new perspective: the expertise of the private sector. This new angle is standing as a response to the continuously changing public arena, the barometer of the country evolution socially economically and politically. Romania has understood that values of the public service lie in the human resources and the investment that are to be made to insure a high quality of this precious asset are actually money well spent for insuring an efficient and European public system.

The Romanian Government is bringing in the public arena tomorrow's leaders by putting on the spot young Romanian nationals offering them the possibility to pursue undergraduate, graduate and doctoral studies at prestigious international universities, in a wide range of fields from public administration, public health policy to business administration.

This undergoing is a valuable investment in the future of the pubic management and its sustainable development in Romania. It also stands as a much-needed vehicle for promoting new standards of efficiency, transparency and accountability in Romania's public administration being a pillar of strength element within the NPM.

Especially in times of financial crises and severe cost cuts in public administrations, like occurred two years ago in Romania, the national focus is on efficiency and effectiveness, attention to transparency and accountability, awareness for public service delivery. Together with these principles of New Public Management (NPM), methods and techniques were constructed in Romania's public service administration.

The Common Assessment Framework was introduced in Romania, as a sustainable and trusted model for public management, embraced by top management and widely implemented by public organizations in Europe with self-assessment on a regular basis. CAF is a valuable contributor in extending the Quality culture and principles among civil servants in Romania and Europe.

Concluding, we consider that the changes incurred and the significant transformation of Romanian public services include important elements of NPM. Thus major steps towards decentralization were made, public services became more efficient, and the costs were cut as well as the number of public agencies and institutions, significant progress was made to reduce bureaucracy. As well, at local level the appointments of public institutions managers are made based on exam, competition and managerial contract, being introduced also the function of city / country manager.

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IMPACT ANALYSIS OF LEGISLATIVE AND INSTITUTIONAL FRAMEWORK ON THE POLICY FOR REGIONAL DEVELOPMENT IN THE LIGHT OF THE REGIONAL OPERATIONAL PROGRAMME

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The analysis of the administrative capacity of institutions in the regional development starts from the analysis of the existing framework for the implementation of regional politics in Romania and studies the extent to what the structures and competencies were regionally enlarged as to contribute in the regional development.

The basic hypothesis considered for such analysis had in view the fact that the differences recorded with respect to the implementation capacity of the regional development policy are caused by the various levels of the administrative capacity of the national, regional and local institutions existent in Romania.

Although the regional development activity is, both centrally and regionally, dominated by the Regional Operational Programmme 2007-2013 (ROP) implementation, significant activity also exists outside the ROP, but only regionally.

The regional strategies incorporate to a great extent the strategic objectives established nationally, being coordinated with the national financing instruments for economic, social and territorial development. The undertaking degree of responsibilities regarding the objectives fulfillment of the regional development policy is relatively low both regionally and locally, and the main indicator which contributes in sustaining this conclusion is the absence of an adequate level regarding the property holding on certain strategies and also the methodological lack of strategies. Nationally, the current activity of Ministry of Regional Development and Tourism in the field of regional development totally overlaps the management activity of ROP.

The management of structural funds 2007-2013 granted through ROP deals with various situations in which, due to the fact that the Law of regional development remained behind the legislation for the structural instruments implementation in Romania, additional resources are necessary to be granted in order to be found solutions through other types of regulations.

The Romanian legal and institutional setting allowed a centralized top-down approach for the regional development process and brought forward the approach of the type "local development which falls among certain priorities of regional development established nationally". Definitely, the local development is important for the regional development, but it is not self-sufficient in this respect. Therefore, the centralized approach should be completed by a decentralized approach, as a natural next phase.

Keywords: regional development, institutional and legal framework, region, management of structural funds
JEL Classification: O18, R58, P48.

Introduction

In Romania, the development regions are territorial-statistic units, created pursuant to the Regional Development Law no. 151/1998, subsequently modified by Law no. 315/2004, they are not deemed administrative units, but represent territorial structures in which the national policy of regional development is implemented and evaluated and they also are the basis for the preparation and implementation of regional development strategies.

As territorial structures for regional development, there were created, regionally, eight Regional Development Boards (RDB) and eight Regional Development Agencies (RDA). At national

level, there were created one National Regional Development Boards and one National Agency for Regional Development (currently the Ministry of Regional Development and Tourism).

The coordination of the preparation and monitoring activities which result from the regional development policies is performed by RDB, as deliberative body, without legal entity, created for each region and functioning on principles of partnership, while the "executive" level is ensured by RDA, also created for each development region and functioning in the field of regional development as non-governmental non-profit bodies, of public utility and having legal entity.

Legal and institutional framework in the regional development field
The evaluation of the legislative and institutional setting for the regional development in Romania has in view three dimensions, which converge to the formation of the regional development framework: the legislative dimension, which implies the identification of the potential and specific limits for the current legislative setting for the regional development regulation, the functional or organizational dimension, which implies the description of the current institutional setting and the analysis of functional processes, and also the contextual strategic dimension, which has in view the description and the analysis of the degree to which the objectives of the regional development in Romania correlate with the financing national instruments for the economic, social and territorial development.

From the perspective of the regional development objectives subsequent to the adherence to the EU, the legislative framework for the regional development was completed with specific regulations regarding the ROP implementation. In this respect, within RDA's there were certified Intermediate Bodies for ROP implementation, which perform their activity pursuant to a responsibilities assignment agreement concluded with the Management Authority.

The ROP, which is implemented in Romania during 2007-2013 period, adopts a territorial approach of national dimensions, being concentrated on a range of sectors relevant for a balanced development of the regions of Romania.

Although the activity in the field of regional development, both centrally and regionally, is dominated by the ROP implementation, there is a significant level of activity also outside ROP, but only at regional level.

Centrally, the Ministry of Regional Development and Tourism (MRDT) activity for the regional development evolved from a combination of programmes financed both from Phare funds and from national funds (during the pre-accession period) towards a regional development activity carried out exclusively within ROP (during the post-accession period). The MRDT documents, both the informing and publicity ones, and the formal ones (e.g. Reports of annual activity 2009, 2010, 2011) indicate a total overlap of the regional development activities and the ROP implementation.

However regionally, the situation is slightly different. Although the regional development activity outside the ROP is still undergoing the evolution process, the current level of activity of RDA and, in some situations still in a small number, of various Associations of Intercommunity Development, represent an element which could indicate a significant potential in this respect. It is obvious, from the analysis of RDA's activities, that they transpose to a great extent the responsibilities of such organizations as defined by the Law no. 315/2004. In other words, the existing legal framework drew some activity directions in the field of regional development and they are implemented by RDAs. The legislation which created the necessary setting for the operation of the intercommunity development associations (e.g. Law no. 215/2001) proved its significance by the fact that it facilitated and stimulated this type of collaboration which is substantial for the regional development process.

The responsibility of fulfilling the Regional Development Plan objectives at regional level is not clearly assigned to RDB, as it could be expected; RDB is not liable to ensure the correlation of

the regional development projects with the regional development objectives, as they were defined in the respective Regional Development Plans.

Strong points and weak points of the institutional and legal framework in the light of ROP

By analyzing the programming and regulation documents from European and national level and also the Framework Agreement for the responsibilities assignment regarding the Regional Operational Programme 2007-2013 concluded between MRDT and RDA's, we could highlight some of the strong points and weak points of the institutional and legal framework regarding the ROP management and implementation:

Table 1. Strong points and weak points of the institutional and legal framework

Strong points of the current legal and institutional setting	Weak points of the current legal and institutional setting
Strong implementation system with important positive accumulations, both centrally and regionally, fully accredited according to the European regulations in the field.	Currently, there are unused resources for making more diverse and flexible the contract with respect to the assignment of responsibilities from MRDT towards RDA's. Absence of a system policy for the adoption of an ethics code and a compensation / remuneration method according to the system's performances. Absence of written procedures regarding the identification of sensitive positions and their rotating occupations, prior to any possible occurrence of irregularities.
Important responsibilities, such as the regional development, are decentralized at regional level in a relatively coherent approach, which resulted in an intensive cooperation for the promotion of impact projects, which went beyond the local/district administrative borders.	The Management Authority and Intermediate Bodies responsibilities (direct or assigned) do not fully provide yet from a procedural point of view the promotion of projects with regional impact.
The existence of a coherent framework agreement between various legal entities allowed to be reached and consolidated in time a balanced and strong system, which enjoys recognition and which allows both the concentration of technical expertise and the undertaking of responsibilities.	There were developed work procedures which involve the complete transmission, between various legal entities, of documents with significant large volume on paper (in original and in copy), with stamp and signature and manual numbering system on each page, which slowed down the whole process, on one side, and which did not fully avoid the irregularities, on the other side. The absorption degree could be consolidated and ensured by developing new responsibilities assignments within the system.
Both of the system's entities, the Management Authority and Intermediate Bodies, have gained significant expertise and	The law of regional development remained back at the level specific for the pre- accession

Strong points of the current legal and institutional setting	Weak points of the current legal and institutional setting
experience, during the pre-accession period and during the current programming exercise, experience which is very useful for the preparation and implementation of the future programming period regarding the regional development.	period, not being updated the provisions regarding the institutional setting developed for the implementation of structural instruments and also for the implementation of ROP. Although the RDA's have accumulated during the pre-accession period important expertise for the implementation of non reimbursable funds, they were used only for the implementation of Regional Operational Programme 2007-2013 and not for other sectorial programmes.
RDB gained experience in ROP implementation and it is the first structure of the region to have worked directly with the central and local authorities for the implementation of the regional development policy.	The competence system regarding the RDB functioning could not be fully and coherently operated.
The legal and institutional framework regarding the regional development policy had an almost continuous evolution in time, which determined significant expertise accumulations and also undertakings of responsibilities.	The absence of available and adequate resources for: fundamental analyses, construction of strategic visions, application of public consultancy mechanisms, in a cyclic process and based on strictly measurable result indicators, represent an important resource for the diminution of the system's coherence and stability.

Source: Author data processing

Conclusions
The current activity of Ministry of Regional Development and Tourism in the regional development field completely overlaps the management activity of Regional Operational Programme. This aspect is demonstrated by the private documents of Ministry of Regional Development and Tourism – activity reports, information and publicity documents.
Although the management of structural funds 2007-2013 granted through Regional Operational Programme relate to a legal and institutional framework which allowed significant expertise accumulations and undertakings of responsibilities, it does not benefit from a full undertake of responsibilities by all the actors involved, and therefore the Management Authority replaces through personal efforts of substantiation and decision the solutions necessary for the provision of a regional impact of the promoted projects. In such a context, in the implementation of structural funds 2007-2013 granted through Regional Operational Programme, a lot of instructions and corrections should be considered. Subsequent to the implementation of recommendations included in the audit reports, clear and coherent audit trails are used, but they are not yet doubled by internal ethics politics, remuneration formulas concurrent with performance or procedures for the identification of "sensitive positions".
The implementation speed for the projects financed through Regional Operational Programme is slowed down due to the large volume of documents required upon the reimbursement of the

payment requests, and also due to the number of "pairs of eyes" involved in the analysis, which double the processing time.

This situation is one of the elements which describe the limitations of the current centralized approach of the regional development in Romania.

The legislative efficiency could be defined as the measure which, within the regulation setting, helps the programme, management and implementation processes. The legislative sustainability shows how stable and durable the whole system is, and also its capacity to be adapted to the environment conditions or modifications, both internally and externally (at decisional, economic and social level).

However, adaptation of the legal framework is imposed currently in order to establish a functional setting for the undertaking and prioritization of strategic objectives, in order to have a durable and harmonious development of the regions, and to guide the identification and implementation of the most adequate projects with regional impact.

The management of structural funds 2007-2013 granted through Regional Operational Programme deals with various situations in which, due to the fact that the Law of regional development remained behind against the legislation for structural instruments implementation (including Regional Operational Programme 2007-2013), it has to assign additional resources in order to find solutions through other types of regulations. The Management Authority has to take a substantial decision and to convince the actors of the system with respect to such taken decisions, without benefiting from any advantages of a fully coherent legislative setting.

The legal and institutional framework of Romania created the premises for a top-down (centralized) type of approach for the regional development process, such approach being adequate for a starting stage, when the regional development experience was extremely reduced in Romania. While the regional development experience is accumulated at regional level, the main limitation of the centralized type of approach begins to be noticed, more exactly the fact that such approach fails to put in value the regions' potential to manage regional development plans directly linked to the specific needs of the regions. Therefore, the centralized approach should be completed by a decentralized approach, as a natural next phase.

The current institutional and procedural setting gives advantage to the approach of the type "local development which falls among certain priorities of regional development established nationally". Definitely, the local development is important for the regional development, but it is not self-sufficient in this respect. The approach of the regional development through projects of regional interest is a complementary approach, which currently is insufficiently developed.

Acknowledgments

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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. Zahrnt (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.
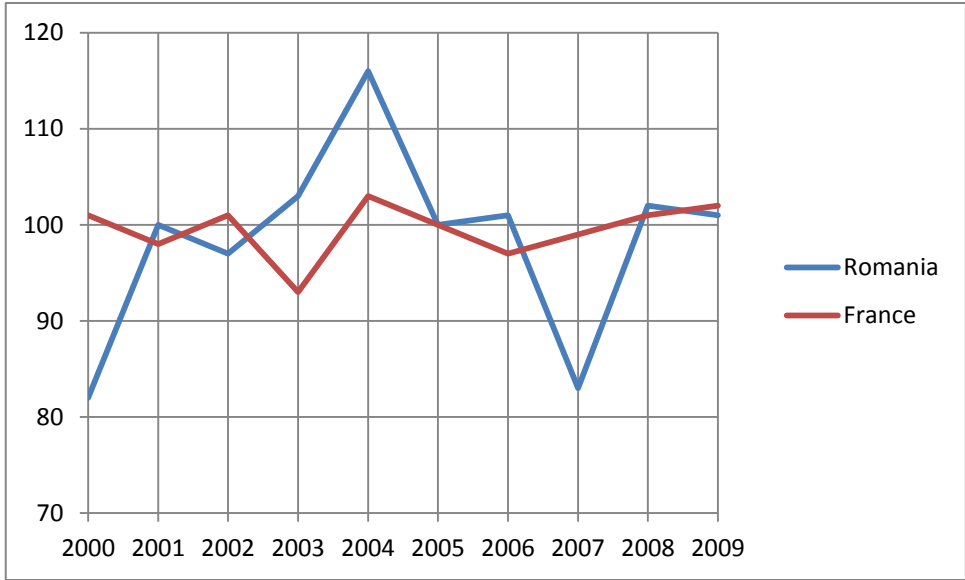
Source: Eurostat

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.
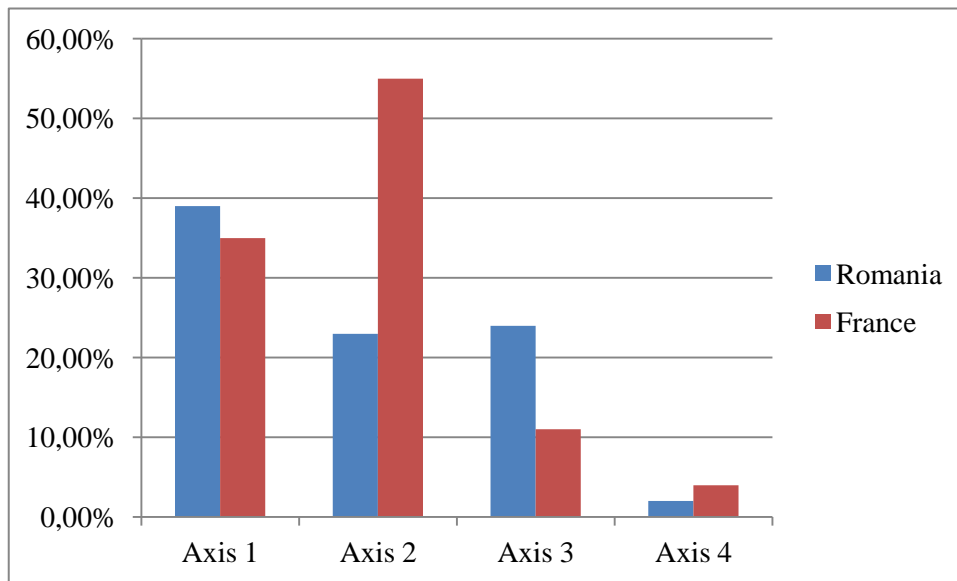
Source: Own calculations based on the European Commission's data
Figure 2. Distribution of EAFRD on axis in the period 2007-2013

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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SUSTAINABLE URBAN DEVELOPMENT ELEMENTS

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Sustainable development, the concept of our times, is an perspective objective, which should ensure economic progress, social and environmental impact of society for a long term. Approaches for regeneration and urban development require consideration of key issues related to natural regeneration in relation to social, economic, environmental and cultural aspects of urban life, as well as a public sector collaboration with private, local affected communities involvement in collaboration actions.

In this paper, there are pursued some important elements of sustainable urban development related to: outlook vision of city development in urban-regional context, providing financing and investing resources in the selected areas, the importance of creating local and regional partnerships, highlighting the role of public-private cooperation as an important instrument of urban governance.

In areas of a country, policies must be formulated according to the stage of urbanization, to allow the rural-urban and inter-urban ties for each stage; the aim must be improvement of options for development.

Key words: sustainable urban development, urbanization, partnership.
JEL Codes: JEL:R-R0-R00;R1-R10-R11-R19.

Introduction

Sustainable development should be considered in relation to qualitativ and quantitativ progress in the same time. This concept of our times does not confine to environmet protection or ecological feature of works, but it is an outlook aim, which have to ensure economic, social and environment progress of society, for a long time. In this way, public policies must be thought in the way where the measures established give the possibility of meeting current needs, without compromising those of future generations. It is also necessary public and private sector partnership, cooperation with affected local communities and their involvement in collaborative actions.

1.1. Key elements of sustainable urban development

According to Community Urban Aquis, a sustainable urban development is achieved through long term oriented integrated urban development plans, designed for cities and neiberhoods in regional context. In an area, these plans are efficient insofar as they are integrated in the city's major strategies; the impact is greater if the assessment is based on the potential of the area and of the local population.

Approaches for regeneration and urban development assume consideration of key issues related to physical regeneration in relation to social, economic, environmental and cultural aspects of life and urban development; it is also necessary public and private sector collaboration, cooperation with affected local communities and their involvement in collaboration actions.

Still from an early stage, partners involved in urban development plans, on medium and long term, have to design, a strategy for development ongoing after the public investment programs period, too. Monitoring and evaluation are an integral part of each development plan; they develop and reinforce each other, on clearly defined bases, they allow the assessment of progress, achievements and shortcomings.

As such, it can be mentioned some of the main elements for sustainable urban development:

-a perspective view of the city, each project must be incorporated into the urban-regional context (analysis of target areas, building strategies which define objectives, priorities, measures and medium and long term projects);

-horizontal, cross-sectoral coordination of the measures of urban regeneration and urban physical reconstruction - the main elements of the integrated approach for a sustainable urban development;

-resources focus towards funding and investment in selected target areas in order to produce a lasting impact;

-creating strong local and regional partnerships (an increased involvement of citizens and local and regional stakeholders, including private sector, shared responsibilities, implementation units), new instruments of urban governance, administration and urban management;

-capitalization of knowledge, experience exchange and know-how (benchmarking, networking);

-progress monitoring (ex-ante, medium term and ex-post evaluation, a set of criteria and indicators).

Building a sustainable urban project requires new forms of governance. The majority of performance targets, the project lasting, desire to improve the framework of life, the city contribution to the great stakes of the planet, require strengthening partnerships throughout project execution.

A project implement implies a working committee formed by join of different institutions (prefecture, general council, city planning agencies), whose should join riverain associations which should be aware of the beneficial feature of changement for their life environment. Performance and efficiency objectives primarily imply engineering and works manager involvement.

An important role in governance come to people. Given that public spaces firstly belong to citizens, diminishing the role of car in the life of each individual requires a mentality change along with urbanization and organization forms changing. Acceptance of urban density, energy consumption decrease, water decrease, also requires behavioral change, and at the same time, there is necessary change in urban facilities (bringing nature in the heart of city) and construction systems, which must be better adapted to human needs evolution.

Citizen participation is an ongoing process that does not stop to a space or a project construction of, but it must take place throughout the all period of works, facilities, utilities changes, rehabilitation of public equipments achievement etc..

Providing financing in urban development requires detailed plans and negotiations. Urban development programs should include long-term strategy that would ensure financing for a period of five to ten years, providing guarantee throughout all period of program fulfillment. Shorter periods are worn, because it takes time for local community involvement and integration of citizens in the social and economic context of the city and region, so to have a share to their development. In the case of development projects with more great values than, for example, recycling and development of industrial sites, it is also required the involvement of the private sector because public resources are not sufficient covering.

The role of local public administration is crucial to ensure local infrastructure, social services and business support, as it has the advantage of knowing the problems and the needs community is facing at. In the case of project financing from structural funds, local administration can access them, alone or in partnership; the eligibility condition is to ensure the technical capacity and the resources necessary to co-finance the project .

Among the financial instruments of urban regeneration, the are also, Neighborhoods Funds, which have become popular in urban policy in some Western countries, which can help to account for local communities get involved in the process of regeneration and development of disadvantaged urban areas. Also, financial engineering instruments, JASPERS, JEREMIE, JESICA and JASMINE are additional financial resources for urban operations.

Recourse to private sources, in working with the private sector on the strength of partnerships establishment, expounds the advantage of access to funding enough to achieve important projects for local development.

1.1.1. Public-private partnership important factor for sustainable development

Public-private partnership refers to forms of cooperation between public authorities and business, whose objective is to provide financing, construction, renovation, management or maintenance of infrastructure, or provide a service.

In urban economic development, public-private partnership can be defined as an agreement between public and private sectors to provide services and promote urban economic development.

In the last decade, the phenomenon of public-private partnership has developed in many fields, generated by budgetary constraints manifested in the Member States, which led to the need to resort to private financing. Public-private partnership developing is a part of an overall change of the state role in the economy, which evolves from the direct operator position to the organizer, regulator and controller.

Public authorities often resort to public-private partnership to undertake infrastructure projects, especially in sectors such as transport, public health, education and national security. As part of the Initiative for Development, the Council has approved a range of measures designed to increase investments in transeuropean transport networks infrastructure, in the fields of innovation, research and development, especially through this process.

Even if a cooperation between public and private sector can provide advantages that allow execution of a project for public interest objectives, the resort to public-private partnership can not be considered the only solution for the public sector, because for each project, it is necessary to evaluate to what extent the partnership option offers a real added value compared to other possibilities, such as a traditional contract.

It is possible that select the private partner should not be based exclusively on the share of capital contribution or on his experience, but to consider his offer features - the most economically advantageous - in relation to specific services to be provided.

Public authorities have initiated forms of partnership with the private sector for public services management, especially, at local level. Thus, public services related to waste management, water and energy distribution are increasingly entrusted to businesses, which can be public, private or a combination of them. In this form of cooperation, the administrative decision for an urban development plan does not belongs exclusively to public accountability, but it is a result of public-private negotiation and a contractual agreement. This means the multiples stakeholders involvement with different objectives and tasks, urban restructuring policy tending to become a task of many actors in modern land use planning.

Governments can play an efficient role by supporting private sector in the new economic initiatives, changing its focus from direct involvement and intervention, to creating a favorable business environment (Porter 1995). This new about urban governance generates the public sector competences change, problems referring to the degree of urban adminsitration intervention in the market and of transaction costs that it involve. Defining a balance between public sector tasks and competences versus private sector is difficult.

In the urban development policy, public-private partnerships have become somewhat institutional arrangements, because they lead to mutual benefits and socio-economic symbiosis. The partnership is such that an institutionalized form of cooperation of public and private actors working togheter for a common goal; both parties accept the risks of investment based on a predefined distribution of revenues and costs. Basically, a public-private partnership is an organization made to carry out a given project; its main advantages are flexibility, speed, cost-effectiveness, generally, transaction costs diminishing.

The chosen partnership models differ (building claim, joint venture, concession), the distinction between them being given by the division of competences between public and private sectors, the degree of risk share or of the way of financing (van der Burch, 2000).

Settlements based on public-private partnerships have become frequent in the fields of provision of infrastructure (for example, parking facilities), residential constructions, urban development and revitalization projects, public service provide while the number of urban planning fields with partnerships applicability increase .

The main obstacles involved in the fulfillment of a public-private partnership refers mainly to the following:
 -long-term programming horizon;
 -complexity of various projects;
 -delay problems related to the change of partners condition;
 -cultural differences between private and public partners;
 -competition rules for public projects as they are submitted by institutional actors, such as the European Commission (Burch 2000).

Summarized, the attributes of a public-private partnership consisted in: get involve of multiples public and private participants, agreement related to objectives and strategies, mutual benefits, hire key resources, a variety of activities. Additionally, geographic and temporal scale of public-private partnership depends on its objective and of the work it involve.

There are arguments that provide reasons for both for private get involve and for public intervention in providing urban services.

According to neoclassical economic theory and to state failure theory, competitive markets are important for providing services and their capacity to meet the customer needs, by the services provided. The lack of competition leads to incapability for adopting new technologies in an appropriate manner. As such, the private involvement in the production of urban services is inevitable to enhance their quality and efficiency.

But the market mechanism does not always work effectively to provide urban services, which motivates the need for public intervention (Walsh 1995, Batley 1996):
- the non-exclude particularity of public goods (police services, street lighting or street cleaning);
- market failure, determined by the nature of urban services have a tendency to monopoly, the need for some initial substantial investments and earnings uncertainty;
- equity; the government should provide public access to certain basic goods and services such as education and health, regardless of their capacity and device to pay for such services at market prices.

The share of public side in public-private partnerships vary by countries, due to differences related on the intensity of state presence. For example, the partnerships are usually dominated by the public sector in a country with a strong state.

The attributes of this form of cooperation are given by two theories: growth coalition theory and exploit conditions theory.

According to the theory of *economic growth coalition*, urban region has become an engine of growth driven by business interests, particularly, by landowners who will benefit from the increase of value of the land and property, along with urban economy growth. In turn, local governments benefit from the increase of income and property taxes; it is assumed that all participants are autonomous and volunteers.

In *theory of exploiting conditions*, the participants are constrained by political, economic and institutional forces. Local governments often tend to develop acceptable policies for the business community due to the dominant influence of the latter. Some analysis (Lawless 1994), considers that the two theories overestimate the influence of local businesses community and underestimate the important influence of local political context and the role of local government. Various

models of public-private partnership in countries are the result of the important impact that the national context and local institutions have on their training and operation.

1.1.2. Sustainable urban form

As is currently seen, the contemporary city form has direct influence on the environmental conditions. According to specialists' opinion, urban form actions on housing, ecosystems, endangered species and water quality through land use, habitat share, pollution and contamination of soil and replacing the natural ground with inaccessible areas.

Some urban forms can help reduce energy consumption, pollution levels, thereby meeting sustainable development requirements. To achieve this objective, competent bodies (designers, local and international NGOs, civil society and governments) have initiated redesigning measures and restructuring of urban places; new approaches are considered at different spatial scales[1]:
 - regional and metropolitan levels such as bio-region (Forman 1997, Wheeler 2000);
 - city level (Girardet 1999; Nijkamp and Perrels 1994; OECD 1995);
 - construction level (Roelofs 1999; Edwards and Turrent 2000).
 Urban form is a complex of features tied on the way of land use, transport system and urban projects (Handy 1996) and, as Kevin Lynch defines it (1981), represents "the spatial pattern of large physical, indifferent, permanent objects of the city"[2].

Ideal sustainable urban form, according to the concepts of architecture, is one that has a high denisity and an appropriate diversity, with mixed use of land, project based on sustainable transport, rich vegetation, use of solar energy. Among the objectives pursued, the most important refers to lower energy consumption, waste and pollution reducing, diminishing of car use, open space and sensitive ecosystems preservation, development of habitable human environment and designed to community.

1.2. Conclusions

The new paradigm of urbanization phenomenon is based on the notion that density and urbanization which leads it, are essential to achieve economies agglomeration and productivity gains. Urban sustainable strategy takes into account higher densities, shorter distances and smaller divisions, as basic elements of success. For each country, industrialization and urbanization are conditions for obtaining an average stage of income, the essential element being harness of urbanization potential to provide an overall equitable economic growth and to eradicate poverty. Policies should issue from contribution of institutions and instruments needed to promote economic concentration and social and environmental externalities management. Restrictive measures implemented by politicians, in relation to the spread of urbanization and mega-cities size, is counterproductive, as they exercise constraints on population movements in search of economic opportunities; failed interventions guide resources to unprofitable locations for business. Restriction actions on mobility, directed at specific objectives, can hamper the development flow and slow economic progress and so, they worse the living conditions of the poor.

In areas of a country, the urbanization occurs in different weights, so that sustainable policies must be formulated according to the stage of urbanization, to allow the rural-urban and inter-urban ties for each stage; the aim must be to facilitate economic densities by improving possible options for population and firms.

Note:
(1)Jabareen,Yosef, Rafeq, 2006;
(2)Jabareen, Yosef, Rafeq, 2006, quotes Kevin Lynch (1981).

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SUSTAINABLE DEVELOPMENT ASPECTS IN ROMANIA - REPUBLIC OF SERBIA IPA CROSS-BORDER COOPERATION PROGRAMME

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This research paperis basedon the analysis of the sustainability aspects in cross-border cooperation programmes. The importance of this research topic consists in presenting if the implementation of the activities of the projects submitted under cross-border cooperation programmes is based on the sustainability aspects. In this matter, the article will present theoretical aspects of sustainable development, territorial cohesion and cross-border development and focuses on practical questions related to sustainability aspects in the case of the Romania – Republic of Serbia IPA Cross-border Cooperation Programme. One of the main challenges of the cross-border area is also environmental challenges. Sustainable development is represents the fundamental objective of the European Union and refers to the economic, social and environmental dimensions of development. Countries cannot develop without existing cooperation between them, therefore EU policy is based on economic, social and territorial cohesion. Methodologically, the research is based on identifying of appropriate theoretical concepts corresponding to the chosen theme, collecting and processing data. The paper concludes with answers to key questions related to the integration of sustainable development aspects in cross-border cooperation programmes and projects. The results of the research have implications that could contribute to the current problem of absorption rate of EU funds, offering information about IPA cross-border cooperation programmes and increasing the capacity of potential applicants to elaborate and implement projects for obtaining and using financial EU funds. The added value of the paper results from the fact that EU financingis atopical issueof greatinteresttoEuropean and national level. To the best of our knowledge, this topic has not yet been researched within the national literature. The author contributed by performing methodology of qualitative research, a study case regarding the Romania-Republic of Serbia IPA CBC Programme, which can be very useful for a better understanding of the European Union financial allocations through cross-border cooperation programmes.

Keywords: sustainable development, cross-border cooperation, IPA, territorial cohesion, environmental impact

JEL Classification: F 15, H 77,O 38, R 58

Introduction

Borders are important for Romania's development because of its geographical position and the length of its internal and external borders in the new architecture of the EU. The Romania-Republic of Serbia border is 546,4 km long, partially land (256,8 km) with the River Danube forming a natural frontier for approximately 289.6 km. The eligible border regions within the Romania-Republic of Serbia IPA Cross-Border Cooperation Programme (Map 1) cover an area of 39,351 Km2, of which 22,149 Km2 is in Romania and 17,202 Km2 is in Republic of Serbia. Thus 56% of the eligible border area is in Romania and 44% is in Republic of Serbia. The priorities agreed by EU Member States, incorporated in all policies of the European Communities are equal opportunities, environmental protection, energy efficiency, information society known as horizontal themes. They refer to sustainable development, environmental protection and

improvement, promoting equal opportunity and non-discrimination, promotion of information society and IT solutions and increasing energy efficiency. These themes must be respected by applicants for developing and implementing their projects.

Map1. Romania-Republic of Serbia IPA Cross-border Cooperation Programme. Self processing

European territorial cooperation, as well as cross-border cooperation, is important, both economically and politically. The importance of cross-border cooperation is demonstrated through the inclusion of the CBC issue in the National Development Plan 2007-2013. One of the priorities in the achievement of the overall objective of the National Development Plan is to reduce the development disparities between Romania and EU Member States average. This goal was predicted to be accomplished by implementing projects that meet the needs and opportunities of each region and area.

The Romania-Republic of Serbia IPA Cross-border Cooperation Programme is the basis for this research and sustainability analysis. The Programme is financed by the EU under the Instrument for Pre-Accession Assistance (IPA) and co-financed by the partner states in the programme, Romania and Republic of Serbia. The objectives of the programme are to increase the overall competitiveness of the economy and to improve the quality of life for the communities in order to achieve a sustainable socio-economic development in the border area. The horizontal themes are found in each programme implemented by EU Member States or cross-border cooperation programmes between candidates and potential candidate's countries and must be respected by applicants for developing and implementing their projects submitted under these programmes. Therefore, the environment represents an important issue and not only in cross-border cooperationprogrammes. At project level, the environmental issue appears in the phase of project' evaluation, the potential applicants must provide information on how and if the activities that they propose to carry out the project have or not impact on the environment. They also must specify whether the impact is positive or negative.

The objective of the paper is to analyse sustainability aspects in cross-border cooperation programmes. The paper presents theoretical aspects of sustainable development, territorial cohesion and cross-border development. The paper focuses on practical questions related to sustainability aspects in the case of Romania-Republic of Serbia IPA CBC Programme.

Initial results after the first call for projects proposals provide the first information about the implementation of the Programme.

Aspects of Sustainable development, Territorial Cohesion and Cross-border development

Sustainable development is a fundamental objective of the European Union since 1997 and it was defined in The Report of the World Commission on Environment and Development as

"development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland 1987: 54). Sustainable development is the achievement of a higher quality of life for present and future generations.

Harlem Brundtland discussed in the famous report presented in 1987 about the fact that no country can develop in isolation from others and emphasised that the pursuit of sustainable development requires a new orientation in international relations.

The most important EU policy is the Cohesion Policy which represents the main measure to ensure a balanced and sustainable growth in Europe by promoting harmonious development and reducing the regional disparities.Conceptually, European Cohesion policy is based on three objectives: convergence, regional competitiveness and employment and territorial cooperation among the European countries. These are the main factors of the regional economic development. These objectives, between 2007 and 2013, aims to support cross-border cooperation through joint and regional actions, in order to increase the overall competitiveness of the regional economy and to improve the standard of living for the populated areas, to support transnational cooperation through actions leading to regional development as well as interregional cooperation and exchange of experience.

PromotingEuropeanterritorialcooperationis also one of the Romania's prioritiesprovidedin the National Development Plan 2007-2013.This prioritymustbe achieved through joint actions incross-border cooperation field. Cohesion policy means economic, social and territorial cohesion and sustainable development refers to economic, social and environmental development.

Europe 2020 Strategy is based on three priorities: smart growth (economy based on knowledge and innovation), sustainable growth (economy more efficient, greener and more competitive) and inclusive growth (economic, social and territorial cohesion). At national level, Member States will need to implement joint programming and increase cross-border cooperation.

We can conclude that these concepts are intersecting with each other and all lead to socio-economic development reducing the disparities between different countries and regions.

Cross-border Cooperation Programmes between Romania and Republic of Serbia

In 2003 was first initiated the cooperation between Romania and Serbia &Montenegro through the External Border Initiative Programme for Romania. The programme was meant to maintain and develop the traditional economic and cultural relationships between Romania and these countries. This was the basis for the introduction of the new instrument (IPA). The purpose of the programme was to increase the level of cross-border cooperation, this is why a special attention was given to the "people-to-people" actions type. For the 2004-2006 through the Neighbourhood Programme, the financial allocation for the Romania – Serbia & Montenegro was 16 million euro (Phare) out of which 1,8 million euro for the people-to-people actions and 4,20 million euro (CARDS) of which 1.2 million euro was allocated to the support of people-to-people actions. The programme aimed to create joint frameworks for promoting neighbourhood cooperation in the following areas: business support cooperation, environmental protection, local public services cooperation, small scale infrastructure improvements, and local tourism development.

The development of joint people-to-people actions has represented an important first step for many institutions in the border area, because it has raised the interest in joint activities and in undertaking planning and implementation of activities in collaboration with partners from the other side of the border. This stimulated the cross-border partnership, the cross-border networking and built relationships that are the basis for more sustainable cross-border initiatives in the future.

Romania-Republic of Serbia IPA Cross-border Cooperation Programme

The Romania – Republic of Serbia IPA Cross-Border Cooperation Programme resulted due to the cooperation between the Romanian and Serbian national, regional and local authorities, supported by the European Commission Delegation to Romania, the European Agency for Reconstruction in Belgrade, the Serbian Ministry of Finance, and the Romanian Ministry of Regional Development and Tourism. Given the fact that horizontal themes must reflect in each programme financed by EU funds, CBC programmes have also added horizontal themes including sustainable development and environmental protection which must be respected during the implementation period.In the description of the Romania-Republic of Serbia IPA CBC Programme it is stated as specific objectivesincreasing the overall competitiveness of the economy in the border area and improvement of the quality of life for the communities of the eligible area. Starting from the specific objectives of the Programme, there are four priority axes as a basis for intervention in order to tackle common challenges facing both regions from Romania, as well as from Republic of Serbia (Diagram 1).

Priority axis 1: Economic and Social Development

Measure 1.1 Support for local/regional economic and social infrastructure

Measure 1.2 Develop the tourism sector, including the strengthening of the regional identity of the border region as a tourist destionation

Measure 1.3 Promote SME development

Measure 1.4 Support increased levels of R&D and innovation in the border region

Priority axis 2: Environment and emergency Preparedness

Measure 2.1 Improve systems and approaches to adres cross-border environmental challenges, protection and management

Measure 2.2 Develop and implement effective strategies for waste and waste water management

Measure 2.3 More effective systems and aproaches to emergency preparedness

Priority axis 3: Promoting "people to people" exchanges

Measure 3.1 Support the development of civil society and local communities

Measure 3.2 Improve local governance in relation to the provision of local services to communities in the border areas

Measure 3.3 Increase educational, social, cultural and supporting exchanges

Priority axis 4: Technical Assistance

Measure 4.1 Support for the implementation, overall management and evaluation of the Programme

Measure 4.2 Support for the publicity and information activities of the Programme

Specific objectives

Diagram1. Priority axes Romania-Republic of Serbia IPA CBC Programme. Self processing

From the sustainability analysis, the axes and measures of the Programme represent an integral sustainable development approach. On project level, in elaboration phase, the potential applicant must focus on one measure for preparing the project proposal. It is a requirement to respect the horizontal themes by each project applicant when deciding the activities of the project as well as in the implementation phase of the project submitted and approved. At the end of the implementation period the beneficiaries have to complete a questionnaire in which they must stipulate if the project had environmental impact. Regarding the biodiversity, it must be specified if the project had activities with effect on the Nature 2000 sites and if they did, then they have to mention if the effect was positive or negative and the area which might be affected. With regard

at the environmental emergency and air, the beneficiaries have to specify if the project addresses environmental emergencies or if the project contains activities aimed with effect on the air quality and if the effect was positive or negative. The impact on environment is measured also through the activities that affect cultural heritage, historical heritage and activities having a positive impact on landscape, natural and national parks, protected natural areas and thermal springs. In this case the beneficiaries have to specify whether the projects had positive or negative effect. It must be stipulated also if the projects includes activities that have resulted in a shift from road to water transport, activities aimed at developing river transport infrastructure, activities aimed at rehabilitation the river banks or at reducing potential flood areas and other flood prevention activities. The sustainable development and environmental protection is preconditioned by the programme, so if these aspects are respected during the implementation period, then the cross-border cooperation programmes will be sustainable as well.

The Romania-Republic of Serbia IPA CBC Programme is being implemented through calls for proposals. The projects submitted under the first call for proposal ends in 2012. The number of signed projects was 46 and the total value of all selected and contracted projects is 19 million euro. On 25 of March 2011was launched the second call for proposals to be financed and the deadline for the submission of applications was 27 of June 2011 and the total funds available for this call were15,3 million Euros.

After the evaluation period, a number of 45 projects were approved.The projects are based on the partnerships formed by eligible institution from Romania and Republic of Serbia. In general, the project activities have to reflect the objectives, the priorities and the horizontal themes in the application form.Inthe first call for proposals which is still in implementation phase, from 46 projects approved 6 projects are under priority axis 2 Environment and Emergency Preparedness and in the second call for proposals, from 45 projects approved 5 projects are environmental projects.

Conclusion

Since the projects under the first call for proposals are still in the implementation phase and the projects under the second call for proposals are in contracting phase, ex-post conclusions on the success and the real implementation of activities based on the sustainability aspects of the projects or programme cannot be completely presented yet. However, considering the fact that some of the projects under the first call for proposals completed during this period, some answers to key questions related to the integration of the sustainable development aspects in IPA cross-border cooperation programmes might be presented:

What is the structural impact of the projects?

Based on the programme indicators, one of these indicators is to increase the cooperation between public authorities, municipalities and the target for 2015 is 197 projects between public authorities in joint development, joint implementation and joint financing. For 2015 is estimated a number of 1200 participants benefiting from the joint public cross-border events organized within the projects.The Romania-Republic of Serbia IPA CBC Programme brings together organizations from various regions from the eligible area of the programme, active in various sectors. Cross-border cooperation betweenauthorities from different countries for joint implementing the projects submitted implies changes in some of the components of the organizational structure of the institutionssuch as administrative procedures, transparency and partnership principles. The requirement to find partners abroad and work together is one of the greatest achievements of EU findings. In many occasions the partnerships do last longer than the period of the projects and this is a proof of structural impact and sustainable development.

The activities of the projects have environmental impact?

Of the 46 projects under the first call for proposals, 3 projects are focused on environmental emergencies (whether is alarm systems or intervention, or monitoring and combating the negative environmental effects), 6 projects are focused on improving air and water (monitoring and combating plants with negative effects on air quality, combating pollution of rivers in the eligible area, 10 projects addresses the cultural heritage (either promotes or rehabilitate archaeological sites or cultural objectives), 2 projects positively affect the landscape (cleaning and setting up sites without interfering with the protected areas), 1 project improves the transport infrastructure, 6 projects promote tourism attractions and 2 projects addresses on flood prevention. Currently there are no data on greenhouse emission, the projects that may have impact on them are still in implementation.

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ECONOMIC POTENTIAL RECOVERY – A EUROPEAN CHALLENGE IN THE MEDIUM TERM

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The waves of the worst global financial and economic crisis since World War II have seriously affected the economy of the Euro Area. The first wave of the global crisis determined the worst recession in decades for the member states of the region. At present, the Monetary Union is confronted with the second wave of the crisis – the public debt problem. Despite the efforts adopted and implemented by the European policymakers over the past quarters, the sovereign debt crisis is far from over. Spain has recently become the "favourite target" of the financial markets.

Among the consequences of the waves of the crisis for the Euro Area one can mention the potential output decline and the economic divergence (asymmetric evolution of member countries). In this context, the potential output recovery and the relaunch of the real economic convergence process represent the main challenges for the policymakers in the medium run.

This paper analyses the evolution of potential GDP of the member countries of European Monetary Union (12). I employ the Hodrick-Prescott methodology on data from the World Bank Database.

According to the results, the economic potential of the member states of the Euro Area (12) decreased to the lowest level of the past decades. At the same time, the analysis presents the differences exiting across the member states in terms of potential output. Some countries suffered an important potential output loss over the past quarters (it seems that Greece and Portugal have become asymmetric shocks in the Monetary Union). For these countries, the first wave of the global crisis transformed in a permanent shock. The decline of investments and the depreciation of human capital over the past quarters express a huge probability that potential output is going to maintain at a low level in the Euro Area over the following years.

The recovery of potential GDP towards the pre-crisis levels is dependent on a higher participation rate of active population, strong reforms of labour markets and, importantly, the return of investment flows. Other measures in order to attain the objectives of Europe 2020 (smart, sustainable and inclusive growth) would also help the process of potential GDP recovery in Europe.

I. Introduction

The Euro Area is strongly affected by the waves of the worst global financial and economic crisis since the end of the World War II. The first wave of the financial crisis determined a contraction of about 4% y/y of the GDP. At the same time, this wave of the crisis revealed the macroeconomic disequilibria accumulated by some member states during the first decade after the launch of the euro – leading to the second wave of the crisis (the sovereign debt issue).

The public debt crisis launched in Greece in 2010 is far from over, as the measures adopted and implemented by the policymakers over the past quarters are not perceived as credible by the financial markets. Spain has recently become the "favourite target" of the financial markets: the CDS (credit default swap) registered a record level (over 500 basis points).

The waves of the crisis present severe consequences for the economy of the Euro Area, among which one can mention: the decline of potential output, the increase of long-term unemployment, the economic divergence of member countries.

In this context, the Monetary Union in Europe is confronted with unprecedented challenges: potential output recovery, finding a credible solution to the public debt crisis and the relaunch of the economic convergence process.

This paper analyses of the evolution of potential GDP of the member countries of European Monetary Union (12). I employ the Hodrick-Prescott methodology on data from the World Bank Database.

According to the results, the economic potential of the member states of the Euro Area (12) decreased to the lowest level of the past decades. At the same time, the analysis presents the differences exiting across the member states in terms of potential output. Some countries suffered an important potential output loss over the past quarters: it seems that Greece and Portugal have become asymmetric shocks in the Monetary Union. For these countries, the first wave of the global crisis transformed in a permanent shock. The decline of investments and the depreciation of human capital over the past quarters express a huge probability that potential output is going to maintain at a low level in the Euro Area over the following years.

The rest of the paper has the following structure: the second chapter reviews the main methods for potential output estimation; the third chapter presents the methodology employed in the current paper; the fourth chapter analyses the results; the main conclusions are mentioned in the last chapter.

II. Methods for potential output estimation

The literature distinguishes several methods employed in order to determine the potential output. According to Brandner *et al.* (1998) there are three main methods used in determining the potential output: the OECD approach, the IMF approach and the European Union approach.

The OECD distinguishes between the values added by the private sector and by the government sector, with the potential output obtained as the sum of these components. In this approach, the value added of the private sector is estimated from a Cobb-Douglas function, under the following form:

$$Yt = \alpha Nt + (1-\alpha)Kt + Ut \qquad (2.1)$$

where Yt represents the logarithm of the value added of the private sector, Nt represents the logarithm of the labour input, Kt represents the logarithm of the capital stock, α represents the elasticity of output with respect to labour and Ut represents the error term, seen as the total factor productivity.

Then, the potential output of the private sector is obtained from the following relation:

$$Yt^* = \alpha Nt^* + (1-\alpha)Kt + Ut^* \qquad (2.2)$$

where Yt* represents the potential output of the private sector, Nt* represents the potential labour supply (NAIRU), Kt represents the capital stock and Ut* represents the trend rate of the productivity factor (obtained by applying the Hodrick-Prescott filter). Then, the potential output of the economy is obtained by adding the potential output of the government sector to the business sector potential output.

According to the same source, the IMF approach does not apply a uniform method in computing potential output across the member countries. In some cases the potential output is "… *related to equilibrium in the labour market as given by NAIRU and estimated within the framework of a Cobb-Douglas production function* …". One of the differences when compared to the OECD approach consists of the fact that the elasticity of output with respect to labour (as we saw in the above case, α) is approximated with the level of wage to GDP ratio. According to Brandner *et al.* (1998), "*in other cases, estimates of the potential output are based on statistical estimates of trend output*".

The European Union has its own method of determining potential output, different from the approaches of the OECD and IMF. According to Brandner *et al.* (1998), the approach of the

European Union for estimating the output gap consists of directly applying the Hodrick-Prescott filter to real output.

III. Hodrick – Prescott methodology

One of the methods employed by the literature in order to estimate the potential output is the Hodrick-Prescott (HP) filter. This methodology distinguishes between a cyclical component and a trend component of the GDP (Yt = Yt* + Ytc). The cyclical component of the GDP is obtained according to the following mathematical relation:

$$\text{Min} \sum_{t=1}^{T}(Y_t - Y_t^*)^2 + \lambda \sum_{t=2}^{T-1}((Y_{t+1}^* - Y_t^*) - (Y_t^* - Y_{t-1}^*))^2 \quad (3.1)$$

where Yt represents output, Yt* represents the trend of output, λ is a measure of smoothness, so that the lower the value of this parameter, the closer potential output follows actual output.

In the extreme case when λ = 0, then the trend would equal actual output. Hodrick-Prescott suggests a value of 1600 when working with quarterly data and 100 for annual data. However, some other contributions in the literature suggest the use of other values for λ. Bouthevillain *et al.* (2001) evidence some studies where the value chosen for this parameter is 400 for annual data. On the other hand, they mention other contributions where for a value of 1600 for quarterly data corresponds to a value of 6 to 8 for annual data.

There does not exist any ideal filter for the decomposition of output into trend and cycle. According to Bouthevillain *et al.* (2001), the Hodrick-Prescott filter presents the advantages of simplicity and transparency, which explain the fact that it has been one of the most widely employed filters in the analysis of the macroeconomic series. Two problems they mention are the compression and the leakage effects. The compression effects might appear, as a consequence of the fact that "*the cycles that should belong to the cyclical component*" are not completely included in the cycle, and thus the "*variability of the cyclical component is underestimated*". These effects have impact in the assessment of the public finances because of the volatility of trends and also might make it difficult to determine the expansionary fiscal policies especially during the boom periods as "*they potentially suggest an overall positive assessment of fiscal policies*". The leakage effects consist of the fact that "*cycles that should belong to the trend are not in fact included in the latter*" and consequently the
"*variability of the trend is underestimated*". Beyond this, they do not take into account possible "*jumps in productivity growth*". In the case of the Hodrick-Prescott filter, the magnitude of these effects depends on the choice of λ. According to these authors, the compression effects diminish with the increase of the value of λ. Pointing to the trade-off between the two effects, they conclude that the lower the value of λ, the lower the leakage effects. In fact, choosing the value of λ while applying the Hodrick-Prescott filter, one should take into account the costs of these effects and weight them.

After shortly describing the method, I now compute the potential GDP of the Euro Area (12) and of the member countries, using a value of 100 for λ. I use data (annual observations) of real GDP, expressed in 1995 prices, for the member countries of the Euro Area (12) for the period 1961 – 2011, from the World Bank Database. All computations have been performed with the package Eviews 4.1.

IV. Interpretation of the results

The following figure presents the evolution of potential GDP of the Euro Area (12) over the past five decades. There is obvious the downward trend during this period. This downward trend of the potential output in the Euro Area (12) was determined by the lack of reforms to the structural shocks that hit the member countries of the region over the past decades: oil shocks, globalization, enlargement of the European Union.

The potential output of the region decreased from around 5.2% y/y during the 1960s to 3.4% y/y during the 1970s. The potential GDP was estimated at around 2.3% y/y during the 1980s and the 1990s. During the 2000s it declined to an average of 1.4% y/y.

As can be noticed on the figure, the rhythm of the decline of potential output intensified during the past years, in the context of the waves of the worst financial and economic crisis since the end of the World War II. At present, according to these estimates, potential output of the Euro Area is below 1% y/y (the lowest level since 1960, at least).

Figure 4.1. Potential GDP Euro Area (12)

The waves of the Great Recession have strongly affected the structural components of the GDP: investments, labour supply and total productivity factor. On the one hand, capital investments declined severely across European countries during the period 2008 – 2010 (see figure 4.2.). This evolution was determined by the increase of the cost of capital, given the risk perception in the context of the crisis.

Figure 4.2. Gross fixed capital formation (%, y/y)

At the same time, the crisis led to a strong increase of unemployment rate (almost to 11%), the youth being the most affected category (over 20%, the highest values being observed in Spain and Greece (over 50%)).

Last, but not least, the total productivity factor was negatively influenced, either by the decline of investments, but also by the depreciation of human capital.

In what regards the cross-country analysis, the following graph presents the evolution of potential GDP for the member states of the Euro Area (12) during the period 1961-2011. As can be noticed, the countries that suffered the most severe declines of potential output after the launch of the Great Recession (period 2008-2011) are: Greece (-3.7 p.p.), Ireland (-2.9 p.p.), Spain (-1.7 p.p.), Luxemburg (-1.6 p.p.), Finland (-0.9 p.p.) and Portugal (-0.9 p.p.). According to the

Figure 4.3. Potential GDP – member countries of EMU (12)
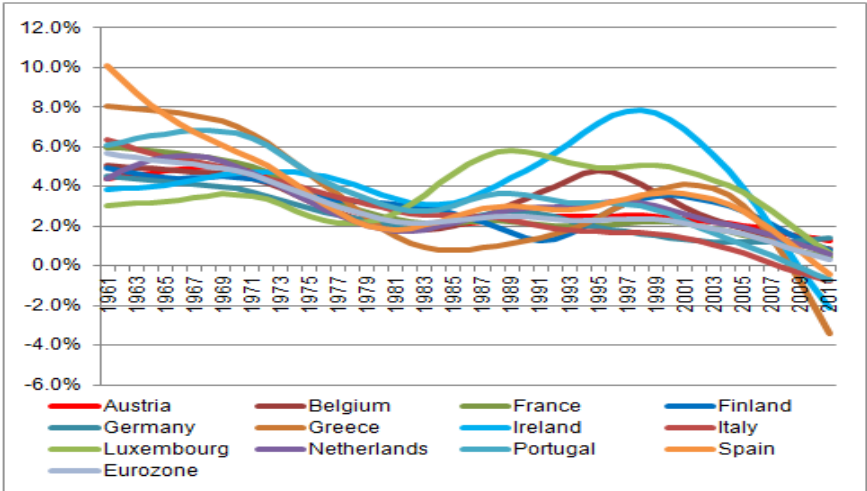
Figure 4.4. Potential GDP Greece
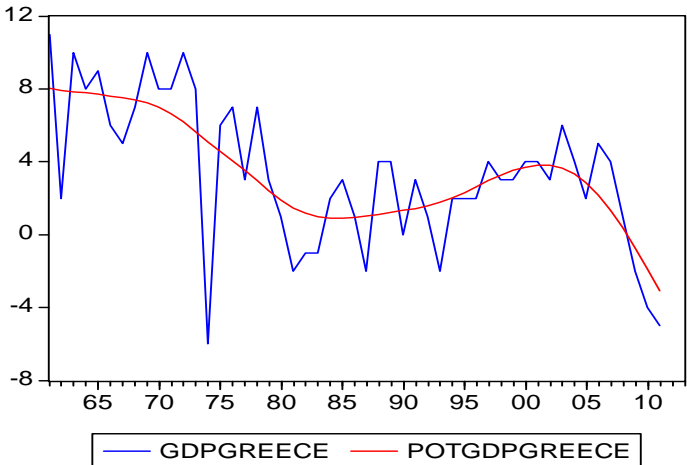
estimates, potential output of Greece turned negative since 2009 (as can be noticed in the figure 4.4), evolution determined by the flight of capital (in the context of the public debt crisis), with negative impact for investments.

However, there can be noticed a group of countries with lower rhythm of decline (of the potential output) compared to the rate registered at the Euro Area level (-0.6 p.p.): Austria (-0.3 p.p.), Belgium (-0.4 p.p.), France (-0.5 p.p.).

On the other hand, the only one country in the Euro Area (12) that registered an increase of potential GDP during the period 2008-2011 was Germany (0.2 p.p.). This evolution expresses the fact that the first economy in the Euro Area benefited from the waves of the crisis. This result is sustained by the shape of the economy during 2010 (3.6% y/y) and 2011 (3% y/y). The economy has gathered the benefits of the structural reforms implemented before the global crisis hit the European continent (at present the unemployment rate in Germany presents the lowest level since the early 1990s).

These evolutions of the potential output across the member states of the Euro Area (12) confirm the real economic divergence across the region. This divergence increased over the past years, as several countries in the region (the periphery countries) seem to have become persistent asymmetric shocks (the figure 4.5. expresses the real divergence since the first wave of the crisis hit the region).

In fact, the Great Recession revealed the structural disequilibria accumulated by the member countries after 1999. In other words, the nominal convergence established by the Maastricht Treaty was not sufficient, as several economies accumulated severe macroeconomic disequilibria during the last years of the Great Moderation (especially unsustainable level of private debt, with negative consequences for the public finance stances since the launch of the crisis).

Figure 4.5. Standard deviation (potential GDP)
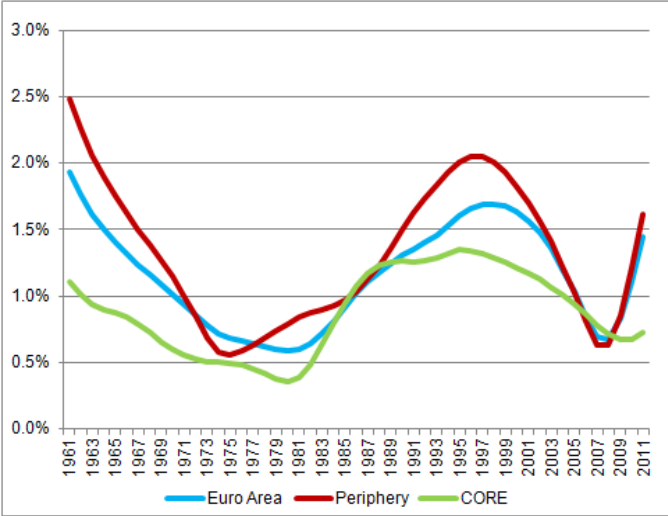
V. Concluding remarks

According to this analysis the potential output presented a downward trend across the Euro Area (12) over the past decades. The waves of the worst global financial and economic crisis since World War II exacerbated the rhythm of decline of the potential output of the EMU member countries, as capital investments contracted severely (mainly in 2009) and human capital depreciated.

At the same time, the analysis presented the differences among member countries of the Euro Area in terms of the amplitude of decline of the potential output. In some countries, the potential output turned negative, as the investments contracted for several years and the unemployment rate surged to record level (especially for young people) (for instance, the youth unemployment rate in Euro Area is over 20%).

In this context, one of the main challenges for the European policymakers on the medium run should be the recovery of potential output. It would be a very difficult process, as, normally, the potential output recovers gradually after a prolonged period of crisis (at present, the Euro Area faces the second recession since 2008).

The recovery of the potential output requires an acceleration of the rhythm of growth, but this seems impossible given the context of fiscal consolidation during the following years. Among the economic policy measures that may support the recovery of the potential output one can mention: the relaunch of capital investments (especially in sectors with a high added value), higher investments in Research&Development and in Education across the member states, the structural reforms (mainly in terms of labour markets). These measures are consistent with the Europe 2020 strategy: smart, inclusive and sustainable growth.

There can be mentioned several reasons that determine me to expect a low potential GDP at the Euro Area level over the next years: the high risk premium (with negative impact for investments), the increase of financial regulation (with immediate impact in a higher selection of investment projects for part of the financial system), a higher tax burden (with negative impact either for investments, or labour force supply).

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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.

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 since1957 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 ant 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 al 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 extend 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 evoked 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 where 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 ethic 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

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 apropriate 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 succes 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 aparatus, 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 worring 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 succes 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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CONSIDERATIONS UPON ROMANIA'S MANUFACTURING COMPETITIVENESS IN THE EUROPEAN CONTEXT

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Manufacturing structure is essential to ensure the dynamic equilibrium of the whole economy. In fact, this industry is the one that disseminates through the organization and conduct of business as well as by the products delivered, elements of technological progress and new, modern work methods, with significant economic effects. Today in the Romanian industry, an urgent matter is material and energy cost savings thus increasing the value added. According to the economic development, within the industrial structural changes, usually occur the following main trends: the declining share of production from mining industry, while increasing the intermediate and final production, the declining share of industries with labor intensive and reduced complexity and diminishing, starting from a certain development level, of the share of industries with intensive natural resources deficits, especially energy resources, increasing the branches characterized by intensive and highly skilled labor, priority development of branches based on inventions vastly incorporating R&D, etc.. Some of those trends are increasingly emphasized by research, technological transfer and international trade, processes that enhance the interdependence between and within national economies. Labor-intensive industries reduce their share in total industry in developed countries. Demand for products manufactured by these industrial branches begins gradually to be met by developing countries. Production based mostly on the traditional technologies, easily transferable, is moving gradually from more developed countries to least developed ones. In contrast, in the industrialized countries are rapidly developing those industries incorporating important R&D results. These processes had been the subject for several specific research.
Although labor productivity decisively influence GDP per capita during long periods of time, the correlation between GDP annual growth rate and labor productivity growth rate differs between countries.
GDP per capita is strongly and positively correlated in most countries with labor productivity per capita relative to production and income per capita relative to consumption.

Keywords: Labor intensive industries, Energy intensity, Value added in manufacturing, Highly skilled labor, Capital intensive goods
JEL Codes: F14, F15

Introduction

Concept of economic structure and specialization in production of a nation has been dominated by Ricardian doctrine of comparative cost. (Krugman, Obstfeld and Melitz 2012: 25-26). Hence the need for countries in production specialization, considering the available resources and international trade advantage, as well as the possibility of a fair distribution of benefits resulted from international trade exchanges for all countries participating in the international division of labor, due to competition that occurs in world economy. It was concluded that this theory was based upon unacceptable and unverifiable assumptions, such as, for example, the fact that quantity and quality of production factors are immobile within the international relations, etc. and

considered a single production factor: labor. J. Viner, noted that such a simplification raised a barrier to exploring the consequences that differences between regions and countries have upon the production factors endowment. (Viner 1957: 19). The matter concerning the production factors endowment of a national economy in analyzing the production and foreign trade structure, has become a fundamental issue of economic research, first ones to tackle this were the Swedish E. Heckscher and B. Ohlin (Ohlin 1967: 43-57; Krugman, Obstfeld and Melitz 2012: 97-99). According to their theory, the geographical distribution of the production factors is particularly important, influencing the specialization in production and development.

Previous research

In general, the inequity specialization is obvious for those countries to export only goods characterized by intensive unskilled labor and low productivity level for importing goods intensive in highly qualified labor and a higher productivity level. Emphasizing the independence of the industrial structures relative to natural sources is accompanied by increasing national dependency towards the world market. So, the dependence gradually moves from the national economy to the world economy through foreign trade. This tendency results from the development path in a large number of countries, for which the satisfaction degree for natural resources demand from own production decreased significantly. Within the development stage in which the tertiary sector starts to grow, the industries with high consumption of natural resources gradually reduce their weight, for capital-intensive ones and especially those that encounter highly skilled labor and apply the latest R&D results.

Methodology

G. Fels and F. Weiss point out that there are some characteristics of these structures, relative to the development stages mentioned: gradually moving, in accordance with the economic development, from labor intensive industries to large consuming natural resources and hence to the standard goods producing industries, where in general, production technologies are well known and easily accessible (Fels and Weiss 1977: 32; Trefler 2005:21-29; Eicher, Mutti and Turnovsky 2009:88 – 98). Labor-intensive industries reduce their share in total industry in developed countries. Demand for products manufactured by these industrial branches begins gradually to be met by developing countries. Production based mostly on the traditional technologies, easily transferable, is moving gradually from more developed countries to least developed ones. In contrast, in the industrialized countries are rapidly developing those industries incorporating important R&D results (Bowen, Leamer and Sveikauskas 1987: 791–809). These processes had been the subject for several specific research. Although labor productivity decisively influence GDP per capita during long periods of time, the correlation between GDP annual growth rate and labor productivity growth rate differs between countries. In the developed ones the association is stressed positive, productivity being the main engine of growth. In the less industrialized countries the mentioned correlation is weaker, suggesting that other factors determine the economic performance of a country in a given year. (Srebotnjak,Hizsnyik and Toth 2011:2). GDP per capita is strongly and positively correlated in most countries with labor productivity per capita relative to production and income per capita relative to consumption.

Results

Negative correlation between GDP per capita and energy intensity is apparently valid in most countries, highlighting the fact that economies, as they become richer use less energy to produce one unit of GDP.(Srebotnjak,Hizsnyik and Toth 2011:5). Compared with other EU countries, Romania registers a modest performance. As regards the value added in manufacturing, the country is ranked 18, as outlined in *Figure 1*.

Figure 1: EU member countries value added in manufacturing, 2007
Source: EUROSTAT, Annual detailed enterprise statistics on manufacturing (NACE Rev.1.1 D), 06.03.2012

Figure 2 shows a comparison regarding the position of different branches within the Romanian manufacturing industry, and EU27 as well as the share of this industry in Romania and in the corresponding industries at EU27 level.

Figure 2: Comparison between Romania and EU27 regarding the Value Added indicator, the position of manufacturing components in total and the share of Romanian manufacturing branches in EU27, during 2007.

Another interesting comparison is the Romania's position in the EU27 regarding the energy consumption of manufacturing sector, respectively the value added as shown in *Figure 3*.

Figure 3: Comparison between Romania and EU27 regarding the value added and energy consumption of manufacturing sector branches.

Conclusions

Only for a limited share, the supply of production factors can be adapted to different industries demand. In each region or country, the exported goods relatively contain in larger quantities the cheap factors, while imported goods incorporate scarce and expensive resources for the importing country. Romania exports particularly labor-intensive goods and imports capital intensive goods, hence the labor productivity aspect in general and especially in export industries being vital. Compared with other EU countries, Romania registers a modest performance. As regards the value added in manufacturing, the country is ranked 18. Comparison regarding the position of different branches within the Romanian manufacturing industry and EU27 highlights divergence, and the share of this industry in Romania and in the corresponding industries at EU27 level is almost insignificant. The Romania's position in the EU27 regarding the energy consumption of manufacturing sector, and the position regarding the value added are obviously divergent

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ROMANIA'S FIRST FIVE YEARS IN THE EUROPEAN UNION. A SHORT ASSESSMENT

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It's been more than 5 years since our country has joined the European Union, on January the 1st 2007. It's been a long road, as fulfilling the Copenhagen criteria had not been an easy task.
But was it all worth it? Are we better off today, five years after? Did we know how to take advantage of European Union membership? Did we know what to do and how to do it, in order to benefit from (all) the advantages of the Single Market?
These are some questions we will try to answer in this paper.
In this paper, we will present data regarding: the evolution of Romania's foreign trade, overall, as well as with the rest of the European Union countries; the evolution of Romania's economic growth, in comparison with European Union's average economic growth; the evolution of foreign direct investments in Romania; the absorption degree of structural and cohesion funds, in comparison with other countries of the European Union.
We will analyze these data, and we will make comparisons between Romania and the European Union, in order to see the similarity between Romania's evolution and EU's evolution. We will also analyze the structural and cohesion funds absorption degree, in comparison with other European Union countries.
Finally, we will try to assess whether we knew how to take advantage of our European Union membership, as being member implies both advantages and disadvantages. Knowing how to fully benefit from the advantages and how to diminish the disadvantages is the winning strategy.
Did Romania know how to maximize its advantages?
As we will see in the conclusions of this paper, the answers to these questions are not always in our advantage. There are still some lessons to be learned, especially regarding the absorption of structural and cohesion funds, and attracting foreign direct investments.

Keywords: foreign trade, economic growth, foreign direct investments, structural and cohesion funds.

JEL Classification: E24 Employment, Unemployment, F11 Models of Trade, F15 Economic Integration, F21 International Investment, O47 Measurement of Economic Growth.

The Foreign Trade

The countries of the world have different terrains, climates, resources, worker skills, etc. Therefore, some countries will be able to produce goods that other countries cannot produce, or can produce only at extremely high costs (Arnold, 2010: p.376).

The foreign trade is also necessary for a country's economic growth. The trade promotes specialization, and specialization increases productivity. Over the long run, increased trade and higher productivity raise living standards for all nations. Gradually, countries have realized that opening their economy to the global trading is the most secure road to prosperity (Samuelson and Nordhaus, 2010: p. 339).

Romania's foreign trade has shifted after 1989. If before 1989, Romania had a foreign trade surplus, and its main partners were the countries members of the Council for Mutual Economic Assistance, after 1989, the main trade partners have become the countries members of the European Union. This trend has continued after Romania obtained EU membership, in 2007.

Overall, our trade balance is a negative one. In 2007, our exports represented just 57%, in comparison with our imports. The percentage was 58% in 2008. The crisis brought a decline in our negative balance, but still, the exports are inferior to our exports (table 1).

Table 1. Romania's foreign trade, 2007-2011 (millions euros)

	2007	2008	2009	2010	2011
Imports	50 993	57 240	38 953	46902	54824
Exports	29402	33725	29084	37368	45041
Balance	-21 591	-23 516	-9 869	-9 534	-9 783

Source: www.insse.ro

As we can see in Tables 2 and 3, more than 70% of Romania's exports and imports, for 2010-2011, are with other European Union countries, while intra-EU trade was, in 2010, of 64% (table 4).

Table 2. Romania's export flows, 2010-2011 (millions euros)

	2010	2011
TOTAL	37 368	45 041
Intra EU	26 953	32 031
	(72.12%)	(71.11%)
Extra EU	10 415	13 010
	(27.88%)	(28.89%)

Source: www.insse.ro

Table 3. Romania's import flows, 2010-2011 (millions euros)

	2010	2011
TOTAL	46 902	54 824
Intra EU	33 992	39 826
	(72.47%)	(72.64%)
Extra EU	12 910	14 997
	(27.53%)	(27.36%)

Source: www.insse.ro

Table 4. Intra-EU trade, 2007-2010 (millions euros)

	2007	2008	2009	2010
Intra-EU trade	66%	65%	65%	64%

Source: http://epp.eurostat.ec.europa.eu

If we take into consideration our main trade partners, we can see that the EU's countries occupy the first places (tables 5 and 6): Germany is our main trade partner, for both exports and imports, followed by Italy (exports and imports), France, Turkey and Hungary (for exports), and Hungary, France and China respectively (for imports).

Table 5. Romania's exports by main destinations, 2007-2011 (millions euros)

	2007	2008	2009	2010	2011
Germany	4980	5535	5442	6765	8390
Italy	5013	5219	4461	5165	5783
France	2270	2491	2378	3102	3371
Turkey	2071	2205	1450	2611	2782
Hungary	1637	1726	1266	1775	2516

Table 6. Romania's imports by main destinations, 2007-2011 (millions euros)

	2007	2008	2009	2010	2011
Germany	8755	9409	6741	7856	9371
Italy	6485	6620	4551	5434	6227
Hungary	3534	4295	3250	4051	4776
France	3185	3210	2401	2780	3161
Turkey	1670	2414	1902	2555	2530

As we can see, Romania has strong trade relations with partners from other EU countries. Unfortunately, these trade relations have been focused more on imports, rather than exports, showing that Romania is mainly a consumer country. In this context, it is important to remember that Romania, in terms of population size, is on 7th place in the European Union.

The economic growth

In the last 23 years, Romania has experimented years of severe economic recession, as well as years of prosperity. Starting with the year 2000, the country has recovered from the long transition, showing positive rates of economic growth (table 7). Romania's economy was extremely dynamic, especially in the period 2001-2008. However, the economic crisis has affected us as well, the years 2009 and 2010 being characterized by negative economic growth rates.

Table 7. Romania's economic growth rate, 2000-2011 (%)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
2.4	5.7	5.1	5.2	8.5	4.2	7.9	6.3	7.3	-6.6	-1.6	2.5

The evolution of EU economic growth rate shows much lower economic growth rates than in Romania. Less dynamic, the European economy had barely reached 3.3% economic growth rate in 2006, while in other years, the economic growth rate was almost close to zero (0.3% in 2008). The economic crisis had affected the EU as a whole, with a negative economic growth rate in 2009 (-4.3%). However, in 2010 and 2011, the European economy started to recover, showing positive economic growth rates (2% and 1.5% respectively).

Table 8. EU's economic growth rate, 2000-2011 (%)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
3.9	2.2	1.3	1.4	2.5	2	3.3	3.2	0.3	-4.3	2	1.5

If, before the crisis, Romania was among the most dynamic European economies, the years 2009 and 2010 brought negative economic growth rates (-6.6% and -1.6% respectively). Only the year 2011 marked a slow recovery (+2.5%), while the European average was positive since 2010.

The Foreign Direct Investments

Being the largest market in South-East Europe, Romania has benefited, since 2004, from massive inflows of foreign direct investments. This can be explained thanks to macroeconomic stabilisation, strong GDP growth, large-scale privatisation and the advantages of (future) EU membership (Pauwels and Ionita, 2008: p. 1-2) (table 9).

Table 9. FDI Inflows in Romania (millions euros)

2003	2004	2005	2006	2007	2008	2009	2010	2011
1946	5183	5213	9059	7250	9496	3488	2596	2440

Source: www.bnr.ro

As we can see in table 9, the FDIs have spectacularly increased in 2006, one year before our country's accession to the EU. However, starting with 2009, one can see a worrying decrease in FDIs inflows.

80% of the total FDI stock comes from the EU, and about 50% of the total comes from just three countries: the Netherlands, Austria and Germany. The top 10 investing countries in presented in table 10.

Table 10. Top 10 investing countries, 1990-2009

Netherlands	Austria	Germany	France	Greece
21.8%	18.1%	13.4%	8.5%	6.6%
Italy	Cyprus	Switzerland	Belgium	USA
5.1%	4.7%	4.2%	2.2%	2.1%

Source: www.bnr.ro

Romania has attracted important FDIs inflows during the years with positive economic growth rate, fact that can be explained, among other things, by our (still) cheap labour force. But the FDIs inflows can also be explained by our appetite for consumption.

The decrease of FDIs inflows could be explained, among other things, by the fact that Romania is no longer an attractive market. The qualified labour force is more and more difficult to be found, and the households' incomes have been strongly affected by the crisis.

Structural and cohesion funds

The structural and cohesion funds, financial instrument of the European Union, having the purpose of reducing, even eliminating, the economic and social development disparities among European regions, are, or could be, one major advantage of EU's membership. Between 2007 and 2013, Romania could beneficiate from 19.67 billion euros, through European Regional Development Fund, Cohesion Fund and European Social Fund (Sabau-Popa, 2010: p. 221).

According to the National Strategic reference framework for Romania, the EU funding could generate 15-20% additional GDP growth by 2015, a growth of 28% of Gross Capital Formation more than the baseline scenario, an increase of 23% of the employment in the trade sector, etc. (European Commission).

But accessing the structural and cohesion funds seems to be very difficult, for the new member states. All the countries that joined the EU in 2004 and 2007 encountered problems in accessing the EU funding. By the end of 2010, in several EU countries, the absorption degree was the following (table 11):

Table 11. Absorption degree in several EU countries, 2010

Romania	Bulgaria	Latvia	Estonia	Poland	Czech Republic
9%	10.2%	29.3%	26.43%	20.43%	12.44%

Source: http://www.fonduri-structurale.ro/detaliu.aspx?eID=8617&t=Stiri

However, the effective absorption degree in Romania could be much lower, according to recent estimations: only 3.69% (http://www.fonduri-structurale.ro/).

For 2012, many economists consider that the structural and cohesion funds could strongly encourage Romania's economic growth. But the very low absorption degree raises questions about our capability of attracting and spending 6 billion euros by the end of 2013.

Under these circumstances, it is very difficult for Romania to benefit from its European Union membership. Moreover, the low absorption degree could cause a significant reduction of funds allocated for Romania for the next financial perspective, 2014-2020. (http://www.euractiv.ro/).

Conclusions

As presented in this paper, one can notice that Romania had a good start of its European adventure; but shortly, many problems have been raised, showing that the country was not fully prepared for accession.

In order to fully beneficiate from the advantages of membership, one must increase the absorption degree of structural and cohesion funds, as well as the country's attractiveness for foreign direct investments.

Being member of the European Union implies both costs and benefits. But it depends only on each member state whether it can turn into its advantage this membership, or whether it remains a secondary European Union country.

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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 ad 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 unparallel 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 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 communicates, 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 acknowledge 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 m**odule 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**: **s**avoir 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 situation 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* adulte n'est plus averti à chaque étape à propos des

compétences actualisées didactiquement. Il est autonome et semble quasiment démuni 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 dans une langue pour comprendre une autre langue 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 intériorisé*e *des élèves»*, *«de doter les élèves d'un savoir(-faire) grammatical léger mais opératoire, qu'ils construiraient 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 paire 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$_{FR}$; şi$_{RO}$ / 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 Ière personne singulier et IIIème 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 C*ompléments 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 syncopes 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 «r*éserve 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 forme *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 différents 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 la *préposition+ l'article partitif* les structures du type: *Ministère du Tourisme // de la Culture // de l'Éducation // des Affaires Étrangères*; pour l'article partitif les structures du type: *du pain, de la confiture, de l'eau, des fruits*). Au cas d'une structure 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 la catégorie grammaticale, on risque de bloquer la traduction, parce que l'apprenant a du mal 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. 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, 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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POLITICAL CORRECTNESS: MYTH OR REALITY?

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PC is difficult to define and determine. PC is a term used mostly in a meaningless or abusive way. We may try to define PC as follows: new names given to professions, gender of a minority by the majority instead of their common names (used in their community) in the common language, of which people or the group spoken of, consider them to be offending and outrageous. PC means (represents) the militant attitude of promoting new names. Changes like these- "disabled person" for cripple, "mentally ill person" for madman, "learning disability/ difficulty" for mental handicap and so on, are a simple courtesy. With the introduction of the "politically correct terms", a vast category of euphemisms came into being.

People are often preoccupied and occupied with their language. It is now no longer acceptable to refer to anyone as a chairman or to use adjectives for nouns. For example the mentally ill, the disabled.

However, those who like to joke about changing terminology forget that language is constantly changing and that language is how we express ourselves. Today, in Anglo-American society at least, to say someone is a cripple or an idiot or mentally handicapped is unacceptable, as opposed to saying that someone has a physical disability or a learning difficulty (or learning disability). But more that that, to say that someone is a disabled person or has a learning difficulty does say something about how we regard them or wish them to be regarded.

The struggle to produce as many non-offending, neutral, non-condemning words opened the door for the creation of very many words with a clear euphemizing function. We should ban the use of the term political correctness. It is a camouflage, a confusion, an obstacle, a disguise, a red herring, an irritant, a diversion. It hardly explains anything.

Key words: mentality, minority groups, names, euphemisms, language.

The difficulty of definition

One starts with a great disadvantage. PC is difficult to define and pin down: there is no organisation, no sacred texts (though, strangely, at least one sacred oppositional text has emerged). Its opponents frequently find themselves outpaced by critics and media distortion, first, by being preoccupied to find themselves politically correct, or, second, by being forced into the position of replying to a criticism rather than getting on with what they regard as some unexceptionable work.

One of the arguments against PC is that it lacks perspective; it blows things out of proportion. That point cannot itself be debated until we get PC itself into proportion, its extent, and its effects. One of the obstacles to clarification is the very use of the term: "Oh, that is so PC" or "You are so PC", we say, as if as that, of itself, decided the issue.

My thesis will be that PC is a term used mostly in a meaningless or abusive way, which discourages debate. The irony of its present use is that, as several writers have commented, the term was first used by members of the Communist Party, as an ironic, self-mocking term in reaction to so-called "correctlineism". Its more modern usage originated on the campuses of the United States of America in the 1960s.

We might try to define political correctness as follows:

New names regarding professions, sex, physical abilities/disabilities, being part of a minority, instead of the names given to them in the language.

A mere definition of political correctness:

We may try to define PC as follows:

-        New names given to professions, gender of a minority by the majority instead of their common names (used in their community) in the common language, of which people or the group spoken of, consider them to be offending and outrageous.

-        PC means (represents) the militant attitude of promoting new names.

PC is a specific mentality originated in the second half of the 20th century in the United States. Its origins however are well in the past.

In the 60's many minority groups, such as black people or homosexuals, began to fight for political rights and against the discrimination they have had to put up with. Among various requests, one of them was that they should not be called by their old names anymore (considered offensive), but by their new names, that should not express a moral judgement. Accordingly the US black people were to be referred to, not as blacks or afro- Americans, but as African-Americans. Strangely or not, the coloured people from France preferred blacks to noirs. PC is rhetorical.

PC is an ideological attitude, based on more suppositions:

-        society is made up of small and larger communities;

-        small communities (called minorities) are being discriminated by the larger communities (majorities) economically, politically and linguistic.

-        Counted minority also means implicitly moral minority; accordingly, the major community imposes itself on the minorities with its own value system in which minorities are devalued.

According to Michel Foucault, one of the ways to control the minorities is to call them in different ways, names which also contain ethical value judgements.

According to Mike Salovesh, a professor of Anthropology at the Northern Illinois University, the term "politically correctness" was first used in the Communist Party of the USA. It served as a part of disciplinary process intended to see that Communist Party members stuck to the party line. In any event, "politically correct" fell into disfavour as part of the many factional disputes that characterized ideological Communism in the 30's. The reappearance of the phrase in English translations of the *Little Red Book* of Chairman Mao Tze-Tung was due to a translator grabbing what was then an obsolete usage in US Communist Circles.

"Politically correct" was resurrected by people who were conscious propagandists for tiny organized right-wing groups. This time, the term was deliberately used to suggest that whatever was being called PC was really a result of a deliberate communist plot. Then, the term itself and the frequent use of the initials PC migrated from the right-wing groups to the political propaganda of conservatory thinking. Its use became notable in conservative journals. Then PC began turning up in lists of words Republicans were advised to use consciously to attack members and polices of the Democratic Party. This was the campaign that eventually led to a widespread recognition of the term PC. The campaign's success is clear in today's two streams of usage for PC. For some, it serves as an accusation that someone else is blindly following the political line of some alien left-wing mob, party or philosophy. Others see it as a possibility to be denied: "It's not that I want to be PC or anything, but could we stop calling people "gimpsy" or "crippled" and say instead, that they have a *walking disability*?"

Another close analysis of this matter belongs to David Bergdahl, professor at Ohio University. He supports the idea that the term "politically correct" originates in the famous Little Red Book and that the term was used in the massive relocation and re-education of the urban elites-one sought to be politically correct to unlearn the bourgeois attitudes of city and university life; for a brief period of time the term was used by American leftists "in a self mocking way", but the term

was quickly taken by several writers to condemn "pointy-headed intellectuals" and our concern with language from the perspective of the subjugated rather than the dominant culture.

Also interested in this topic, Michael J. Gottlieb, from Yale University, implies that with the exception of those who do have a political agenda and are clearly thinking about the use of a particular term (e.g. Those who would now advocate the use of the term "queer" instead of "gay" for a variety of political reasons), many people accept what seems to be the most neutral opinion, completely unaware of its implications or actual meanings. While some people prefer to be called "black", other prefer "African-American" (the same goes for "Indian" rather than "Native American"). For Michael J. Gotlieb this means that many people want to avoid the risk of saying anything wrong and opt for whatever was most recently used on the NBC. His conclusion is that rather than assuming a political agenda, the term "politically correct" in reality refers to the lack of any agenda and serves as a kind of default- the "accepted" category of descriptive euphemisms. This is frustrating for those who spend time thinking about language and its usage.

Surprisingly, PC had no big echo in Europe; PC is the solution to an American mentality problem, resolved quickly through specific American methods. In Europe also, coloured people (Africans, Asians) might have felt offended by their callings, but here in Europe, the problem and its solutions have maintained themselves at an individual level (possibly as a result of the common sense and culture that has always surrounded the European climate).

Affirmative action is specific to the American legalism, equivalent of the Anglo-Saxon fairness.

Political correct Terms in American and British English

The following examples of PC terms show how PC influences the vocabulary of a language and the way in which it succeeds in hiding the original meaning of a given word, which has been perceived as offending or pejorative. Thus, all PC terms are a special kind of euphemisms. Diseases of all kinds, various occupations of the lower class workers, sexual and ethnical minorities, environmental issues, all were renamed and euphemized. In this respect, one must take a closer look at the following examples:

PC TERM	NEUTRAL WORD
horizontally challenged	Fat
least best	Worst
aesthetically challenged	Ugly
involuntarily leisured	Unemployed
Vertically challenged	Short
vocally challenged	Mute
temporarily metabolically abled	Alive
photonically-non-receptive	Blind
folicularlly challenged	Bald
oppressed;African-American; non-white	Black
oppressor;melanin- impoverished	White
gravitationally challenged	Obese
oxygen exchange unit	Tree
economically challenged/disadvantaged	Poor
Academic dishonesty	Cheating
automotively- challenged	bad- driver
visually oriented	Deaf
verbally- dislexic	Drunk
gerontologically advanced	Old

Ethnically homogenous area	Ghetto
physically challenged	Handicapped
domestic engineer	house wife
selectively perceptive	Insane
motivationally deficient	Lazy
sexually non-preferential	Bisexual
mentally challenged;special; exceptional	Retarded
terminologically inexactitude	Lie

The popular usage

A review of the film *There's something about Mary* in the New Statesman tells us: "During its two- hour running time there are verbal and visual jokes about mental and physical disability, homosexuality, fetishism and police brutality. As Mary herself comments, PC is out".

When there was a threat from the EU to curtail all humanitarian aid to the Afghani Taliban regime, The Times report began with the sentence: "PC in Brussels is threatening to wipe out nearly two decades of humanitarian work by one of the oldest aid agencies in Afghanistan". The reference hear was to the Afghanistan appeal, set up and run since 1983 by the broadcaster Sandy Gall, to help Afghani children disabled by polio and landmines. The Brussels move was widely seen, the report went on, as a sanction against the Taliban's discriminatory treatment of women and its refusal to work toward a negotiated settlement in the civil war.

Philip French, reviewing the controversial film on the holocaust *La Vita e Bella,* remarks that governments, the church popular opinion, and "other arbiters of taste " have decided that some subjects are "taboo or, as we now say, political incorrect". The holocaust was one of them.

Let us consider these examples one by one. The use of "PC" in the review of There's something about Mary is a short form for saying: "Those who do not welcome jokes about gay people and those with a physical or mental disability had better watch out if they choose to see this film". That at least gives the term some useful meaning.

The Brussels decision about humanitarian work in Afghanistan might well disadvantage the disabled children with whom the charity has worked, but what has political correctness to do with being opposed to the oppression of women by the Taliban? Those who support the women would regard their stance as a moral one.

Finally, Phillip French confuses taboo with PC. We do not joke or make light of the holocaust because it is too serious a matter, out of sensitivity to the memory of the dead, and it would be in plain bad taste to do so. Again, using the phrase "PC" is meaningless.

Dogma or morality?

What these admittedly haphazardly collected references show is how imprecisely, indeed usually meaningless, the term "PC" is used. Indeed, it is used at times almost as a synonym for dogma- as if those who are said to be politically correct have no philosophical, moral, practical or other argument for their actions or stance, but only some mysteriously arrived at act of faith.

Sieghart (October 1998) perfectly captures the point of the frequent meaninglessness of the term when she refers to the enormous advances is race relations in Britain since 1964. She writes:" In my children's inner London state school, teasing other children because of the colour of their skin is thought unpardonable", adding, significantly so far as my argument is concerned: "This is not PC; it is morality pure and simple."

Considerations about the language

People are often preoccupied and occupied with their language. It is now no longer acceptable to refer to anyone as a chairman or to use adjectives for nouns. For example the mentally ill, the disabled.

However, those who like to joke about changing terminology forget that language is constantly changing and that language is how we express ourselves. Today, in Anglo- American society at least, to say someone is a cripple or an idiot or mentally handicapped is unacceptable, as opposed to saying that someone has a physical disability or a learning difficulty (or learning disability). But more that that, to say that someone is a disabled person or has a learning difficulty does say something about how we regard them or wish them to be regarded.

Changes like these- "disabled person" for cripple, "mentally ill person" for madman, "learning disability/ difficulty" for mental handicap and so on, are a simple courtesy, not least as, so far as it is possible to judge, those who have been given these negative labels have expressed a preference for a more positive term, if they are to be labelled at all. Such labels can also – though not always- be more properly descriptive.

Much myth attends these terms. For example, "intellectually challenged" is often a mocking term used of someone not quick to cotton on to an idea but I have yet to hear it suggested that it be used in any professional way. Nor have I heard a short person seriously said to be "physically challenged" or a bald one as being "follicularly challenged".

The importance of the way in which language is used in its expressive sense is heightened in an age of mass communications, when terms can gain immediate and universal currency. That the "politically correct" use of language is not a new thing is noted by Cameron (1994) who pointed out that "that most modern of irritants, the Great Generic Pronoun Controversy" was raised by John Stuart Mill in parliament 150 years ago.

There are those cold word warriors who reach to extremes and tie themselves in the knots of ridicule. Maddox (February 1999) reported from the United States that a senior white Washington official lost his job because he used the word "niggardly" at a meeting. I also read about protests because the use of the word "management" because it meant, "men handling matters." Niggardly has no more etymological connection with what Americans call the N- word (it derives from the Middle English word for miserly), than management has to do with men (it derives from the Latin meaning "to handle"). Such diversions can be dangerous ("the man has lost his job") when they are not humourous.

Many of the labels from the 80' s are now obsolete. Here are some examples of PC that are now acceptable:

Old term	80's	90's
Deaf	Hearing impaired	Aurally challenged
Blind	Sight impaired	Visually challenged
Retarded	Mentally handicapped	Mentally challenged
Queer	Gay; homosexual	Queer
Fat	Big boned	Horizontally challenged
Used	Second hand	Pre-owned

Political Correctness and freedom

But there is the other more serious side to the linguistic coin. Changes in language and the adoption of certain politically correct stances are no substitute for services, efficiently and effectively available. We wondered if political correctness has done any good? Piles of documents have been produced but at the end of the day, if we weigh in the balance which groups or individuals are better off as a result of politically correct activities, we might find that it exactly replicates those power relationships which it was originally intended to undermine.

Those who oppose changes in language often regard them as trivial, yet, by their own reasoning, if they are trivial how can political correctness at the same time pose a threat to our fundamental values, indeed, according to some, our very civilisation?

What seems to underline this concern is less the change in language than a concern about who will do the changing- Orwell's "the thought police", "the neo-stalinists" or "politically correct social workers". The latter must be the most dangerous group, partly because it is difficult to identify the others. So, it is a nonsense to believe that any group changes languages because language evolves, in a very subtle and unseen fashion.

Dissent from communal norms can force dissenters into silence for fear of being associated with ideas, groups and individuals with which they do not agree; the wish not to appear politically incorrect. Loury describes it as "a certain course of symbolic meaning-in-effect, quite apart from the real-world consequences of its pursuit". The example which Loury gives is of those who, while opposing apartheid, did not support sanctions because they believed them either to be ineffective and/or likely to have a deleterious effect on the majority of Black South Africans. It is not difficult to see how this constraint on opinion works with regard to discussions on the age of homosexual consent, black crime, abortion, the underclass, or the bombing of Iraq. One consequence is that views may appear to be more polarised than would otherwise be the case.

Words instead of action

There is also a danger that words can be mistaken for deeds. Jules Feiffer makes this point when he writes:"I used to think I was poor. Then they told me I wasn't poor, I was needy. They told me it was self-defeating to think of myself as needy, I was deprived. Then they told me deprived was a bad image, I was underprivileged. They told me underprivileged was over used, I was disadvantaged. I still haven't got a dime. But I sure have a great vocabulary".

Something of the same point is made by Ehrenreich (1992), a liberal critic of political correctness, who wrote: "I like being called Ms. I do not want people saying "man" when they mean me, too. I am willing to make an issue of these things. But I know that even when all women are Ms, we shall still get 65 cents for every dollar earned by a man. Minorities by any other name- people of colour or whatever- will still bear the huge burden of poverty, discrimination and racial harassment. Verbal uplift is not a revolution".

Anthony Douglas remarks that "the only political correctness people can detect in the world outside lies in the use of language, the words used rather than the services received". He also remarks that while senior managers and politicians can "afford the luxury of being politically correct, front-line staff has to get on with a complicated and difficult job, doing the best they can with limited options and resources".

George Orwell (1970), describing the impoverished state of political writing after the war, saw the same debasement of debate as we can see today. He wrote:" the word *fascism* has now no meaning insofar as it signifies "something not desirable"". He goes on to castigate the word "democracy" for its lack of definition and as an all- purpose covering for our own favoured political regimes. He writes: "The person who uses them [the words "fascism" and "democracy"] has his own private definition, but allows his hearer to think he means something quite different". Today Orwell might bring his strictures to bear on the phrase "political correctness" and those who use it.

In the war propaganda, the enemy "bombardments" are equivalent to the "surgically accurate attacks" of the ones on the other side; the term "surgically"outlines not only the precision, but also the idea that the attack is a small evil that produces a larger good. You can easily see the power to subdue of the metaphor. It is the same case with the "collateral victims of the war" and "the collateral damage".

Euphemisms and Political Correctness

With the introduction of the "politically correct terms", a vast category of euphemisms came into being. The struggle to produce as many non-offending, neutral, non- condemning words opened the door for the creation of very many words with a clear euphemizing function.

According to Gary Kamiya, writing in the *San Francisco Examiner,* the term "politically correct" or PC first attracted a sizeable audience with the popularity in 1987 of the Allan Bloom surprise bestseller, *The Closing of the American Mind*. By 1990 the term had become a topic of national interest. As Kamiya sees it:

PC touched a national nerve. Everybody – academics, middle brows, conservatives and liberals- all had an opinion on it. The debate over PC has become an ongoing public forum on race, education, politics, art and morality- a fact which has led some observers to suggest that the controversy itself has become part of the curriculum. (G. Kamiya- in *San Francisco Observer)*

Conclusions

It is wiser to to be more careful when using of the term *political correctness*. It is a camouflage, an obstacle, a disguise, a red herring, an irritant, a diversion. It hardly explains anything. Issues of equality and anti-oppression are important and no one should be embarrassed to say so. Dunant writes:" the problem is less with the aims of PC than its methods…" Progress can be made on those questions which political correctness supposedly addresses, but which it succeeds in either obscuring, distorting or bypassing.

But what is important are these questions: the rights of children, the role of women, the civil rights of mentally ill people, the right to an ordinary life for people with a learning difficulty, matters of race, changing family patterns. Take away political correctness and they remain. Claims to have done "the political correct thing", accusations that "the political correct thing" has been done, only muddy the waters of debate. It is not that either left or right are unconcerned with the questions; all too obviously this is not the case. It is that their analyses and prescriptions differ. What we need to do is to take political correctness out of the equation: it is our error to believe that it is even part of it. To throw the word about as a meaningless term of abuse in intellectual laziness, debases the currency of debate and diminishes the importance of the issues. Once we have abolished the words "political correctness", the battle can begin.

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KULTUR UND INTERKULTURALITÄT IN DER WIRTSCHAFTSKOMMUNIKATION

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Intercultural communication is, especially for the younger generation, nothing extraordinary anymore. Wether they are at their job, on a business trip abroad or shopping online, they communicate in an intercultural context. The target is to find a common ground which is plausible and understandable for all parties involved in the communication process. This is of course not always easy to obtain because they start from different conditions. Each partner comes with a background of different experiences, out of which different expectations develop. Each and every one of us lives, thinks and acts in a different system of ideas, which continues to exist, even though we communicate in a formally common Lingua franca (the English language). The purpose of the paper is to show some ways in which culture is reflected in the business environment, to illustrate some functions and purposes of the intercultural business communication and to explain the importance of intercultural skills in business communication.

In such an intercultural context we certainly have to face misunderstandings, stereotyping, conflicts and communication errors, which cannot always be avoided, but their number can be minimized, if we know and understand the way in which they emerged. Intercultural communication should not be viewed as something problematic, but as something that opens new horizons, encourages the willingness to learn and leads to further education. Difference should be perceived as a new chance, a chance to develop together new and forward-looking ideas.

The ability to communicate in an intercultural context is an important skill that should also be taught in a foreign language class. It is of utter importance that students, besides knowing the foreign language, learn about the cultural background, the work ethics and the habits of that particular foreign country and thus can interact in a pleasant and easy manner with their foreign counterparts.

Keywords: intercultural communication, business environment, culture, intercultural skills, stereotypes.

1.Kultur reflektiert im europäischen Wirtschaftsleben

Jeder Geschäftsmann, der im Ausland tätig sein will, sollte die Sprache lernen. Das sollte man als Ausländer als Erstes tun, um mit den neuen Geschäftspartnern/Kollegen zurechtzukommen. Auch wenn diese perfekt Englisch sprechen, ist es nützlich soviel Zeit wie möglich zu opfern um ihre Sprache zu lernen. Wie bereits in diesem Kapitel erwähnt wurde, besteht Sprache nicht nur aus Wörtern, sondern dazu gehören auch Körpersprache, Kleidung, Umgangsformen, Etikette, Ideen und Verhalten der Menschen. Genauso wie die Sprache, hat auch das Verhalten eine Grammatik, eine innere Logik, die zu verstehen und zu beherrschen ist.

Was die Arbeitsmoral betrifft, gibt es unter Nordeuropäern die hartnäckige Überzeugung, dass die Südeuropäer faul sind. Man sagt Südeuropäer arbeiten um zu leben und Nordeuropäer leben um zu arbeiten. Diese unterschiedliche Arbeitsmoral wird von den Nordländern als eine goße kulturelle Hürde angesehen, wenn beispielsweise Unternehmen aus dem Norden zur Sonne und den billigen Arbeitskräften des Südens gelangen. Es wurde jedoch statistisch festgestellt, dass die Menschen im Süden genauso hart arbeiten, wie im Norden. Die Behauptung, dass eine Rasse oder Kultur härter arbeitet als eine andere, ist ein subjektives Werturteil. Es bestehen zwar messbare Unterschiede zwischen den produktiven und weniger produktiven Volkswirtschaften, aber die zugrundeliegende Ursache ist nicht, wie hart die Menschen arbeiten, sondern wie effizient. Das Problem ist das Management, nicht die Motivation.

Unterschiede gibt es auch im Falle verschiedener Konventionen, wie z.B. der Pünktlichkeit. Wenn man Menschen zu einem Abendessen für 7 Uhr einlädt, werden die Gäste es als höflich betrachten in Deutschland pünktlich auf die Minute zu kommen, im amerikanischen Mittelwesten 5 Minuten vorher, in Japan eine Stunde vorher, in Großbritannien 15 Minuten danach, in Italien bis zu einer Stunde danach und in Griechenland irgendwann am Abend. Für jeden ist dieses Verhalten akzeptierte Konvention. Die Handlungsweise anderer ist nicht aus Sorglosigkeit, Inkompetenz oder Bosheit unterschiedlich. Die meisten Menschent tun das, was ihnen in dem Moment richtig zu sein scheint. Das Urteil darüber was richtig ist, hat seine Wurzeln in Gewohnheit, Tradition, Überzeugungen, Wertvorstellungen, Einstellungen, akzeptierten Normen, mit anderen Worten, in der Kultur, zu der eine Person gehört. Problematisch wird es erst dann, wenn Unterschiede sich störend auf die Arbeit auswirken.

2. Aufgaben einer interkulturellen Wirtschaftskommunikation

Der Prozess der Globalisierung prägt keinen anderen Bereich so stark wie den der Wirtschaft. Wie noch nie zuvor erscheint heute eine Internationalisierung des Wirtschaftslebens, die die direkte Kommunikation, Interaktion und Kooperation zwischen Angehörigen verschiedener Kulturen verlangt. Dass es dabei zu Schwierigkeiten und Konflikten, zu Missverständnissen und Misserfolgen bei der Durchführung von Projekten kommt, ist immer wieder betont worden. Hierfür werden unterschiedliche Verhaltensnormen, Wertvorstellungen, Kommunikationsweisen, Handlungsvoraussetzungen und oft genug auch mangelnde Sprachkenntnisse verantwortlich gemacht. Will ein Unternehmen Ressourcenpotenziale voll nutzen, Synergieeffekte erzielen, im Konkurrenzkampf besser bestehen und Reibungsverluste vermeiden, so muss es für einen möglichst konfliktarmen Umgang mit seinen Mitarbeitern, Kunden und Kooperationspartnern unterschiedlicher Kulturzugehörigkeit sorgen.

Bei der Analyse der Wirtschaftskommunikation in Bezug auf mögliche oder tatsächliche Missverständnisse gibt es eine merkwürdige Diskrepanz: was von Personen, die sich professionell mit Wirtschaftskommunikation befassen, als höchst problematisch angesehen wird, ist nach Aussage von Personen, die in der Wirtschaft tätig sind, oft nur ein geringes oder gar kein Problem. Für diese Diskrepanz gibt es drei mögliche Erklärungen:

(1) Die in der Wirtschaft Tätigen sind gegenüber dem, was sie tagtäglich tun, höchst unsensibel, erkennen die Problematik ihres Tuns nicht und führen die jeweiligen Missverständnisse in Verhandlungen oder Misserfolge auf andere Ursachen als interkulturelle Probleme zurück.

(2) Die in der Wissenschaft Tätigen sind gegenüber dem, was in interkulturellen Wirtschaftsbeziehungen geschieht, hypersensibel (meist allerdings ohne eigene Erfahrung und oft ohne empirische Grundlage) und sehen Probleme, wo offensichtlich keine sind.

(3) Wirtschaftskommunikation ist nicht mehr Teil einer spezifischen Kultur, sondern als Kommunikation der *global village* inzwischen abgehoben als eine Art übernationale Größe. Sie hat inzwischen eine eigene Kultur entwickelt, die der Summe der historisch gewachsenen Kultur gegenübersteht.

Ziel einer wissenschaftlichen Beschäftigung mit interkultureller Wirtschaftskommunikation sollte daher nicht so sehr die Beschreibung von Traditionen, Normen und Wertvorstellungen, die sich im wirtschaftsbezogenen Handeln innerhalb einer Kulturgemeinschaft manifestieren, und wodurch sie sich von denen anderer Kulturen unterscheiden, sein. Eine wissenschaftliche und zugleich praxisorientierte Beschäftigung mit Interkulturalität in der Wirtschaftskommunikation muss ihr Augenmerk vielmehr auf den Interaktionsprozess richten, der sich in der Zusammenarbeit zwischen Mitgliedern verschiedener Kulturen in einem gemeinsamen Handlungskontext, etwa in einzelnen Internationalisierungsmaßnahmen eines Unternehmens, im internationalen Marketing oder bei der Kooperation von Unternehmen aus verschiedenen Ländern manifestiert. Zweck einer solchen Beschäftigung ist es, einerseits festzustellen, welche Probleme in diesem Bereich tatsächlich auftreten, und möglichst die Ursachen hierfür

aufzudecken, und andererseits, Konzeptionen für Beratung und Trainingsprogramme zu entwickeln, die diese Probleme weitestgehend vermeiden oder wenigstens abmildern können.

Die Beschäftigung mit Interkulturalität in der Wirtschaftskommunikation, die auf Erklärung tatsächlich gegebener Konfliktpotentiale, auf Vermeidung von Missverstehen und auf Sensibilisierung für das kulturell Andere zielt, kann eine wesentliche Hilfestellung für Manager und Mitarbeiter in jeder Form der internationalen Kooperation sein. Schließlich kommt es darauf an, nicht nur eine Verständigung untereinander zu gewährleisten, sondern auch ein Verständnis füreinander aufzubringen.

3. Zur Bedeutung der interkulturellen Kompetenz innerhalb der Wirtschaftskommunikation

Für Laurenz Volkmann (2002:12) lässt sich der Begriff interkulturelle Kommunikation (IK) als Fähigkeit oder Fertigkeit von Fremdsprachenlernern, von Teilnehmern einer interkulturellen Begegnung begreifen, über Differenzen zwischen der eigenen und der Zielkultur zu wissen, sie in konkreten Situationen zu erkennen und Strategien zu entwickeln, einfühlsam auf die Gepflogenheiten der anderen Kultur einzugehen. Es geht also darum, Missverständnisse vorzubeugen, eventuell auftretenden Komplikationen zu glätten und die Kommunikation im Allgemeinen reibungsloser zu gestalten.

An der Bedeutung der IK in der Welt von Business und Handel lässt sich keinesfalls zweifeln. Der Binnenmarkt führt zu einer wachsenden Anzahl von Joint-Ventures, Fusionen und Übernahmen zwischen europäischen, amerikanischen und japanischen Unternehmen. Es veranlasst auch multinationale Firmen, nationale Tochtergesellschaften in Produktbereiche umzuwandeln, die von multinationalen Teams geleitet werden. Ihre Leistungsfähigkeit wird davon abhängen, wie gut Manager verschiedener Nationalitäten zusammenarbeiten. In einer Organisation zusammenzuarbeiten ist etwas anderes, als Geschäfte zwischen Käufer und Verkäufer zu tätigen. Es erfordert ein tieferes Verständnis dafür warum Leute mit unterschiedlichem Hintergrund sich auf bestimmte Weise verhalten.

Es gilt beispielsweise für viele deutsche Manager als wichtiges Ziel, sicher und selbstbewusst aufzutreten, eine bestimmte Autorität auszustrahlen und sich bei der Präsentation klar und überzeugend durchzusetzen. Genau diese in der eigenen Kultur wichtigen Qualitäten bzw. ihre kulturgebundenen Ausdrucksformen (Sprache, Körperhaltung, Gestik usw.) können jedoch in internationalen Verhandlungskontexten nicht nur Irritationen hervorrufen, sondern diese auch grundlegend behindern: Was in der einen Kultur als überzeugend, sachkompetent angesehen wird, kann in der anderen Kultur als Ausdruck von Arroganz und Desinteresse am Kommunikationspartner ausgelegt werden. Was in der eigenen Kultur teilweise als Schwäche angesehen wird, beispielsweise die Fähigkeit zur Selbstkritik, zur Relativierung von Behauptungen, zur Perspektivierung von Meinungen, kann in interkulturellen Gesprächssituationen eine der wichtigsten Voraussetzungen für das Erreichen eines gemeinsamen Kommunikationsziels sein.

Häufig reagiert man auf die unterschiedlichen Verhaltensweisen mit Vorurteilen und Überheblichkeit (etwas ist *typisch deutsch, italienisch, britisch*). Unsere Reaktionen sind in gleicher Weise von unseren eigenen Einstellungen und Wertvorstellungen geprägt wie von denen, die dem Verhalten anderer zu Grunde liegen. Daher sollte man versuchen Urteile beiseite zu lassen und zu fragen, warum wir so reagieren.

Zu den Lernzielen der IK gehören demnach (Volkmann 2002: 23):

-Kenntnisse der kulturellen Kodes, des Selbstimage der eigenen Kultur;

-Wissen um das sog. fremde Heterostereotyp, d.h. wie sich Mitglieder einer anderen Kultur selber subjektiv einschätzen;

-Wissen um konventionelle Stereotype, welche die Wahrnehmung der anderen Kultur steuern und prägen;

-Wissen um konventionelle Stereotype, welche das Bild des eigenen Landes in der anderen Kultur prägen;

-Wissen um die heterogene Struktur der eigenen und fremden Kultur, um Teil-, Sub- und Alternativkulturen;

-keine blinde Übernahme der kulturellen Standards der anderen Kultur, diese wird in der Regel sogar als unangenehm empfunden;

-Rückgriff auf die in der eigenen Kultur erworbenen Kommunikationsstrategien;

-die Fähigkeit, kulturelle Barieren bewusst und kompetent zu überschreiten;

-Empathie und Respekt für die unterschiedlichen Verhaltensformen und Werte in der Zielkultur zu entwickeln.

Jedes interkulturelle Handeln setzt voraus, dass die Beteiligten mit anderen, mehr oder weniger fremden Konventionen, Normalitätsannahmen und Weltsichten ihrer jeweiligen Partner konfrontiert werden. Normalerweise wird eine gemeinsame, dritte Handlungsgrundlage im Prozess des Zusammenarbeitens oder –lebens permanent ausgehandelt und verbessert. Dies geschieht, laut Jürgen Bolten (2007:146), unterschwellig, kann sich aber auch, vor allem im ökonomischen und politischen Bereich, sehr geplant vollziehen. In beiden Fällen kommt es jedoch vor, dass der Aushandlungsprozess dadurch gestört oder unterbrochen wird, dass eine gegenseitige Akzeptanz der jeweiligen Handlungsvoraussetzungen nicht erzielbar ist.

Ein hierfür sehr relevantes Beispiel ist die von Kultur zu Kultur sehr unterschiedliche Korruptionspraxis. Man verfügt noch nicht über einen weltweit identischen Begriff von Korruption und dies ist auch nicht möglich, weil die Bedeutung von Begriffen Wandlungsprozessen ausgesetzt ist, die nicht weltweit synchron verlaufen. Außerdem entstehen Bedeutungen erst dadurch, dass sie innerhalb kultureller Gruppen kommuniziert, vereinbart und in Handlungen erprobt und korrigiert werden.

Um es konkret auszudrücken: Ab welcher Grenze eine Handlung als korrupt bezeichnet wird, hängt nicht zuletzt damit zusammen, wie sich die Normalität von Reziprozitätsbeziehungen in einer Kultur definiert. Aus sehr vielfältigen Ursachen, dazu zählen auch klimatische und religiöse, ist dies von Kultur zu Kultur sehr verschieden, was man beispielsweise an der unterschiedlichen Praxis des Schenkens feststellen kann. So wie ein Nicht-Beschenken aus der Sicht der einen Kultur als unhöflich bewertet werden kann, kann umgekehrt ein Beschenken aus der Perspektive der anderen Kultur schon als Bestechung registriert werden. Z.B. sind in China Zahlungen zum Aufbau oder Erhalt einer Geschäftsbeziehung keineswegs ungewöhnlich. Anders als ein Westeuropäer würde ein Chinese normalerweise nicht auf den Gedanken kommen derartige Zahlungen unter dem Begriff Korruption zu verbuchen.

Problematisch wird es sicherlich dann, wenn entsprechende Zahlungen aus chinesischer Sicht von einem Westeuropäer als selbstverständlich erwartet werden, weil sie normal sind, der westeuropäische Partner allerdings in moralische Konflikte geriete, wenn er tatsächlich (aus seiner Sicht Schmiergeld) zahlen und sich der Korruption schuldig machen würde. Keiner der Partner wird an den bestehenden kulturellen Normalitätssystemen etwas ändern: dem Westeuropäer werden seine moralische Bedenken kaum genommen werden können und auf chinesischer Seite wird es sicherlich für diesen konkreten Fall nicht zu einer Systemänderung kommen.

Was ist in einer solchen ausweglosen Situation zu tun? Man darf keine Lösung aufzwingen, welche die Souveränität einer der beiden Positionen missachtet. Mit Souveränität ist hier nicht das Beharren auf ursprünglichen Standpunkten gemeint, sondern die Wahrung eigener und die Respektierung der fremden Identität. Wenn diese Toleranzgrenzen überschritten werden, dann wird es zumindest von einem der beiden Partner keine Akzeptanz für die Grundlage des gemeinsamen Handelns geben. In einem solchen Fall, in dem eine Verständigung über die unterschiedlichen Positionen zu keinem gemeinsamen Aushandlungsergebnis führt, ist es ratsam

sich nicht anzupassen, sondern die Geschäftsbeziehungen vorerst aufzugeben oder so zu führen, dass der strittige Punkt bewusst ausgeklammert wird.

Interkulturelle Kompetenz bedeutet in diesem Zusammenhang, dass man in allen Bereichen sozialer Interaktion in der Lage ist, größtmögliche Toleranzspielräume auszuhandeln. Hierzu ist es notwendig, die Souveranität der Partner anzuerkennen und zu respektieren, in der Lage zu sein, Unvereinbarkeiten zu erkennen und zu thematisieren, seine eigene Position erklären, die fremde verstehen und für die Permanenz von Aushandlungsprozessen werben zu können.

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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 Therminologiearbeit 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 interressieren 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/roleplaysdramatheatregames.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.

(1) http://depts.washington.edu/mbaclub/businesscomm/system/files/whycommunicate.pdf
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(3) Evans, J., "Testing the effectiveness of the computer in promoting communication". http://www.swin.edu.au
(4) Kruse, K., "Using the Web for Learning: Advantages and Disadvantages". http://www.e-learningguru.com/articles/art1_9.htm
(5)   http://thinkexist.com/quotation/think_twice_before_you_speak-because_your_words/ 262139.html
(6) Frith, J., "Listening Using Authentic Video for Overseas Learners of English". www.developingteachers.com
(7) "Use of Technology to Improve Listening and Speaking Skills", http://www.freeonlineresearchpapers.com/using-technology-improve-communication-skills
(8) Wallace, T., Stariha W.E., Walberg, H.J., "Teaching speaking, listening and writing", http://www.ibe.unesco.org/fileadmin/user_upload/archive/publications/EducationalPracticesSerie sPdf/PRATICE_14.pdf

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MANAGING PROBLEMS WHEN TRANSLATING ECONOMIC TEXTS

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Theoretically, translation may pass as science; practically, it seems closer to art. Translation is a challenging activity requiring a set of abilities and posing few difficulties that appear during the translation process. This paper investigates the extent to which sub-technical vocabulary can constitute a problem to Romanian students of economics reading in English, by looking at the translations produced as independent or pair work during English classes and analyzing the various errors which may appeared. The exigencies required by the efficient business communication have increased in the past few decades because of rising international trade, increased migration, globalization, the recognition of linguistic minorities, and the expansion of the mass media and technology. All these led us to approach the topic of translation which is actually a job that requires skills, stages of research necessary for disclosure of transfer characteristic into the target language, training, experience and a good sense of languages. The paper defines the theoretical issues and terminology: translation, types of translation, economic texts and then focuses on the presentation of the practical work carried out throughout the academic year of second year students and it also describes the basic skills and strategies that students as translators need to master in their daily experiences with translation tasks. The main skills proposed are: reading comprehension, researching, analytical, and composing skills. Considering that only 28% of the entire European population can read English, and even less people in South America and Asia can, it is obvious that an effective communication of business matters relies on an accurate understanding of terminology. Economics is a field of knowledge in accelerated scientific and technological development. As there is a permanent and ever increasing need to quickly update their knowledge, economists read and learn directly in the original language of the publication and stick to it in daily usage, including conferences, scientific events and articles written in Romanian. Besides researching properly the markets, finding distribution channels, and dealing with legal issues, a successful business person should not neglect the language aspects, be it spoken or translated. These are some of the main reasons why we consider that our students as future graduates should be well-equipped with some of the skills necessary when reading and translating technical texts, be it for personal progress and development or for the job requirements.

Keywords: translation, terminology, skills, problems.
JEL Code: Y90.

1. Introduction

Marketerii consideră că piaţa locală se canalizează într-un mod mai degrabă natural decat educat, în direcţia *paid-earned-owned-media*.

Pentru *a aplica*, concurenţii trebuie să rezolve un *brief* dat de Ursus, trebuind să livreze un *print* şi o idee sau un concept de campanie *online*. (http://www.roafaceri.com/k)

... scontarea acreditivelor de export, *factoring*-ul intern şi scontarea biletelor la ordin...(http://www.scribd.com/doc/21280306/Analiza-SWOT-a-BancPost)

... proiectate să aducă îmbunătăţiri semnificative în condiţiile de finanţare a acestui segment onlinie de *credit revolving*, un credit pe *afacere non-revolving.* (http://www.scribd.com/doc/21280306/Analiza-SWOT-a-BancPost,

That is how it is said in Romanian! Or at least that is the best way to make it understood in the economic or maybe more accurately, banking environment. It shows, once again, how little economic terminology is settled into Romanian language. And this is a fact not only with economic terminology but also with other scientific fields (mathematics, physics etc.) as we lack the translations of various basic bibliographical texts. Moreover, there are cases when at conferences in Romania, doctors held their presentations in English and not in Romanian due to the absence of the appropriate Romanian terminology. This is where the difficulties in translating specialized texts begin: the use of terms in foreign languages — especially English — is so common that if we wanted to substitute them it means to urge the specialist reader to "untranslate" an important part of the text to be able to understand it. On the other hand, keeping these terms in their original language may render the text unintelligible to the layman who enters a bank or other institution, who wants to be part of an online contest or anybody else who has little knowledge of the foreign language. So, what is to be done?

For instance, the French Academy has been striving against the ever increasing use of English neologisms, requiring that many words borrowed be replaced with French equivalents, Daily Mail reports. The struggle has come to the point that they started to list words that are prohibited on the very official site of the Academy. Some find the actions ridiculous, considering French language, as all languages in the world, as a living thing and thus undergoing natural changes; while others argue that it is exactly the French Academy that have to protect the French language(1). Moreover, there was a law passed in 1994 requiring that all government publications, all advertisements and contracts to be in French exclusively.

As far as Romania is concerned, there was an article on the protection of the Romanian language published in 'Romania Liberă' newspaper from September 16, 2007 entitled 'Draft resolution on protection of the Romanian language to the European Parliament'. Obviously, loans will continue to enter the Romanian language, but we ought to get us informed regarding their use and limit ourselves to those that facilitate understanding, learning and information acquisition as well as the cultural exchange. It means to make use, not abuse only for fashion sake. We must not forget that a language lives as long as it changes and it 'dies' when it stops evolving. (Coseriu 1997:9).

2. What is translation?
As Webster's New World dictionary defines it, 'to translate' means:
1. to move from one place or condition to another; transfer;
2. to put into the words of a different language;
3. to change into another medium or form to translate ideas into action;
4. to put into different words; rephrase or paraphrase in explanation.

Even if we can speak of translation beginning with the Tower of Babel (Finlay, 1971:17) etymologically, we observe that 'translate' comes from Latin 'trans+latus' meaning 'carried across' (Lewis 1958:265).

Nevertheless, translation is an activity performed for specific purposes, no matter which they may be, its main purpose being 'to serve as a cross-cultural bilingual communication vehicle among peoples' as Constanza Gerding-Salas rightly emphasizes. (2)

The importance of the translation activity has greatly developed due to many reasons: rising international trade, globalization, migration, the impressive development and the expansion of the mass media and technology. Consequently, the translator finds himself playing an important part in this process of huge changes, becoming 'a bilingual or multi-lingual cross-cultural transmitter of culture and truths by attempting to interpret concepts and speech in a variety of texts as faithfully and accurately as possible'.(3)

2.1 Types of translations.
There are the main types of translation: a. word-by-word translation;
b. word-for-word translation; c. literary translations; technical translations.

The word-for-word translation, that is also named literal translation, is used as the basis for further work with the text; this type of translation can only give a clue on the overall meaning, and it might well be misleading.

In the word-for-word translation or 'for information' translation, it is necessary to accurately transfer the main idea of the translated text from the source language to the target language. This translation is used to understand the structure of the original text; it is accurate, still sometimes sloppy, not polished enough.

The translation of literature should give the notion of the original text rendering not only the concept, but also the vision, atmosphere, style, and emotion. In this type of translations, the fluidity of the text prevails over accuracy.

Technical translations should always start by assessing the target reader and the end user of the translated text. This is an exact translation; the people reading it need to be able to accurately and totally understand and use the information given.

2.2. Translating economic texts

As a subdivision of technical texts, the translation of economic texts is highly demanded at banks, companies, professional accountants, and multinational corporations and so on; it covers financial, accounting, marketing, and management matters. Therefore, a qualitative translation requires specialists with a certain background and expertise in the field. The person in charge with the translation of such specialized texts should be familiar with economic terms at the same time being capable of understanding their meanings, and be aware of many facets of the economic field. It has often been underlined that the main obstacle to fully understanding technical texts is not technical vocabulary itself as one may expect (highly specialized words usually used only by specialists), but an intermediate lexical category between the general and the fully technical one, constituting the largest proportion of scientific and technological texts and known as *sub-technical, semi-technical* or *nontechnical vocabulary*. This consists of items of vocabulary from normal English operating within a science context.

Another problem is that translators have a hard time to transfer the same meaning to the other languages, especially when it is about new concepts or technical terms that have no Romanian equivalents. For example, Liviu Ornea admits that during his lectures he uses a lot of English technical words like 'produs warped' or simply 'warped product' as the Romanian version 'produs răsucit' is less scientific; or, another sample is 'twistor' the notion introduced by Roger Penrose, which would be 'răsucitură', or 'încolăcitură' in Romanian. So, the only solution is to keep the English version until there is going to be a common corpus of terminology scientists could rely on. (4) Regarding this problem, Delisle (1981) illustrates what a subtle form of torture translation is: '*Translation is an arduous job that mortifies you, puts you in a state of despair at times, but also an enriching and indispensable work, that demands honesty and modesty.'*(5)

Economics is a field of knowledge in accelerated scientific and technological development that each year incorporates a large number of new terms into the specialized vocabulary. As there is a permanent and ever increasing need to quickly update their knowledge, economists read and learn directly in the original language of the publication and stick to it in daily usage, including conferences, scientific events and articles written in Romanian. There are many ways through which business terms have entered the Romanian vocabulary: contacts between business people, specialised business journals and newspapers, and books, as well as TV programmes on business. The number of specialised terms borrowed from English into Romanian in the field of Economics is extremely high, and their necessity cannot be contested, although many of them are present only in the jargon of specialists. Nevertheless, a great number of these loan words will not last in the Romanian language, and for those that will stay, it will take some time before they are really adopted and adapted to the Romanian language.

It is only later on that the first attempts to translate these terms start to appear timidly, and this leads to further problems such as finding the suitable corresponding Romanian term. This process is often carried out by people who have no translating experience. They can also be carried out by professional translators who are not familiar with the associated vocabulary or economic practice, resulting in seriously distorted meanings. Amateur translators seldom perform very thorough in-depth proofread research into terms that have already been translated in economic literature, which results in highly heterogeneous translations from one publication to another. Training translators becomes vital not only in the acquisition and command of languages and translation strategies and procedures, but also in specific knowledge areas and, in professional ethics as well. Inadequate translations can not only lead to minor confusions, but it can sometimes prove to be a matter of life and death if we think about cases of serious inadequacy in knowledge areas such as science, medicine, legal matters, or technology.

A good option, in certain cases, would be to keep the original English term in brackets to increase the reader's comprehension.

> e.g. Începând cu controversa doctrinară dintre suporterii băncii centrale şi cei care favorizează libera activitate bancară sau *free-banking-ul*, […] teoreticienii Şcolii monetare ("*Currency School*") şi cei ai Şcolii bancare ("*Banking School*"). (6)

Extensive bibliographical research must always be undertaken to search for terms that have already been published in earlier publications, making an effort to stick with the choice made by the first translator. In Holland, for instance, there was a group linguists who gathered and worked out a minimal economics lexicon agreed throughout the country and intensively used by specialists and widely understood by everyone. This could be a useful hint for our country as well as we lack such generally agreed and unitary corpus of special business terms.

Last but not least, the economic translation is a poorly paid field, which is inevitably reflected in the quality. We have to admit that poorly paid work leads to rush jobs, consequently lowering the quality of the final result. All these difficulties could explain the economists' reluctance to adopt translated terms. Perhaps some of the above mentioned measures could really help improve the quality of economic text translations, whether they decide to leave the terms untranslated or not.

3. Practical Aspects

Besides researching properly the markets, finding distribution channels, and dealing with legal issues, a successful business person should not neglect the language aspects, be it spoken or translated. There are numerous instances when companies get themselves into trouble with translations that are inaccurate or culturally inappropriate.

These are the main reasons why we consider that our students as future graduates should be well-equipped with some of the skills necessary when reading and translating technical texts, be it for personal progress and development or for the job requirements.

Here are some examples of translation problems encountered during our regular English classes taught to students at the Faculty of Economics, University of Oradea.

English classes are held weekly; students have an intermediate/ upper intermediate level of English knowledge (they have been tested prior to establishing the English groups); we work from a book conceived especially for second year students that approaches different fields of business so as to let students get used to the specialized vocabulary.

Besides reading, writing and solving a great amount of vocabulary exercises, we have tried our hand at translating some short texts from English into Romanian. Certainly, in order to produce an acceptable translation, you must find acceptable words in the other language. Even though everything seems a piece of cake at a first glance, there appeared a number of difficulties when actually producing a correct and coherent Romanian translation.

Here we will make a very important distinction between two kinds of language: general language and specialized terminology. In general language, it is undesirable to repeat the same word over

and over unnecessarily. Variety is highly valued. However, in specialized terminology, consistency (which would be called monotony in the case of general language) is highly valued. Indeed, it is essential to repeat the same term over and over whenever it refers to the same object. It is frustrating and sometimes even dangerous to change terms for the same object when describing how to maintain or repair a complex machine such as a commercial airplane.

Now, returning to the question of acceptable translation producing an acceptable translation requires finding acceptable words. In the case of specialized terminology, it should be the one and only term in the other language that has been designated as the term in a particular language for a particular object throughout a particular document or set of documents.

By means of some workshop activities, our attempt is to develop some translation skills as a cooperative activity with the students—through a graded and sequential procedure. We must assume that students have sound linguistic knowledge, both theoretical and practical, and a wide cultural bilingual background, achieved during their first years in college.

After reading the text (reading comprehension is actually the first preparatory step), students are advised to practice the following basic reading comprehension skills: scanning, skimming, reading for gist and main ideas, reading for details, identify the meaning of new words and expressions paying attention to structural aspects (prefixes, suffixes, roots, word order), identify the meaning of new words and expressions by finding synonyms, antonyms, identify cultural references in the choice of words in the text.

When coming across unknown words, students are encouraged to use dictionaries as 'the most commonly heard advice to translators is 'if you don't know the meaning of a word, look it up in *the* dictionary.''(Enani 2001 as cited by Antar S.Abdellah, 2002). Students use both bilingual dictionaries for looking up meanings of new words and monolingual dictionaries to check the usage of the new words in the source language and in the target language; they are also advised to refer to specialized magazines and journals to follow the use of the particular word.

The next level of translation refers to the accuracy and sound aspect of the translation and for that students are supported to pay special attention to aspects like: the correct word order in the target language, the ideas of the text should be conveyed in clear sentences in the target language, sometimes they are invited to rephrase certain sentences or even make changes to the text so as to render the overall meaning translated.

The most obvious mistakes students have made in carrying out the translation tasks was to take it for granted that they know all the meanings of business words, based on a familiarity with the central or more general meaning that these words possess: *stock* was mostly translated *stoc* and only seldom as as *actiune/titlu de valoare, interest* was rendered as *interes* and almost never as *dobinda, balance* was considered *balanta* and only a few students translated it as *bilant,* while *maturity* was translated like the easy to guess Romanian equivalent *maturitate* instead of its more specialized meaning *scadenta*, *security* became *securitate* most of the times even if it had nothing to do with the text, instead of *garantie* which gave meaning to the text..

While in some cases these translations produced smiles due to the insufficient awareness regarding the full knowledge of a word, there were cases when the translation sounded absurd (security, *agreement- agreement*) or even obstructed the understanding of the text.

4. Conclusions

Terminology or the so-called sub-technical vocabulary is an important area in business English and it needs to be approached as such when it comes to learning and rendering it. Whether these words are created by a process of homonymy or polysemy, there is no perfect overlap between English and Romanian when it comes to translate them. Thus, such linguistic differences may create confusion in translation and it is the task of the English teacher to deal with them and to enable or facilitate understanding, by using different learning strategies and translation techniques.

Notes:

(1) "Academia Franceză listează cuvintele englezeşti pe care le vrea interzise", Ziarul National 31 March, 2010, available at http://www.enational.ro/uncategorized/1270055533-francezii-vor-s-scape-de-cuvintele-engleze-ti-11544.html/#ixzz1m9UoTd8l enational.ro

(2) Gerding-Salas, C., "Teaching Translation Problems and Solutions", in Translation Journal, Volume 4, No. 3July 2000, available at http://www.bokorlang.com/journal/13educ.htm.

(3) Idem, ibidem.

(4) Ornea, L., "Bifurcaţii. Din nou despre traducerea textelor ştiinţifice" in Observator cultural, available athttp://www.observatorcultural.ro/BIFURCATII.-Din-nou-despre-traducerea-textelor-stiintifice*articleID_25457-articles_details.html

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5. Huerta de Soto, J., "Băncile centrale şi sistemul de free-banking cu rezerve fracţionare. O analiză critică din perspectiva Şcolii Austriece", Accessed March 27, 2012. http://mises.ro/255/.
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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 I 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 Mattoscio, 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
Melitz (2003)	Efficiency	CES	Iceberg	0	-	-
Baldwin and	Efficiency Quality	CES	Iceberg	0 \newline 0	- \newline +	- \newline +
Melitz and Ottaviano (2008)	Efficiency	Linear	Iceberg	-	-	-
Kneller and Yu	Efficiency Quality	Linear	Iceberg	- \newline -	- \newline +/-	- \newline +/-

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:

$$UV_{kij} = \alpha_k + \beta X_j + \varepsilon_{kij} \qquad [1]$$

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:

$$UV_{kij} = V_{kij}/Q_{kij} \qquad [2]$$

where V_{kij} and Q_{kij} are total values and quantities of product k, shipped from country i to j.

The set Xj 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):

$$UV_{kj} = \sum_i w_{kij} UV_{kij} \qquad [3]$$

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***	0.086***	-0.095***	0.065***	0.099***
	(0.005)	(0.002)	(0.007)	(0.003)	(0.003)
Log real GDP	-0.022***	-0.013***	0.004***	-0.018***	-0.008***
	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)
Log real GDP per capita	0.096***	0.022***	0.089***	0.050***	0.071***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)
Log average UV	0.141***	0.110***	0.188***	0.074***	0.116***
	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)
Border	0.034**	-0.132***	0.121**	-0.044**	-0.106**
	(0.018)	(0.009)	(0.012)	(0.014)	(0.018)
Language	-0.288***	0.093**	-0.166**	-0.160***	0.234**
	(0.005)	(0.015)	(0.016)	(0.007)	(0.033)
R2	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 form 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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DETECTING VERTICAL INTRA-INDUSTRY TRADE IN CULTURAL PRODUCTS

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The European integration process has always been markedly characterized by the increasing incidence of Intra-Industry Trade. This has been theoretically justified on the grounds of the new approaches emerging in international trade literature, based on imperfect competition and differentiated products. In recent years another distinctive economic feature of the European Union is the importance gained by the so called "cultural and creative sectors", which are often studied and monitored for their great growth potential. We provide here a systematic decomposition of world trade in "cultural/creative goods" for the year 2009 (using harmonised bilateral flows for 213 products defined as "cultural products" by UNESCO, 2009) into three trade types: inter-industry, intra-industry (IIT) in horizontally versus vertically differentiated products. We show that the world trade in cultural goods is significantly characterised by two-way trade of vertically differentiated products. Moreover we specifically focus on the Italian peculiarities in the "cultural trade": therefore we first work out which ones of the world countries are the "top exporters" of these categories of products and then we compute an indicator of the Italian goods quality relative to each one of these competitors.
Not surprisingly, we find that the most important bilateral IIT intensities in cultural products are observed in Europe. However the presence of developing countries is not unimportant. This can be explained partly as a consequence of the increasing level of trade integration among some Asian countries and as a consequence of an increasing de-specialization of first industrialized countries in the production and trading of these products. Finally, with reference to the relative quality of Italian cultural products compared with that of the other top-exporters in these sectors, we find that the Italian products performances are good relative to those of emerging countries (such as China and India), but not as much if compared to other European countries (such as Germany, France and the United Kingdom).

Keywords: cultural and creative goods, relative quality, intra-industry trade, vertical differentiation
JEL codes: F1, F59, D4, Z1

Introduction

We seem to be in the middle of a long lasting hype about culture and creativity as possible key drivers of socioeconomic development processes. In the last few years this issue has been analysed in economics (Throsby, 2001), cultural geography (Scott, 2000), sociology (Zukin, 1995), media and communications studies (Cunningham, 2002), urban planning (Landry, 2000) among other disciplines. Given the heterogeneity of the related literature, trying to provide a unambiguous definition of cultural (and creative) economy could be difficult. As pointed out by O'Connor (2007), the debate on cultural industries began with Theodor Adorno, who, with his colleague Max Horkheimer, first coined the term in 1947 (Adorno and Horkheimer, 1979). The term "cultural industries" started to be very popular in 1984 with the Greater London Council. Since then, almost every national government had adopted its own definition, broadening or narrowing the range of activities object. Apart from the emerged problems of definitions and comparisons it is important to stress how these activities are not simply requiring public assistance, but how they represent productive and dynamic sectors (Lavanga, 2006).

In this context the main goal of our paper is to focus on an issue still not much debated, as that of international trade flows in cultural goods. Even if relevant reports, both at the EU level (Eurostat, 2011) and at a global level (UNCTAD, 2010), provided a measurement of world trends in cultural and creative goods and services, a thorough analysis on the patterns of bilateral trade in cultural goods and on the characteristics of these bilateral flows in terms of products differentiation is still missing (to our knowledge). The paper starts by introducing the literature related to issues of intra-industry trade (IIT) and by explaining how we apply the methodologies for identifying vertical IIT to cultural products. Then a data analysis is provided with the interpretation of results.

1. Methodology and data for disentangling vertical from horizontal IIT in cultural goods

1.1. Quality differentiation and vertical intra-industry trade

Since the 1960s, the identification of two-way trade flows within the same industries between countries with similar development and technological levels and with similar endowments has become one of the most important empirical findings in international trade studies.

This significant incidence of intra-industry trade (IIT), originally identified within the European Economic Community by scholars such as Verdoorn (1960), Balassa (1966) and Grubel (1967), has then become the most distinctive feature of the European integration process. Since these seminal analyses, many works (see Grubel and Lloyd, 1975, among others) have deepened the comprehension of this phenomenon and provided insights of the related methodological issues. Recently, two amendments to the original conceptual and empirical framework have gained ground: a) the overcoming of the original opposition between specialisation and IIT; b) the need for detailed bilateral trade data, in order to properly assess the incidence of IIT, without incurring in biases due to the overlapping at the industry level or to geographical aggregation.

According to Helpman and Krugman (1985), monopolistic competition and internal economies of scale lead to IIT in horizontally differentiated products, whereas dissimilarities in factor endowments and technological levels drive trade patterns in inter-industry trade, as in the old comparative advantage theory. As Feenstra (2004) points put, such an interpretation of IIT is coherent with the idea of complete specialization. However, it completely misses the analysis of the vertical differentiation of products, which, on the contrary, entails the idea of IIT as an exchange of "different" goods. As a consequence, it is necessary to understand the price mechanism in order to discern between horizontal IIT (two-way trade in homogeneous products) and vertical IIT (two-way trade of qualitatively differentiated products).

The first scholars interested in the measurement of vertical IIT were Abd-el Rahman (1991) with French data, Freudenberg et al. (1992) with German data, and Greenaway et al. (1994) with British data. Measuring the relative importance of vertical IIT at one point in time, they demonstrate that vertical IIT is not marginal. The first longitudinal multi-country study was done by the CEPII (1997). This analysis showed that vertical IIT is responsible for both the rise of total two-way trade in Europe and for the consequent reduction in inter-industry trade (whereas horizontal IIT remains stable over time).

1.2. Disentangling vertical from horizontal IIT in cultural goods

The two main methods for disentangling vertical from horizontal IIT (see Greenaway, Hine and Milner, 1994; and Fontagné and Freudenberg, 1997) rely on the same assumption regarding the association of price, unit values and the quality of traded products: that differences in prices within one product category mirror differences in quality. Three comments have to be made regarding such an assumption (as pointed out by Fontagné, Freudenberg and Gaulier, 2005):
- it is only acceptable with the most detailed trade data, where aggregation of different products within one product category is minimised (one must use HS 6-digit trade data);

- though there are good reasons leading to slight departures from a strict association of prices with quality, trade economists are accustomed to this simplification;

- prices of traded products are not known, as each transaction has its own characteristics (such as time, place, volume, partners, and special conditions) and thus its own price. This is why average unit values are used instead of prices.

The CEPII has developed a database (BACI) based on COMTRADE, aimed at constructing a harmonised world trade matrix for values and quantities at the 6-digit level of the HS. Predicted mirror flows ratios from a gravity-type equation are used to convert CIF to FOB figures. These very detailed data at the product level allow to compute the unit values of worldwide bilateral flows at a level of disaggregation which is the closest one to the idea of a "product" available at an international level, making it possible to carry out analyses based on the calculation of unit values as an approximation of average goods' prices (see Affortunato and Mattoscio, 2012).

Following the above mentioned methods, our approach is to apply to our products of interest (HS6 "cultural" codes) the following methodology:

1) we conduct the analysis on bilateral trade data on "cultural goods" worldwide, at the product level, for the year 2009, calculating the unit values (value/quantity) for each elementary flow in cultural goods at the most detailed level (HS6);

2) we first categorize whether the flow is inter-industrial or intra-industrial, depending on the degree of overlapping: when the value of the minority flow is at least 10% of the majority flow (see Fontagné and Freudenberg,1997), the total trade in this product is considered to be ITT;

3) we check whether unit values are similar (relying on a 25% difference in unit value) in order to allocate the associated trade flow to a given category of product differentiation: horizontal in case of unit value similarity, vertical otherwise;

4) we make all calculations at the product, declaring country and partner levels.

Table no. 1 – How to disentangle vertical form horizontal IIT

Degree of overlap betwee export and import value	Similarity of export and import values		
Does the minority flow represent at least 10% of the majority flow?	Do export and import unit values differ less than 25%?		Unit value not available
	Yes	No	
Yes	Two-way trade in horizontally differentiated products	Two-way trade in vertically differentiated products	Two-way trade non allocated
No	One way trade		

Source: Fontagné, Freudenberg and Gaulier (2005)

Since we are particularly interested in the Italian peculiarities in the "cultural trade", we then conduct a second type of analysis, always based on the comparison of unit values for each HS6 "cultural" code: first we work out which ones of the world countries are the "top exporters" of these categories of products and then we compute an indicator of the Italian goods' quality relative to each of these competitors (see Abd-el-Rahman, 1991).

2. Results

Not surprisingly, we find here that the most important bilateral IIT intensities in cultural products are observed in Europe. What is more interesting when considering the IIT ranking in terms of values is the presence of developing countries. This is due, to our understanding of the phenomenon, partly to the increasing level of trade integration among some Asian countries (as well as the important role of geography) and partly to the peculiarities of the "cultural" H6 codes and to the fact that many first industrialized countries are increasingly de-specializing in the production and trading of these products (as measurements of the main trade specialization index, such as the Balassa and the Lafay ones, confirm).

Table no. 2 – The worldwide top bilateral IIT shares in cultural products

The worldwide top ten bilateral IIT (shares)			The top ten bilateral IIT (values)		
Exporter	Importer	share	Exporter	Importer	share
Belgium-Luxembourg	France	70,62	Mexico	USA	52,61
Germany	United Kingdom	70,14	USA	Canada	55,92
United Kingdom	USA	70,14	USA	Mexico	52,61
Germany	USA	66,82	Canada	USA	55,92
Belgium-Luxembourg	Germany	65,88	USA	United Kingdom	70,14
Germany	Belgium-Luxembourg	65,88	Rep. of Korea	China	37,44
Germany	Netherlands	64,93	Malaysia	USA	27,49
France	United Kingdom	62,09	China	Japan	36,02
Belgium-Luxembourg	Netherlands	59,72	Netherlands	United Kingdom	50,71
Austria	Germany	58,77	Netherlands	Germany	64,93
Australia	New Zealand	57,82	China	Malaysia	21,33
New Zealand	Australia	57,82	China	Singapore	18,96
Denmark	Sweden	57,35	China	Rep. of Korea	37,44
Germany	Switzerland	57,35	Malaysia	Singapore	54,03
Sweden	Denmark	57,35	Netherlands	Belgium-Luxembourg	59,72
Canada	USA	55,92	Japan	China	36,02
France	Switzerland	54,98	Malaysia	China	21,33
Germany	Italy	54,50	USA	Germany	66,82
Norway	Sweden	54,50	United Kingdom	USA	70,14
Rep. of Korea	USA	54,03	Germany	Netherlands	64,93

Table made by the authors

Table no. 3 reports the ranking of trade partners which show higher shares of horizontal IIT (on the left side) and of vertical IIT (on the right side).

Table no. 3 – Ranking of bilateral horizontal and vertical IIT (shares %)

IIT-Horizontal		TWT-H	TWT-V	IIT-Vertical		TWT-H	TWT-V
Canada	USA	34,60	21,33	Belgium-Luxembourg	France	18,48	52,13
New Caledonia	China	35,07	0,47	USA	United Kingdom	19,43	50,71
New Caledonia	USA	29,15	2,13	United Kingdom	Germany	19,43	50,71
New Caledonia	Australia	24,64	4,74	Netherlands	Germany	17,30	47,63
USA	Netherlands	22,75	15,17	Germany	USA	18,01	48,82
Japan	New Caledonia	21,56	0,24	Australia	New Zealand	9,95	47,87
Germany	France	19,67	46,21	Belgium-Luxembourg	Germany	18,96	46,92
USA	United Kingdom	19,43	50,71	France	Germany	19,67	46,21
USA	France	20,14	32,94	United Kingdom	France	15,88	46,21
Belgium-Luxembourg	Germany	18,96	46,92	USA	Rep. of Korea	8,29	45,73
United Kingdom	Germany	19,43	50,71	USA	Italy	6,87	44,79
France	New Caledonia	20,14	14,45	Germany	Italy	9,95	44,55
Belgium-Luxembourg	France	18,48	52,13	Sweden	Denmark	13,74	43,60
France	Netherlands	18,48	31,75	France	Italy	13,98	43,36
Singapore	Australia	18,25	12,09	Belgium-Luxembourg	Netherlands	17,06	42,65

Table made by the authors

With regard to the final step of our analysis, the results for the Italian performance in terms of cultural goods quality relative to the top-exporters of these products are as follows:

- the first striking result is the huge percentage of Italian cultural products which can be identified as vertically differentiated relative to each one of the other top-exporters;

- the second important consideration steams from the evidence that Italian cultural products reveal a high percentage of high-quality cultural exports relative to many emerging countries (in particular China, India, Singapore, Thailand);
- however, the most important issue is that Italy shows a somewhat poor performance in terms of cultural products quality relative to rich countries (most evidently relative to Japan, but also relative to other European countries, such as France, Germany and the United Kingdom).
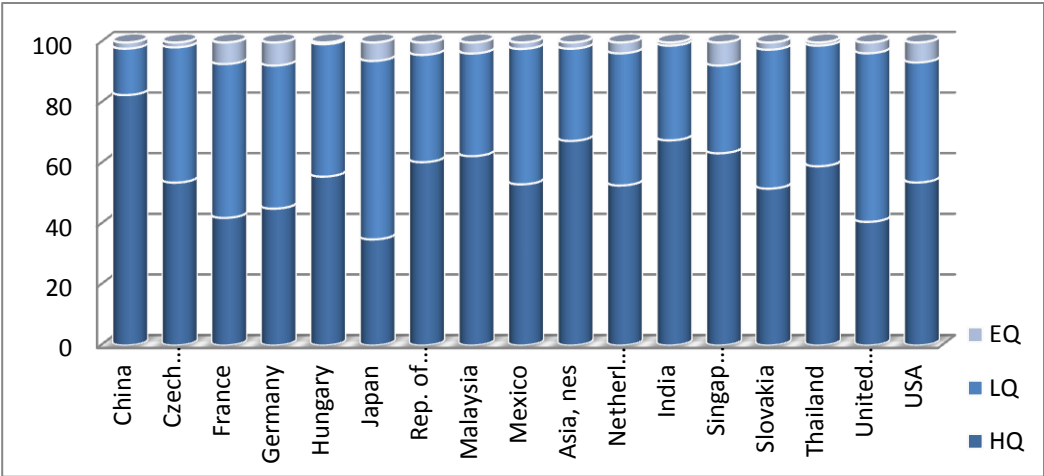
Figure 1 – Italian cultural goods' quality at a glance

Conclusions

The revelation of two-way trade within industries, between countries of similar development levels, is one of the most important empirical finding of the 1960s concerning international trade. In contrast to the simplistic opposition between inter-industry trade (based on differences in prices leading to specialisation) and IIT (seen as two-way trade of differentiated products with similar prices), there are both empirical evidence and theoretical arguments in favour of two-way trade of qualitatively differentiated products. Accordingly, IIT in cultural goods has been divided into two parts: IIT in horizontally differentiated (i.e. similar) products and IIT in vertically differentiated products (i.e. differing by quality). In order to empirically study IIT, more detailed possible industry breakdowns are necessary. Moreover both values and quantities (to be able to construct unit values) are indispensable at the product level (HS 6-digit codes) for bilateral trade flows. For our analysis, we use the database BACI (CEPII), constructing a harmonised world trade matrix for values as well as quantities at the 6-digit level of the HS, in which predicted mirror flows ratios from a gravity-type equation are used to convert CIF to FOB figures in order to have not only exports but also imports expressed FOB.

Following Fontagné and Freudenberg (1997) and Fontagné, Freudenberg and Gaulier (2005), our approach is to conduct an analysis aiming at disentangling vertical and horizontal IIT in the trade of "cultural goods" as defined by UNESCO (2009). Therefore, we calculate the unit values (value/quantity) for each elementary flow in cultural goods at the most detailed level, we categorize whether there is inter-industrial or intra-industrial trade, depending on the degree of overlapping and finally we check whether there is horizontal IIT (in case of unit value similarity) or vertical IIT (otherwise). Not surprisingly, we find that the most important bilateral IIT intensities in cultural products are observed in Europe. However the presence of developing countries is not unimportant. This can be explained partly to as a consequence of the increasing level of trade integration among some Asian countries and as a consequence of an increasing de-specialization of first industrialized countries in the production and trading of these products. Finally, with reference to the relative quality of Italian cultural products compared with that of

the other top-exporters in these sectors, we find that Italian performance are good relative to those of emerging countries (such as China and India), but not as much if compared to other European countries (such as Germany, France and the United Kingdom).

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COMPARATIVE STUDY ON LABOR MARKET FLEXICURITY AUSTRIA - ROMANIA[15]

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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.

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.

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[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

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

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

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, Wienner 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 km^2 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 discutions

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	Mureş, Crişul Alb, Tauţ, Ghioroc		212
Bihor	Barcău, Crişul Negru, Crişul Repede, Cefa, Tămaşda, Inand, Homorog		195
Hunedoara	Mureş, Crişul Alb, over 100 natural lakes, Bucura, Zănoaga	0,5-1,1	313
Salaj	Someş, 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 – 11^0 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., ^{0}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/ km^2, while de national average is 92-93 inhabitants/ km^2, 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

km^2, the national average of 47.8 km/1000 km^2, public road network from 7967 km of which 2006 km are modernized and a density of approximately 30-32 km/100 km^2, compared to the national average of 30.7 km/100 km^2, 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.Oportunities
-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 km^2 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 CRIŞULUI (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 Crişului 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.vaduCrişului-hajduszoboszlo.ro), at Vadu Crişului 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 (Auşeu, Borod, Bratca, Bulz, Măgeşti, Vadu Crişului and Şuncuiuş) 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 Crişului 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 Crişului, 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 (Munţii 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 of 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.
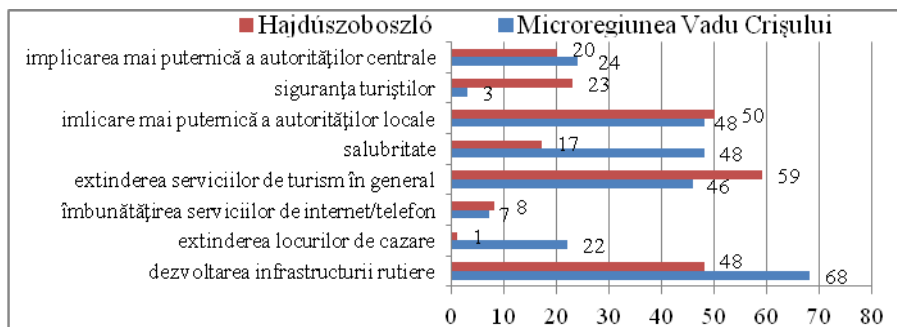
Fig. no. 1 Elements for developing in the study area

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 posses. 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.
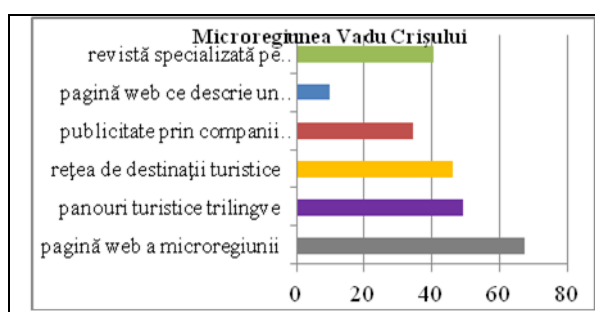
Fig. no. 2 Marketing approach of the micro-region   Fig. 3 Marketing approach of the resort
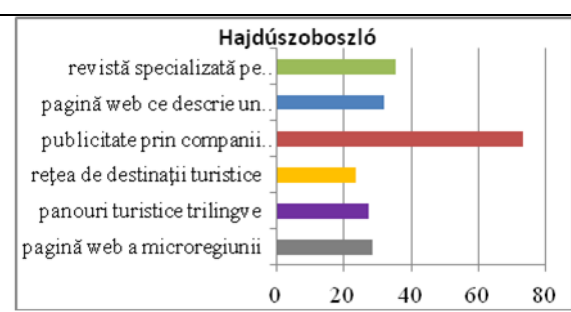
From the perspective of Bihor County, 3 favorite groups are crystallized, of which the most eloquent being the *caves* – with a frequency of 80% followed at a relatively high distance by mountain paths (hiking roads) with 49%, respectively the specific habits of the area that received 43%. With the existing 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%.
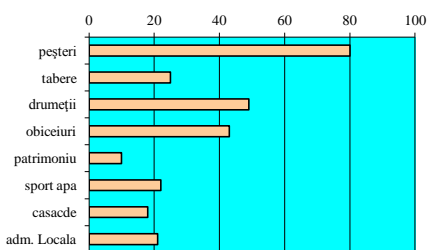
Fig. no. 4 Advertising of the Vadu Crişului micro-region   Fig. no. 5 Advertising Hajdúszoboszló
resort
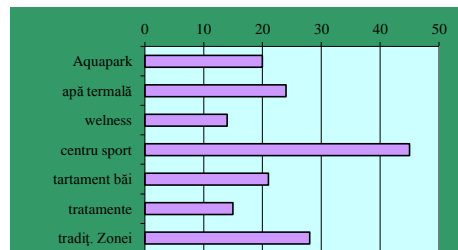
For the micro-region of Vadu Crişului *the extension of the tourism services* must be based on the natural characteristics of the region and on own initiatives, more emphasized than the initiatives and support or the implication of the administrative authorities. Practically, the possibility and request 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.
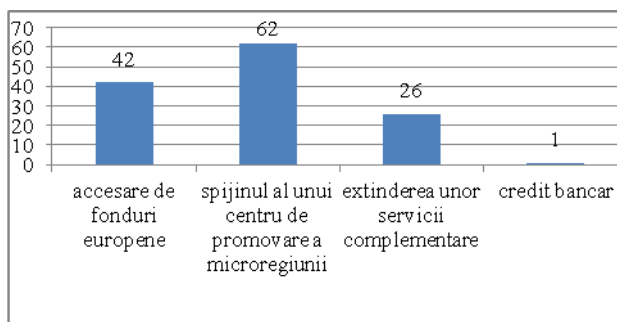
Fig. no. 6 Method of implication of the actors from the micro-region of Vadu Crişului in the cross-border co-operation

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, someway 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 *the extension of the services*		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 Criş-Mureş 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 Sudrugiu and three visitor's center from which one is located in Bihor County and namely Padiş 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 beriod 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"(Asociaţia 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 2006/018-446.01.01.01.15, 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 created 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.steconomiceuoradea.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 then 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 in 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 in 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 Crişului 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 trough 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, 043, 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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DECOMPOSING THE GAP IN SCHOOL ACHIEVEMENT BETWEEN FINLAND AND ROMANIA – SOME METHODOLOGICAL ASPECTS

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This paper analyzes the advantages and shortcomings of the Blinder-Oaxaca decomposition. Using PISA data for Finland and Romania, we focus on the drawbacks of the detailed decomposition, when the explanatory variables are categorial. From the best of our knowledge, this kind of analysis is performed for the first time using PISA data.

We show that, using covariates which are categorial, the partial characteristics effects can be different when we use different reference categories of the respective variable. However, the overall characteristics effect of a categorical variable does not depend on the omitted category. The more critical aspect of the interpretation of detailed decomposition, when explanatory variables are categorical, regards the unexplained part of the gap. As we empirically show, the both components of the unexplained part are sensitive to choices of the reference category. These aspects should be taken into account when we perform detailed decompositions with categorial variables.

Keywords: decomposition, categorial variables, test score gap, PISA
JEL Classifications: J24, I21, C14

I. Introduction

In a knowledge based society, skills and knowledge acquired through education play an ever more important role. The economic growth and the development of a country largely depend on the education system. Hence, understanding the differences in school achievement between countries is of huge importance since it allows improving the school systems and, therefore, directly provides relevant information for educational policies.

In this paper we analyze the differences in reading test scores of the students from Finland and Romania. We choose Finland as benchmark for our analysis because it is the best performing country in the PISA study and is considered to have the most effective and equitable school system (Ammermueller 2007). Using PISA (*Programme for International Student Assessment*) data from 2006, we apply a decomposition method widely used in the literature with education data. Based on the example Finland - Romania, our purpose is to focus on the methodological part, showing the advantages and the shortcomings of the method. We refer here to the the *Blinder-Oaxaca decomposition*, which starting with the papers of Blinder (1973) and Oaxaca (1973) has become the most cited decomposition method in applied labor economics. Originally it was designed to decompose and explain wage gaps by sex or race, but in the recent years it was extensively used in decomposing differences in school achievement. A comprehensive overview of the Blinder-Oaxaca decomposition is provided by Fortin, Lemieux, and Firpo (2010).

Krieg and Storer (2006) use the Blinder-Oaxaca method to decompose the differences in test scores between high- and low- performing schools in the state of Washington according to "The No Child Left Behind Act". The motivation of using this method was to determine which factors explain the differences in test scores between schools: the background characteristics of the students or the institutional settings. Ammermüller (2007) uses a slightly different form of the traditional Blinder-Oaxaca decomposition in order to explain the gap in PISA test score between Finland and Germany. The total score gap was decomposed into a characteristics, a return and a characteristics-return effect. The paper reports also these three effects separately for four groups of explanatory variables: student background, resources, institutions and school types. But the results show that, considering only the mean of the distribution, the differences in characteristics could not explain entirely the test scores gap between Finland and Germany. Cho (2007)

performs the Blinder-Oaxaca decomposition in order to explain the change in the college enrollments gender gap.

II. Methodology

1. The classical Blinder-Oaxaca Decomposition
The aim of the Blinder-Oaxaca decomposition is to split the differences in mean outcomes between two groups in two components: one, which is attributed to differences in characteristics (endowments) and a component generated by the differences in the regression parameters, given equal endowments. Since we primary focus in this paper on differences in school achievement, the outcomes we refer to are test scores. Formally, the gap in test scores between two groups can be written as:

$$\Delta = E[Y1|D = 1] - E[Y0|D = 0]$$

where D is an indicator of group membership. $D = 1$ denotes here the group that scores higher, so that the total difference is positive.

The main assumption of the model refers to the structural form of the functions which links the observed and unobserved characteristics in the following way:

$$Y_l = X\beta_l + \varepsilon_l$$

for $l = 1, 0$
where $E[\varepsilon_l|X] = 0$.

Using the law of iterated expectations, the gap can be expressed as:

$$\Delta = E[X|D = 1]\beta_1 - E[X|D = 0]\beta_0$$

To get the two terms that describe the differences in endowments and the differences in regression coefficients, we must construct a meaningful counterfactual, that excludes general equilibrium effects (Fortin, Lemieux, and Firpo 2010). According to the selected reference group, we add and subtract in the above equation the corresponding counterfactual. In this sense, the assumption about the *nondiscriminatory norm* (Oaxaca 2007), β_0 or β_1, is important, since the decomposition results are not stable to the choice of the reference group *(index number problem)*.

In the original specification, Oaxaca (1973) uses as benchmark the more favored group (in terms of nondiscrimination), weighting the differences in average endowments by its coefficient and the coefficient gap by the vector of average characteristics of the more disadvantaged group. In studies analyzing scholar achievement gaps, some authors report the decomposition results from the point of view of the more advantaged group (Krieg and Storer 2006; Duncan and Sandy 2007; Sandy and Duncan 2010; Schneeweis 2010), other studies present the gaps from the point of view of the more disadvantaged group (Cho 2007; Ammermueller 2007; Patacchini and Zenou 2009), while some papers report the results from both specifications (Cook and Evans 2000; McEwan and Marshall 2004).

The gap in test scores in the equation above can be decompose as follows:

$$\Delta = E[X|D = 1]\beta_1 - E[X|D = 0]\beta_0 + E[X|D = 1]\beta_0 - E[X|D = 1]\beta_0$$
$$= E[X|D = 1](\beta_1 - \beta_0) + (E[X|D = 1] - E[X|D = 0])\beta_0$$

Here we use the counterfactual that describes the average test scores that the individuals from group 1 would get if they would have the returns of group 0. After rearranging the terms, the estimated gap can be decomposed as:

$$\widehat{\Delta} = (\bar{X}_1 - \bar{X}_0)\hat{\beta}_0 + \bar{X}_1(\hat{\beta}_1 - \hat{\beta}_0)$$

The right hand side of the equation is due to differences in the average regressors. In economics of education this term is usually called the "explained" or the characteristics effect (Δ_c). It captures the difference of the test scores that would vanish if the individuals from group 0, given their returns to the average characteristics, would have the same characteristics as the individuals from the group 1. In other words this component reflects the gap in test scores that

would exist if the students from the both countries were evaluated by the school coun- try from country 0. The second term is due to differences in the coefficients and is named the return effect (Δ_r) or the "unexplained" part of the gap. In studies regarding gaps in outcome between different countries, this term reflects the "country-specific portion" (Zhang and Lee 2011). If it is positive it shows, how much the individuals from the group 0 would on average score better if, given their own characteristics, they would face the returns of group 1.

2. Detailed decomposition

In many studies it is useful to perform a detailed decomposition by looking at the contribution of a certain group of variables or of every single variable to the characteristic and return effect. For example, it would be interesting to see how much of the characteristic effect is due to the differences in the student background or in parents' education alone. Performing a variable-by-variable decomposition, the effects of the total gap can be written as the sum over the covariates:

$$\hat{\Delta}_c = \sum_{k=1} (\bar{X}_{1k} - \bar{X}_{0k})\hat{\beta}_{0k}$$

$$\hat{\Delta}_r = (\hat{\beta}_1 - \hat{\beta}_0) + \sum_{k=1} \bar{X}_{0k}(\hat{\beta}_{1k} - \hat{\beta}_{0k})$$

$(\bar{X}_{1k} - \bar{X}_{0k})\hat{\beta}_{0k}$ represents the component of the characteristics effect that is described by the differences in the average characteristics of the kth covariate, multiplied by the respective $\hat{\beta}$. $\hat{\beta}_1 - \hat{\beta}_0$ is the portion of the unexplained gap due to group membership (Jones and Kelley 1984). The differences in the returns to the kth covariate, evaluated at the average value of the characteristics X_k [$\bar{X}_{0k}(\hat{\beta}_{1k} - \hat{\beta}_{0k})$] represents the kth component of the return effect.

In the field of education it could be informative to separate the contribution of variables that describe the student background, for example, to the characteristic effect from the contribution of other variables related to the resources, institutional aspects etc. Furthermore, the contribution of individual variables to the total gap can be detected performing a more detailed decomposition.

Zhang and Lee (2011), for example, decompose the PISA 2006 test gap in math scores for a group of OECD countries. Calculating the gap in test scores as the difference between each individual country and the OECD average, they apply a *Blinder-Oaxaca detailed decomposition* using different blocks of variables, namely demographic characteristics, study time and activities, family background, and school characteristics.

Ammermueller (2007) performs a similar detailed decomposition for differences in reading test scores between Finland and Germany, dividing the gap into three components: a characteristic (endowment) effect, return effect and a component reflecting the interaction between the first two effects. The explanatory variables are grouped in four categories: student background, resources, institutions and school types.

Duncan and Sandy (2007) analyze the achievement test score gap between public and private schools. Based on the Blinder-Oaxaca technique, they perform a detailed decomposition, calculating the explained and unexplained effects both at the level of each explanatory variable, as well as for the groups of some variables, that describe the family background and school quality. In a paper from 2010 (Sandy and Duncan 2010), they apply also a variable-by-variable decomposition in order to identify the sources of the test score gap between urban and suburban schools.

III. Critical aspects regarding the detailed Blinder-Oaxaca decomposition

Beyond the relevant information that a detailed decomposition can offer, the interpretation of the estimated coefficients can be misleading, especially when the covariates are categorical, with

more than two categories (Fortin, Lemieux, and Firpo 2010). In order to illustrate this aspect, we use the PISA test score gap in reading between Finland and Romania. The data contain many relevant variables that are categorical: parents' education (no secondary education, lower and upper secondary education, tertiary education), the number of books at home (less than 10 books, between 11-50, 51-100, 101-250, 251-500 and more than 500 books) etc.

Table 1 presents the estimated coefficients of the regression of the reading score on the individual (gender, age (in months), grade) and student background variables for the Romanian students (the reference group in the decomposition). We look at the results of mother's education and of number of books. In column 2, mother's tertiary education and *book6* are the omitted categories, while in column 4 we use the level of no secondary education and book1 as the reference categories, so that for the categorical variables the estimated coefficients in the first regression are equal to the corresponding coefficients in the second regression minus the value of the coefficient of the variable, which in the first regression is the omitted one (see note 1).

Table 1: *OLS Regression Coefficients for Romanian Students*

Variable	First regression		Second regression	
	Coefficient	(Std. Error)	**Coefficient**	(Std. Error)
Dmale	-42.01	(2.14)	-42.01	(2.14)
age m	-1.05	(0.33)	-1.05	(0.33)
grade8	108.53	(13.38)	108.53	(13.38)
grade9	121.33	(13.15)	121.33	(13.15)
grade1011	156.71	(14.52)	156.71	(14.52)
book1	-88.02	(5.39)	-	-
book2	-59.37	(5.15)	28.65	(3.60)
book3	-33.25	(4.91)	54.77	(3.38)
book4	-15.75	(5.22)	72.27	(3.96)
book5	6.41	(5.47)	94.43	(4.55)
book6	-	-	88.02	(5.39)
m nosec	-14.91	(7.60)	-	-
m lower sec	-16.12	(4.63)	-1.21	(7.92)
m upper sec	7.99	(2.82)	22.90	(7.28)
m ter	-	-	14.91	(7.60)
f nosec	-0.22	(7.62)	-0.22	(7.62)
f lower sec	-23.01	(5.25)	-23.01	(5.25)
f upper sec	-10.76	(2.93)	-10.76	(2.93)
Intercept	539.77	(64.12)	436.62	(64.31)

Source: PISA 2006 data, own calculations. Standard errors are in brackets.

Based on the results from both regressions in Table 1, we can compare for each category, which are not omitted in any of the both regressions, the magnitudes of the characteristics effects. Comparing the results from column 2 and 4, we can argue that having in Romania more students whose mothers have an upper secondary education level than in Finland, the characteristics effect of this variable is almost three times as large (22.90) in one case (column 4) as in the other case (7.99) (column 2). Using the same pattern to interpret the estimates regarding the variable *book5*, we can argue that the corresponding partial characteristics effect is fourteen times larger in the second case (column 4) as in the first case (column 2). But this interpretation should be viewed as caution, since in the two cases the returns are obtained relative to different reference categories of the respective variable. This issue is especially problematic when the categorical variables do not have an absolute interpretation (Fortin, Lemieux, and Firpo 2010).

Even if the differences in the partial effects between columns (2) and (4) are large, the overall contribution of mother's education and of number of books to the characteristic effect is the same

in both cases, as can be seen in the Table 2. Thus, the overall characteristics effect of a categorical variable does not depend on the omitted category. We also show this formally.

Suppose that we have in our regressions an explanatory variable with four categories ($k = a, b, d, c$), from which one of them is the reference category and this variable is the only covariate in the regression. We perform two regressions, one in which the first category is the omitted one and then, in the second regression, we omit the 4th category. We denote by $\gamma_{l,k}$ the coefficients of the first regression ($\gamma_{l,a} = 0$) and by $\beta_{l,k}$ the coefficients of the second regression, where $\beta_{l,d} = 0$. The overall characteristics effect corresponding to the first regression can be written as follows:

$$\sum_{k \neq a} (\bar{X}_{1,k} - \bar{X}_{0,k})\hat{\gamma}_{0,k}$$

Using the fact that $\hat{\gamma}_{0,k} = \hat{\beta}_{0,k} - \hat{\beta}_{0,a}$ (see note 1) and $\sum_{k \neq a} \bar{X}_{l,k} = \sum_k \bar{X}_{l,k} - \bar{X}_{l,a}$, we get:

$$\sum_{k \neq a} (\bar{X}_{1,k} - \bar{X}_{0,k})\hat{\gamma}_{0,k}$$
$$= \sum_{k \neq a} (\bar{X}_{1,k} - \bar{X}_{0,k})(\hat{\beta}_{0,k} - \hat{\beta}_{0,a})$$
$$= \sum_{k \neq a}(\bar{X}_{1,k} - \bar{X}_{0,k}) \hat{\beta}_{0,k} - \hat{\beta}_{0,a}(1 - \bar{X}_{1,a}) + \hat{\beta}_{0,a}(1 - \bar{X}_{0,a})$$
$$= \sum_k \bar{X}_{1,k} - \bar{X}_{0,k}\hat{\beta}_{0,k}$$

The more critical aspect of the interpretation of detailed decomposition, when explanatory variables are categorical, regards the unexplained part of the gap. As showed above, the unexplained component is the sum between two differences: one between the intercepts and the other between the coefficients. Performing a detailed decomposition when different categories of a variable represent the reference categories, the values of the both components of the unexplained part are not the same in each case. This fact is illustrated in Table 2.

When the omitted categories are *book6* and *mother's tertiary education*, the effects which incorporate the difference in the coefficients are -13.36 for the *number of books*, and -6.41 for *mother's education* compared to -24.33 and -13.18 in the second case (*book1* and *mother's no secondary education* are omitted). The rest of the unexplained gap of these two variables is captured by the intercepts, so that the total unexplained part of the gap is the same in both cases (137.31).

Due to the fact that the both components of the unexplained part are sensitive to choices of the reference category, some studies about school achievement gap treats the unexplained part as a residual and don't interpret the results of the detailed decomposition for this component (McEwan and Marshall 2004; Sandy and Duncan 2010).

Table 2: *Oaxaca-Blinder Detailed Decomposition Results*

Variable	First case		Second case	
	Coefficient	(Std. Error)	**Coefficient**	(Std. Error)
Equation 1: Differential				
Prediction_1	548.50	(1.13)	548.50	(1.13)
Prediction_2	396.01	(1.66)	396.01	(1.66)
Difference	152.49	(2.01)	152.49	(2.01)
Equation 2: Explained				
Dmale	0.15	(0.53)	0.15	(0.53)
age m	1.20	(0.51)	1.20	(0.51)

grade8	-2.59	(1.17)	-2.59	(1.17)
grade9	7.10	(1.66)	7.10	(1.66)
grade1011	-4.53	(0.83)	-4.53	(0.83)
books	13.69	(1.00)	13.69	(1.00)
Motherduc	-1.35	(0.96)	-1.35	(0.96)
f nosec	-0.01	(0.40)	-0.01	(0.40)
f lower sec	-0.45	(0.23)	-0.45	(0.23)
f upper sec	1.97	(0.78)	1.97	(0.78)
Total	15.18	(1.49)	15.18	(1.49)
Equation 3 : Unexplained				
Dmale	-0.07	(1.71)	-0.07	(1.71)
age m	108.38	(102.63)	108.38	(102.63)
grade8	-5.79	(3.21)	-5.79	(3.21)
grade9	-27.69	(24.93)	-27.69	(24.93)
grade1011	-0.01	(0.01)	-0.01	(0.01)
books	-13.36	(7.01)	-24.33	(6.06)
motherseduc	-6.41	(2.02)	-13.18	(11.94)
f nosec	-0.54	(0.76)	-0.54	(0.76)
f lower sec	1.16	(0.78)	1.16	(0.78)
f upper sec	0.28	(2.04)	0.28	(2.04)
Intercept	81.36	(106.36)	99.09	(105.68)
Total	137.31	(2.01)	137.31	(2.01)

Source: PISA 2006 data, own calculations. Standard errors are in brackets.

IV. Conclusions

This paper analyzes the advantages and shortcomings of the Blinder-Oaxaca decomposition. Using PISA data for Finland and Romania, we show especially the drawbacks of the detailed decomposition, when the explanatory variables are categorial. From the best of our knowledge, this kind of analysis is performed for the first time using PISA data.

We showed that, using covariates which are categorial, the partial characteristics effects can be different when we use different reference categories of the respective variable. However, the overall characteristics effect of a categorical variable does not depend on the omitted category.

The more critical aspect of the interpretation of detailed decomposition, when explanatory variables are categorical, regards the unexplained part of the gap. As we empirically showed, the both components of the unexplained part are sensitive to choices of the reference category.

These aspects should be taken into account when we perform detailed decompositions with categorial variables.

Notes

1.   Suppose we have the following model, corresponding to group 0: $Y_i = \gamma_{0,a} + \gamma_{0,b} D_{bi} + \gamma_{0,c} D_{ci} + \gamma_{0,d} D_{di} + u_\gamma$, where D_{ki} represent the dummy variables for the categories k, the category a being the reference one. When d is the base category, the model is the following:

$Y_i =$
$\beta_{0,d} + \beta_{0,a} D_{ai} + \beta_{0,b} D_{bi} + \beta_{0,c} D_{ci} +$
$+ u_\beta =$

$kicategory\ s\ in\ Table\ (3.1)es, test\ score\ gap, 381381381381381381381381381$
$381381381381381381381381381381381381381381381381381381381381381\beta_{0,d} +$

$$\beta_{0,a} (1 - D_{bi} - D_{ci} - D_{di}) + \beta_{0,b} D_{bi} + \beta_{0,c} D_{ci} + u_\beta = \beta_{0,d} + \beta_{0,a} + D_{bi}(\beta_{0,b} - \beta_{0,a}) + D_{ci}(\beta_{0,c} - \beta_{0,a}) + u_\beta . E(Y_i|D_{ki} = 1) - E(Y_i|D_{ki} = 0) = \beta_{0,k} - \beta_{0,a} = \gamma_{0,k}.$$

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POPULATION MOBILITY ACROSS REGIONS AND COUNTIES DURING DEMOCRACY IN ROMANIA

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As an introduction to a more comprehensive study about internal migration determinants, this paper investigates on the main trends in the evolution of this phenomenon within Romanian borders for the last two decades, 1990-2010. For this, I compute indicators such as gross migration and net migration, and I display some illustrative graphic representations of the main patterns. Thus, my focus will be on: arrivals, departures and balances of migration, both numbers and rates; highest and lowest rates; intra-flows and inter-flows; and the favorite destinations to migrate from county to county.

The main findings of this quantitative statistical analysis reveal low levels of migration, oscillatory flows and rates with sharp falls in 1991, two regions (Bucharest-Ilfov and West) with exclusively positive balances and one (North-East) with only negative balances, only 11 counties registered net inflows (especially from Centre and West), intra-migration strongly dominated inter-migration, inhabitants from almost one third of the counties have chosen the capital as their favourite destination, and almost half of the counties showed no temporal change in their preferences.

Keywords: internal migration, regions, counties, destinations, Romania

JEL Code: R23

I. Introduction

Internal migration in Romania is defined by the National Institute of Statistics (INS) comprises *"changes of permanent residence and temporary settling of residence in another locality, different from that of permanent residence inside the borders of the country"*, except for movements inside the same locality, sector or commune (Romanian Statistical Yearbook 2010: 39).

The remainder of the paper has the following structure: section II presents statistics related to the main measures of internal migration (inflows, outflows and balances) by region and county, section III makes a ranking of favorite destinations county to county, section IV is dedicated to inter- and intra-county migration, while section V offers an advance on future research.

II. Arrivals, Departures and Balances of Internal Migration

The total number of migrants during the post-communist period reached the value of almost 7 million persons (annual average of 333,207 migrants and a rate of 15‰) (fig. 1). Divided by sub-periods, in the 1st one (1990-1994) the number was of about 1,850,000 migrants (16.1‰ rate), in the 2nd one (1995-1999) fell at 1,436,800 migrants (12.7‰), in the 3rd one (2000-2004) increased at 1,551,300 migrants (14.1‰), and for the last one (2005-2009) continued to grow at 1,700,700 persons (15.8‰).

The year-by-year evolution of aggregate migration is also illustrated in fig. 1. Thus, internal migration (numbers and rates) registered an oscillatory evolution within the period 1990-2010, with minimums of 240,231 migrants and 10.55‰ both in 1993 and maximums of 786,471 migrants and 33.88‰ both in 1990. Moreover, sub-periods 2001-2004 and 2006-2008 were characterized by constant increases.
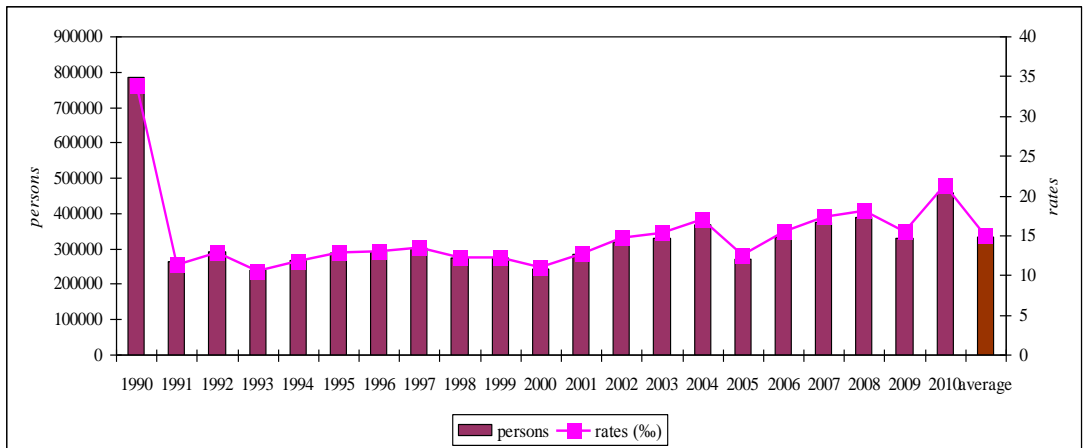
Figure 1. Internal migration in Romania (numbers and rates of migration)

Fig. 2 illustrates the net migration rates by region in Romania from the first post-communist year until 2010. One can observe a first group formed by the regions Centre, South-East, Bucharest-Ilfov and West, and a second one formed by the other four regions, each with different shapes of evolution. The first group followed an L-shaped evolution (except for South-East) with different intensities, while the second group followed an inverse L-shaped evolution. Bucharest-Ilfov and South had the most pronounced fall and, respectively, rise from 1990 to 1991. Centre had positive rates in the intervals 1990-1997 and 2000-2006, South-East was positive in 1990, 1993 and during 1995-1999, South was positive during 1997-2000 and 2007-2008, South-West only in 1996 and 1999-2000, and finally, North-West was positive during 2006-2010. Instead, Bucharest-Ilfov and West had positive values during the whole period, with a one year exception for the first in 2000; whereas North-East was negative all the time. Overall, net rates were very small, within the range [-5,+5‰].
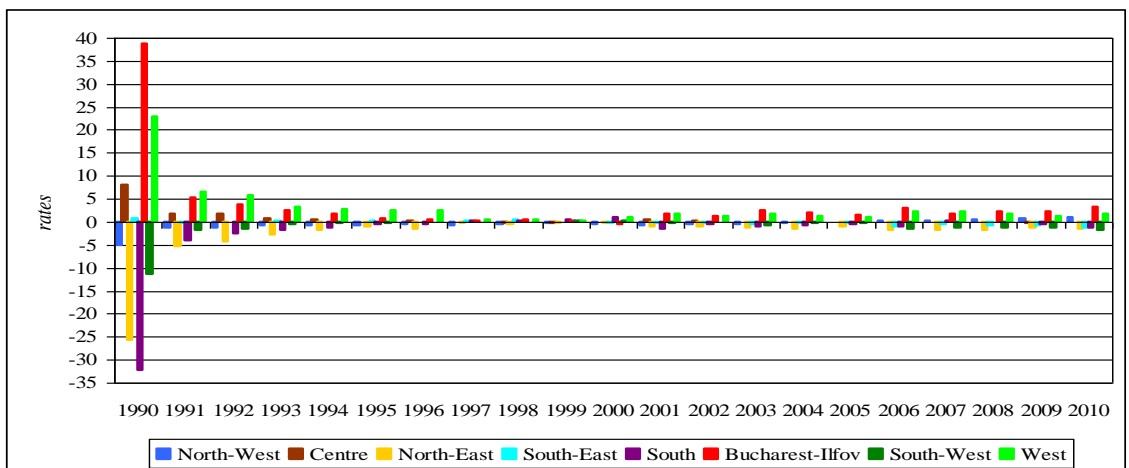
Figure 2. Net migration rates at regional level

For the entire democracy period 1990-2010, the counties of Ilfov, Bucharest, Timiş, Constanţa and Arad recorded the highest rates of in-migration, while Vaslui, Botoşani, Gorj, Ialomiţa and Bucharest recorded the highest rates of out-migration. As for the lowest rates, Maramureş, Harghita, Satu-Mare, Giurgiu and Covasna had the lowest in-migration, whereas Satu-Mare,

Ilfov, Harghita, Bihor and Covasna had the lowest out-migration. As regards the highest balances, these were registered by Vaslui, Botoşani, Teleorman, Tulcea and Olt (negative), and by Ilfov, Timiş, Arad, Bucharest and Constanţa (positive). For sub-periods, see table 1.

Table 1. Highest and lowest values of gross migration in Romania by sub-period

		1990-1994	1995-1999	2000-2004	2005-2009
In-migration	*Highest*	Timiş Constanţa Bucharest	Gorj Constanţa Bucharest	Bucharest Gorj Ilfov	Ilfov Bucharest Timiş
	Lowest	Giurgiu Harghita Maramureş	Maramureş Satu Mare Prahova	Maramureş Brăila Galaţi	Harghita Covasna Maramureş
Out-migration	*Highest*	Vaslui Botoşani Ilfov	Vaslui Hunedoara Gorj	Bucharest Gorj Hunedoara	Bucharest Gorj Vâlcea
	Lowest	Bucharest Braşov Bihor	Satu Mare Sibiu Giurgiu	Ilfov Brăila Giurgiu	Harghita Covasna Cluj
Balance	*Highest Negative*	Vaslui Botoşani Giurgiu	Hunedoara Maramureş Bistriţa-Năsăud	Hunedoara Vaslui Maramureş	Vaslui Hunedoara Botoşani
	Highest positive	Timiş Bucharest Constanţa	Arad Timiş Constanţa	Ilfov Arad Timiş	Ilfov Timiş Arad

Source: Own elaboration based on INS data

Thus, I can conclude that Bucharest and, at a lower scale, Gorj, had high rates of both arrival and departure, and Satu-Mare, Harghita and Maramureş had all low rates of both entries and exits.

Further, considering the ratio between negative and positive balances, I obtain an uneven distribution of balances in favor of the negative ones. Thus, over 1990-1994, 30 counties turned negative values and 11 positive values; 1995-1999, 23 counties turned negative and 18 positive; 2000-2004, 25 were negative and 17 positive; 2005-2009, 28 counties negative and 14 positive; for the whole interval, 1990-2010, 31 counties were negative and 11 were positive.

Fig. 3 depicts the full picture of migratory balances at county level over the entire period and the four time spans. Making an aggregation, 16 counties recorded negative balances in each of the sub-periods: Alba, Bacău, Bistriţa-Năsăud, Botoşani, Covasna, Harghita, Hunedoara, Maramureş, Neamţ, Olt, Prahova, Sălaj, Suceava, Teleorman, Tulcea and Vaslui. Other 8 counties had only positive balances in every sub-period: Arad, Bucharest, Cluj, Constanţa, Dolj, Ilfov, Sibiu and Timiş. The map for the entire period 1990-2010 counts only 11 counties with net inflows, Ilfov (12.9‰), Timiş (7.9‰), Arad (5.3‰), Bucharest (4.6‰), Constanţa (3.9‰), Braşov (2.8‰), Sibiu (2.5‰), Cluj (1.6‰), Bihor and Mureş (0.4‰), and Dolj (0.3‰).
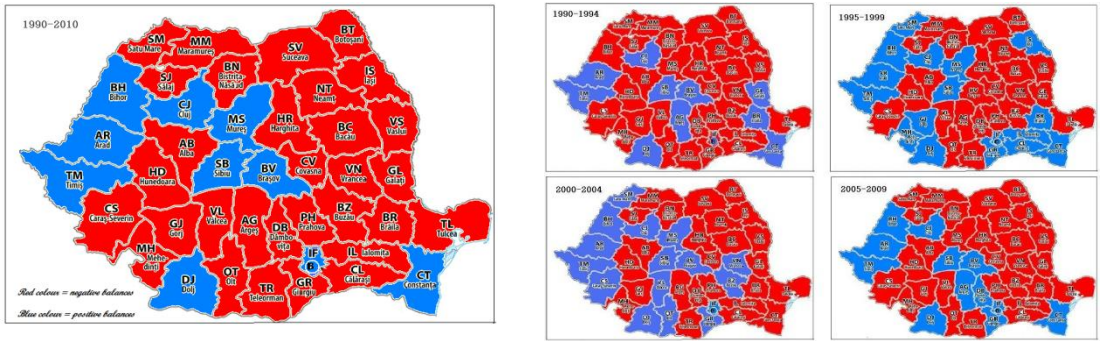
Source: Own elaboration based on INS data

Figure 3. County maps of net migration by period

III. Where Did People Migrate? Favorite Destinations by County

Table 2 displays the favorite destinations of each of the 42 counties. I have split the time interval 1994-2010 in order to account for the possible changes produced meanwhile into four sub-intervals. First, it seems that, on average, people from 13 counties preferred to move, in the first place, to the capital (Argeş, Bacău, Brăila, Buzău, Călăraşi, Constanţa, Dâmboviţa, Galaţi, Giurgiu, Ialomiţa, Ilfov, Prahova, and Teleorman). Secondly, the counties Arad, Bihor, Caraş-Severin, Neamţ, Prahova and Sălaj suffered no temporal or hierarchical change as regards their favorite destinations. Other 11 counties, even though they were not subjected to temporal changes, did change hierarchy. Therefore, a total of 17 counties had no inter-temporal alterations related to their internal destinations.

Table 2. Favorite destinations county to county by time intervals

County ID	1995-1998	1999-2002	2003-2006	2007-2010
Alba	Hunedoara, Cluj, Sibiu			
Arad	Timiş, Bihor, Hunedoara			
Arges	Bucharest, Olt, Dâmboviţa			
Bacău	Bucharest, Neamţ, Braşov	Bucharest, Neamţ, Vrancea		
Bihor	Arad, Timiş, Cluj			
Bistriţa-Năsăud	Arad, Cluj, Timiş	Cluj, Arad, Mureş		Cluj, Mureş, Timiş
Botoşani	Suceava, Constanţa, Iaşi		Suceava, Iaşi, Bucharest	
Brăila	Bucharest, Buzău, Galaţi		Bucharest, Constanţa, Călăraşi	Bucharest, Buzău, Constanţa
Braşov	Covasna, Bacău, Vaslui	Covasna, Bacău, Buzău	Covasna, Bucharest, Sibiu	
Bucureşti	Ilfov, Teleorman, Giurgiu		Ilfov, Giurgiu, Călăraşi	Ilfov, Giurgiu, Dâmboviţa
Buzău	Bucharest, Brăila, Prahova		Bucharest, Prahova, Braşov	Bucharest, Prahova, Vrancea
Călăraşi	Bucharest, Ialomiţa, Constanţa		Bucharest, Ialomiţa, Ilfov	
Caraş-Severin	Timiş, Mehedinţi, Dolj			
Cluj	Mureş, Bistriţa-Năsăud, Alba	Mureş, Bistriţa-Năsăud, Sălaj		Bistriţa-Năsăud, Sălaj, Alba
Constanţa	Bucharest, Tulcea, Iaşi	Bucharest, Tulcea, Ialomiţa		
Covasna	Braşov, Harghita, Bacău		Braşov, Harghita, Mureş	

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Dâmbovița	Bucharest, Prahova, Argeș			
Dolj	Gorj, Olt, Mehedinți	Gorj, Olt, Bucharest		
Galați	Bucharest, Vaslui, Vrancea			
Giurgiu	Bucharest, Teleorman, Ilfov			
Gorj	Dolj, Mehedinți, Hunedoara	Dolj, Mehedinți, Bucharest		
Harghita	Mureș, Bacău, Covasna	Mureș, Bacău, Neamț	Mureș, Bacău, Brașov	Mureș, Covasna, Bacău
Hunedoara	Iași, Vaslui, Timiș	Timiș, Dolj, Gorj	Timiș, Arad, Gorj	Timiș, Cluj, Arad
Ialomița	Bucharest, Călărași, Constanța			
Iasi	Constanța, Vaslui, Neamț	Neamț, Botoșani, Vaslui	Bucharest, Neamț, Vaslui	
Ilfov	Bucharest, Giurgiu, Călărași			Bucharest, Giurgiu, Dâmbovița
Maramureș	Timiș, Arad, Satu-Mare			Satu-Mare, Cluj, Timiș
Mehedinți	Gorj, Dolj, Timiș			
Mureș	Sibiu, Cluj, Harghita			
Neamț	Iași, Bacău, Bucharest			
Olt	Dolj, Bucharest, Vâlcea	Bucharest, Dolj, Argeș		
Prahova	Bucharest, Buzău, Dâmbovița			
Sălaj	Cluj, Bihor, Maramureș			
Satu Mare	Maramureș, Timiș, Bihor			Maramureș, Bihor, Cluj
Sibiu	Mureș, Alba,Vâlcea			
Suceava	Botoșani, Iași, Timiș	Botoșani, Iași, Bucharest		
Teleorman	Bucharest, Giurgiu, Olt		Bucharest, Giurgiu, Ilfov	Bucharest, Ilfov, Argeș
Timiș	Arad, Caraș-Severin, Hunedoara		Caraș-Severin, Arad, Bucharest	Caraș-Severin, Arad, Hunedoara
Tulcea	Constanța, Brăila, Galați	Constanța, Bucharest, Galați		
Vâlcea	Sibiu, Olt, Bucharest			
Vaslui	Iași, Constanța, Galați	Iași, Bucharest, Galați		
Vrancea	Galați, Bucharest, Bacău			

Source: Own elaboration based on INS data

IV. Inter versus Intra-County Migration

During the period 1994-2010, intra-county (short-distance) migration dominated inter-county (long-distance) migration, with an average difference of 24 p.p.. Notably, from 2001 to 2005, intra-county migration strongly dominated inter-county migration; otherwise, the percentage distribution of the two types is quite the same (fig. 4).

Intra-migration is relatively higher because it implies lower costs of moving, both monetary and psychological (leaving family, friends, community) and because of the service sector expansion.
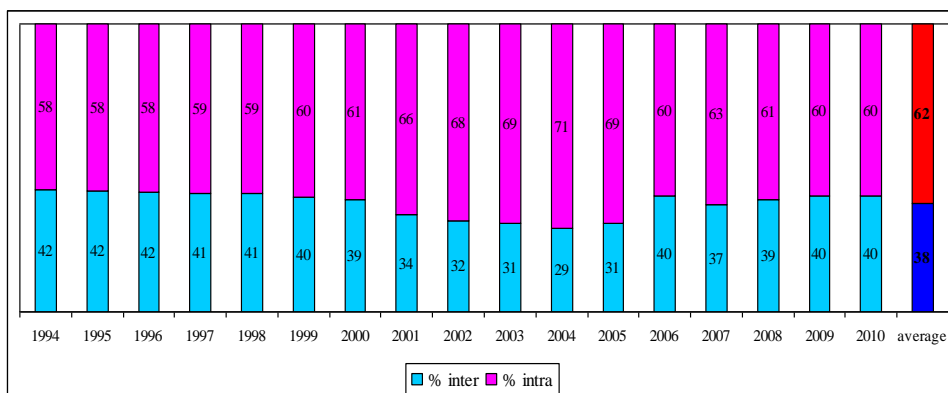
Source: Own elaboration based on INS data

Figure 4. Distribution of inter and intra-county migration in Romania

Fig. 5 offers an identical reproduction of national rates by intra-county rates, which are visibly higher than inter-county rates whose evolution is rather different and relatively less pronounced. The highest rates (inter, intra and national) were registered in 2010.
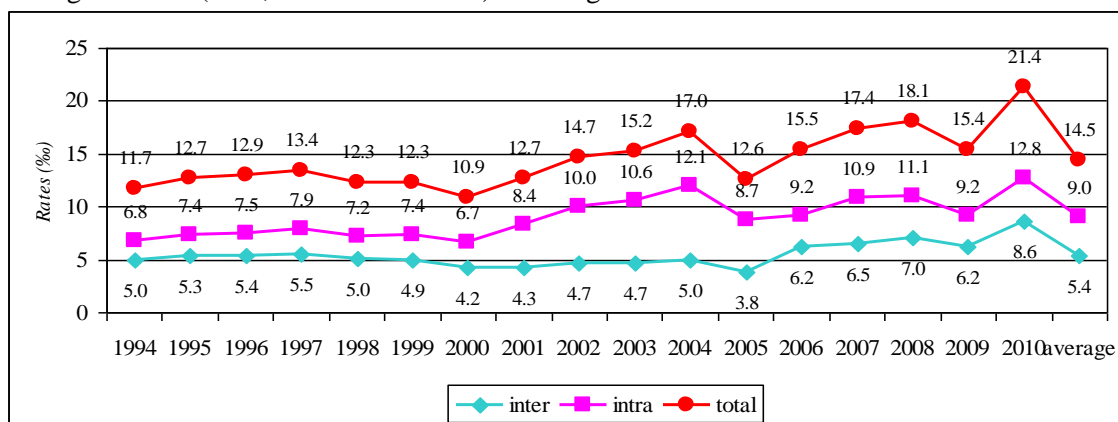
Source: Own elaboration based on INS data

Figure 5. Total, inter and intra-county migration rates

The highest and lowest values of intra-county migration for the period 1995-2010 are found in table 3. Over 1995-1998 and 2007-2010, only 4 counties had a total number of intra-migrants inferior to 10,000, while over 1999-2002 and 2003-2006, there are 10 and, respectively, 7 such counties. Bucharest and Sălaj had the highest and, respective, the lowest intra-flows.

Table 3. Extreme values of intra-county migration in Romania

	1995-1998		*1999-2002*		*2003-2006*		*2007-2010*	
Maximum	Bucharest	91679	Bucharest	87194	Bucharest	119293	Bucharest	107270
	Constanţa	27194	Constanţa	28848	Argeş	34117	Iaşi	37834
	Iaşi	25913	Prahova	28088	Iaşi	33423	Constanţa	35873
	Argeş	21628	Iaşi	27678	Prahova	31420	Timiş	35646
	Prahova	21405	Dolj	26675	Dolj	27377	Argeş	34896
Minimum	Ilfov	5023	Ilfov	1891	Ilfov	4322	Ilfov	5023
	Giurgiu	6894	Giurgiu	5646	Giurgiu	6946	Giurgiu	6894
	Covasna	7183	Sălaj	7406	Covasna	7062	Covasna	7183

| Sălaj | 9517 | Covasna | 7976 | Sălaj | 8758 | Sălaj | 9517 |

Source: Own elaboration based on INS data

V. Future Research

In a future paperwork I will investigate on the main determinants of Romanian migration using an appropriate econometric approach.

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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.

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.
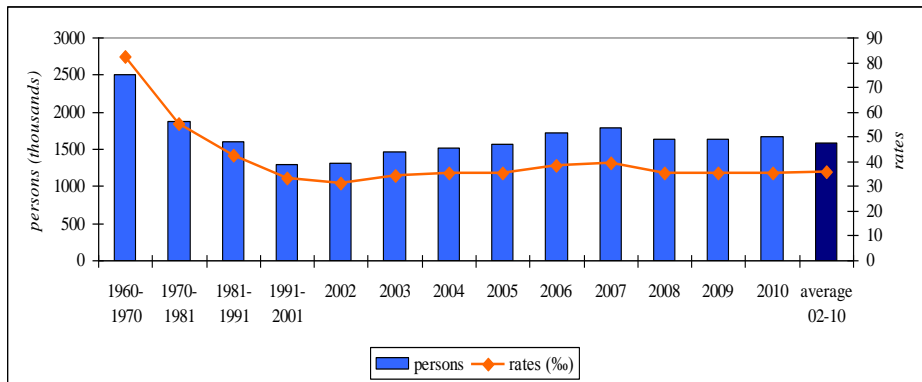
Source: Own elaboration based on INE data
Figure 1. Numbers and rates of internal migrants in Spain 1960-2010
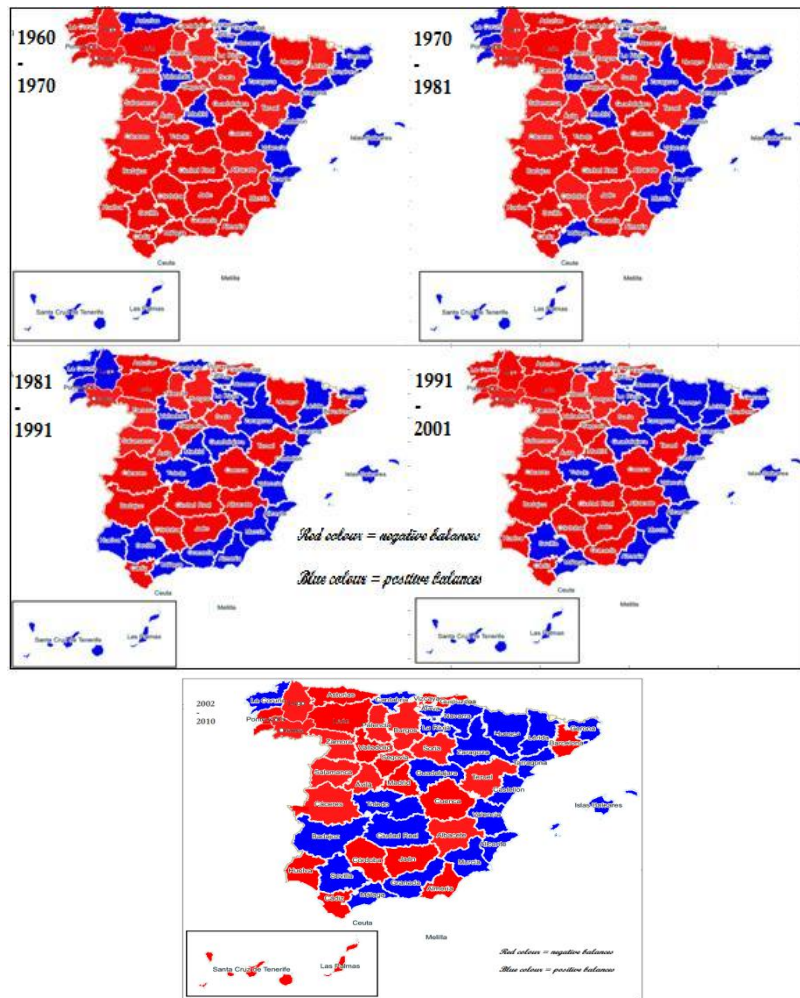
Source: Own elaboration based on INE data
Figure 2. Provincial maps of net migration, 1960-2010

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 Andalucia).

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

Spatial scale	1960-1970		1970-1981		1981-1991		1991-2001	
	No. (1000s)	Annual rate (‰)	No. (1000s)	Annual rate	No. (1000s)	Annual rate	No. (1000s)	Annual rate (‰)
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	*4,423*	*16.1*	*4,181*	*13.7*	*4,090*	*12.1*	*4,756*	*13.4*

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.
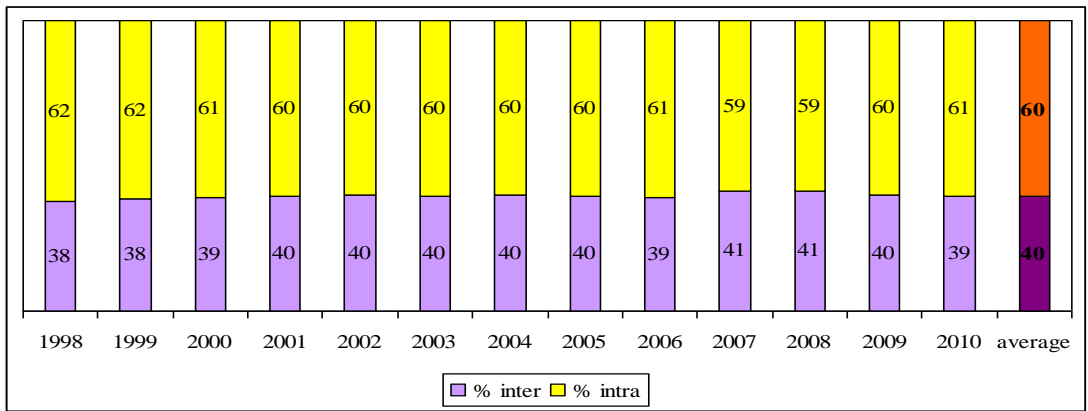
Figure 3. Distribution of inter and intra-provincial migration in Spain
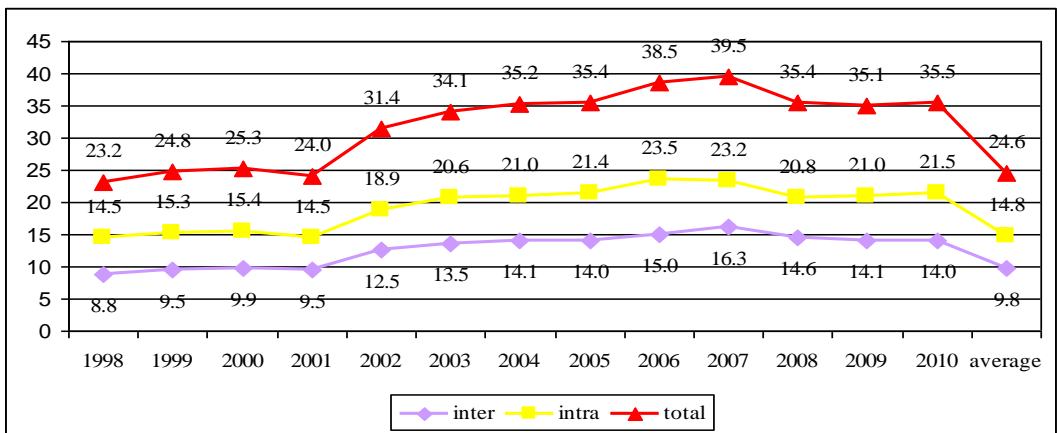
Figure 4. Inter and intra-provincial rates of migration in Spain

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.

Acknowledgement

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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

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[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:

$$GINI_{i,t} = \beta_O + \beta_i X_{i,t} + \delta_t + \eta_i + \varepsilon_{i,t} \qquad (1)$$

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 $(\varepsilon_{it})=0$; 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:

$$\Delta GINI_{i,t} = \beta_i \Delta X_{i,t} + \delta_t + \eta_i + \Theta \Delta Z_{i,t} + \varepsilon_{i,t} \qquad (2)$$

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 F test	6.23 (p=0.00)		
Cross-section *chi-square*	144.79 (p=0.00)		
Period F test	2.63 (p=0.00)		
Period *chi-square*	28.84 (p=0.00)		
Cross-section / Period F	5.68 (p=0.00)		
Cross-section / Period *chi-square*	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.

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 Worlwide, 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,

Timpul petrecut la TV

Minute pe zi — 300, 250, 200, 150, 100, 50, 0

Regions: America, Orientul Mijlociu, Europa, America Latina, Asia-Pacific, Africa

Series1

Regiuni

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

Among all 8- to 18-year-olds, change in average amount of time spent with each medium in a typical day:

[Bar chart: Music/audio + :47, TV content + :38, Computers + :27, Video games + :24, Movies n/c, Print - :05†]

†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 GDPc 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.

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
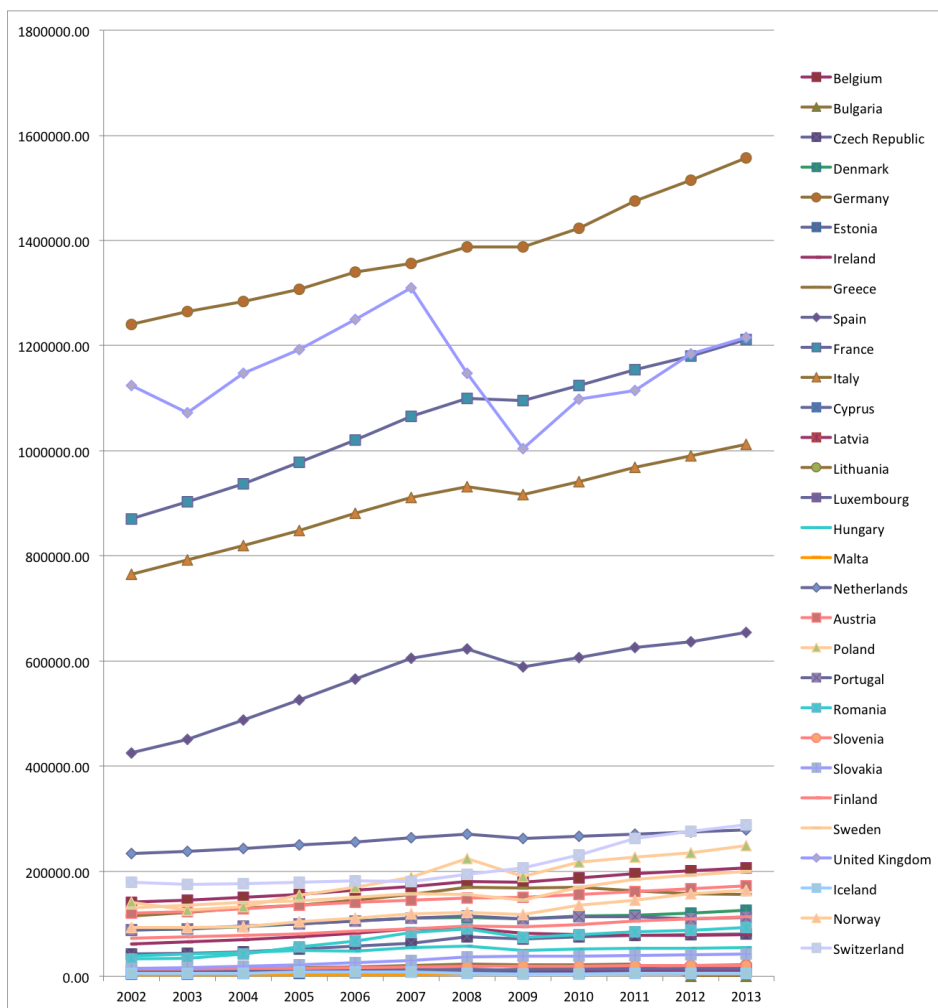
Source: the author according to the data available on Eurostat

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
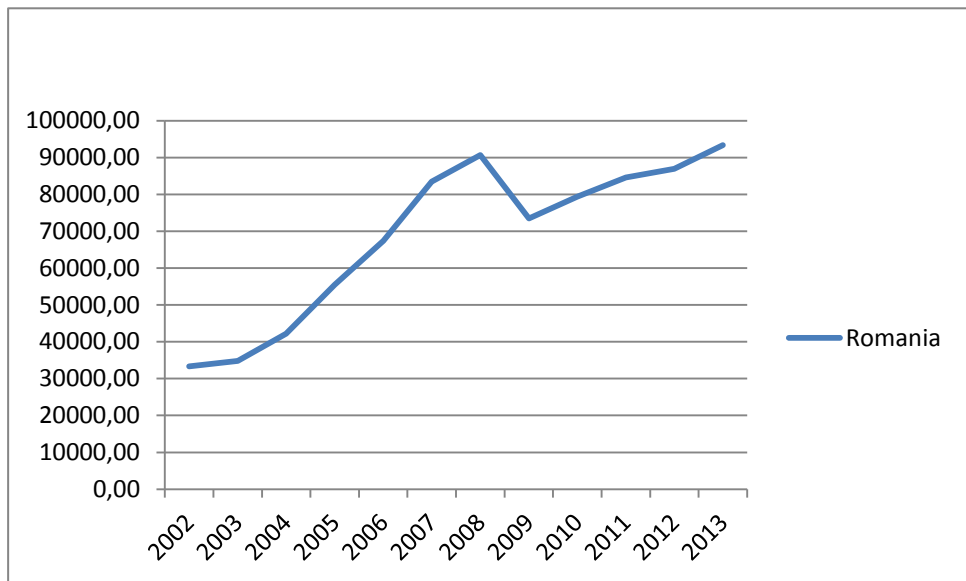
Source: the author according to the data available on Eurostat

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 wining 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
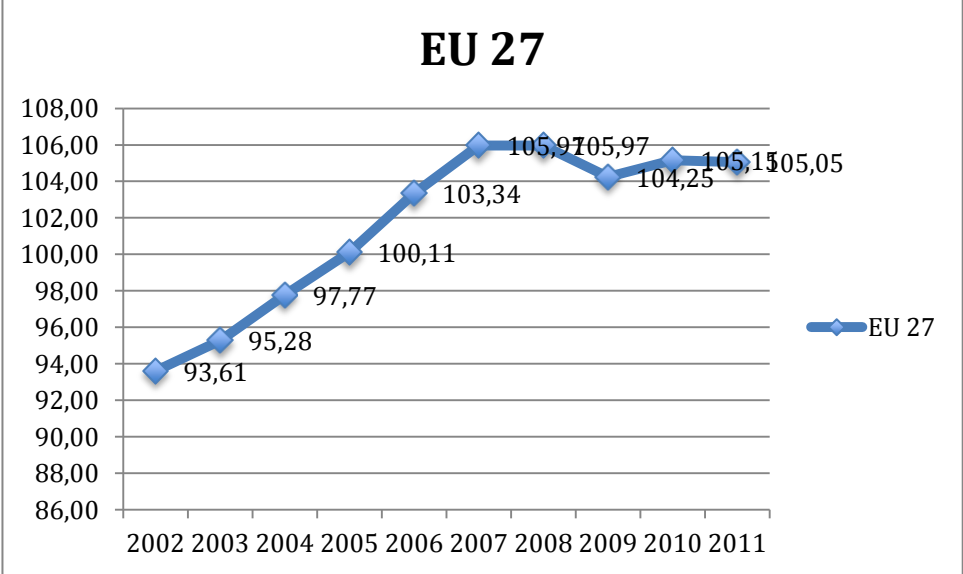
Source: Created by author based on data taken from Eurostat

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 Cohuţ 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 the 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
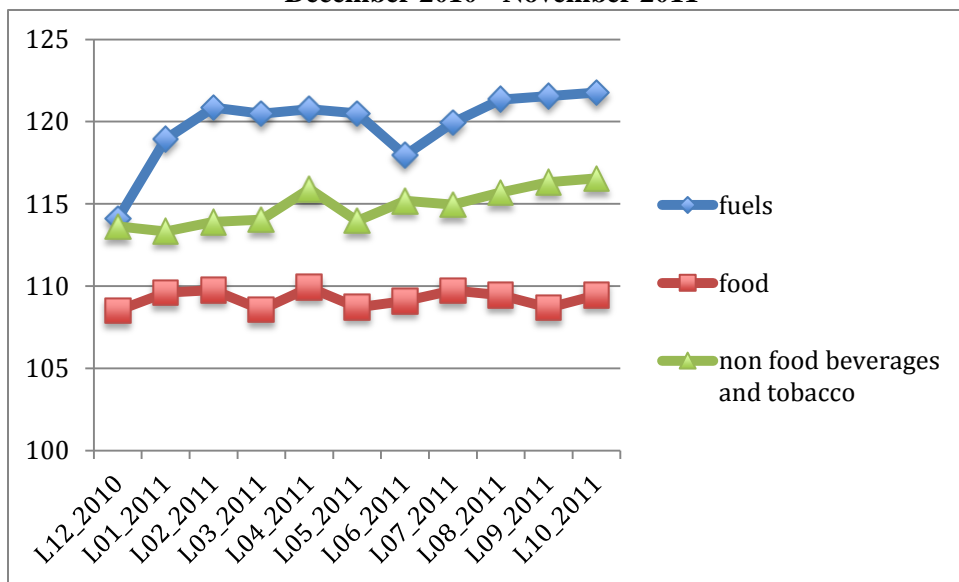
Source: Created by author based on data taken from Eurostat

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

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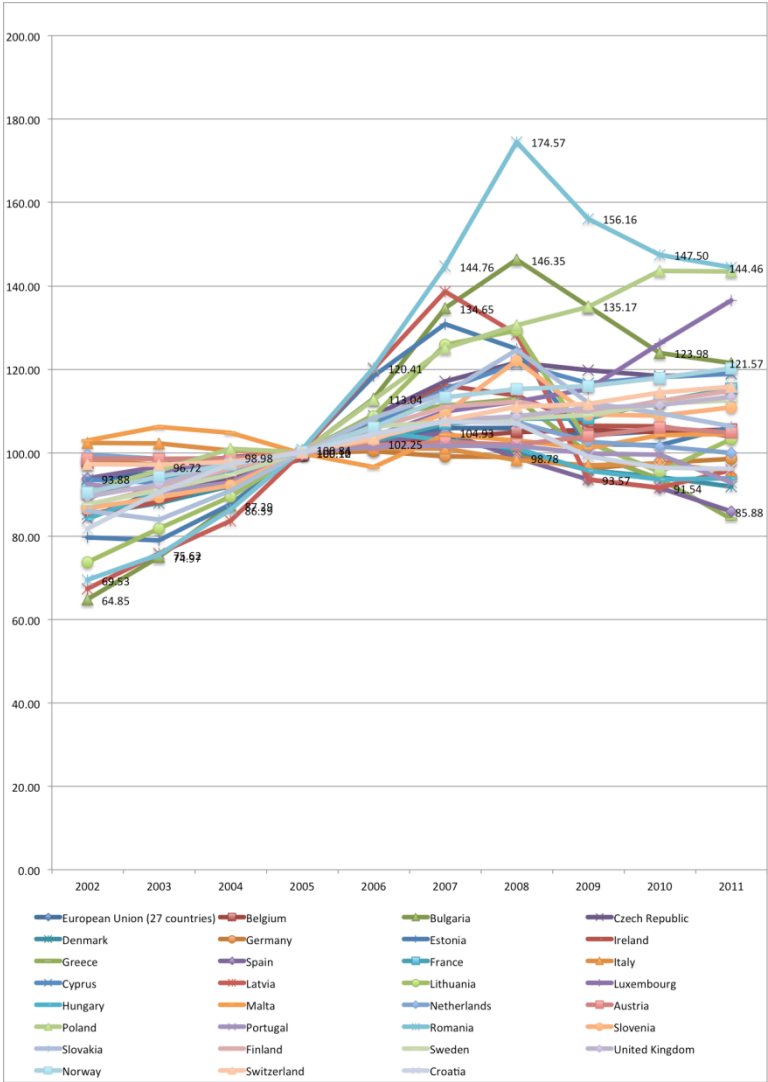
Figure No. 3 shows that the volume of retail trade in the member states of European Union, generally increased in the last decade, but the magnitude of the changes differ substantially. Between 2000 and 2007, retail trade volume has doubled in Romania and Bulgaria, Estonia, Latvia and Lithuania. Between 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 MeGee (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) $$M \cdot V = p \cdot T$$

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** - **LI**near **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 structurally 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) $$\ln(Y_t) = \alpha_t + \gamma_1 \ln(X_{t-2}) + \gamma_2 \ln(Z_{t-2}) + \gamma_3 \ln(Q_{t-2}) + \gamma_4 \ln(W_{t-2}) + \hat{\eta}_{it},$$

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) $$\ln\left(\frac{C}{M_2}\right)_t = \beta_0 + \beta_1 \ln(T_t) + \beta_2 \ln\left(\frac{WS}{NI}\right)_t + \beta_3 \ln R_t +$$
$$+ \beta_4 \ln(X_{t-2}) + \beta_5 \ln(Z_{t-2}) + \beta_6 \ln(Q_{t-2}) + \beta_7 \ln(W_{t-2}) + \omega$$

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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FROM SOCIAL CAPITAL TO FIRMS NETWORKS: SOME EVIDENCE FOR EUROPE

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The concept of development is not only referred to the level or to the growth rate of GDP of a country, but it concerns different aspects of individual and social life. Development leads to a changing of values, culture, behaviours and attitudes of people interested in it. That is to say that not only quantitative dimensions, but also qualitative ones became relevant in fostering development trajectories. Reasoning in these general terms a long and rich intellectual debate grow up in social sciences within which we focused the social capital and firm network debate. Social capital is a multidimensional determinant at base of the industrial district framework as the "network capital" represent a driver of firm's network framework.
By moving from social capital, as a local development driver, to network capital, as a global development driver, the present paper analyzes the firms networks determinants by identifying the conditions for some European countries. The methodology through which the results are obtained is the multidimensional scaling method which allows to define relations between countries in terms of proximity/distance with respect to the considered determinants providing a spatial representation of them.

Keywords: social capital, network capital, firms networks, multidimensional scaling.

JEL code: D71, R23 Z1, Z13

1. Introduction

From a theoretical point of view, modern political economy has developed by depriving economic interactions of their social content. Despite that a stream of research programs grow up in order to replace social interactions within the development issue. Among them the social capital concept became more and more a debated argument, by moving from the belief that the economic activity is deeply embedded in the social structure, and agents' decisions are always influenced by a wide range of social and cultural factors. Firstly discussed within the sociological boundaries (Bourdieu, 1986; Putnam, 1993; Granovetter, 1985) the concept of social capital affected also economy (among other Becker, 1974 and North, 1990; for a critical overview see Sabatini, 2005). As a matter of fact the several perspectives on social capital derive from heterogeneous academic backgrounds and frameworks, but they all agree on the ability of certain aspects of the social structure to generate positive externalities fostering competitive advantage for members of a group (Sabatini, 2005). An exhaustive review of the different approaches on social capital falls behind our aims; what we stress in this paper are the positive outcomes that a social structure and the following interactions exert on firms productive capabilities. It's widely acknowledge about these outcomes. A social structure fuels the agents interaction and consequently increases the better diffusion of trust and information. That is to say that an increase in trust-based relations reduces the average cost of transactions, just as an increase in physical capital reduces the average cost of production. Moreover the

circulation of information reduce uncertainty and the free-riding effect on the market. These mechanisms were at the base of local economic development patterns, providing a credible explanation for growth differentials among regions with similar endowments in terms of the other forms of capital. We are talking about the industrial district framework that characterized the Third Italy's development model (Bagnasco 1977; Becattini 2000). About economic outcomes of social capital we argue that they strictly depend on social and historical circumstances in which social interactions are located, that's why many marshalliani scholars talk about social capital and local development. What about a wider context? As Simpson (2005) argues in a globalised context grow up a new type of social capital, known as "network capital". It is formed from collaborative practices in a human network. Network capital is the expression of social capital in the Information Age. It exists making use of ICTs, because it is a result of cooperation via electronic networks. That's why by moving from social capital, as a local development driver, to network capital, as a global development driver, the present paper analyzes the firm's networks determinants identifying the conditions for some European countries. The paper starts with a brief overview of the topic of firms network (see par. 2). In the second section, a data analysis using a multidimensional scaling methodology is provided, in order to identify groups of countries that show similar characteristics in relation to the chosen indicators (see par. 3). At the end, some brief concluding remarks, that summarize the results achieved by the analysis, are given (see par. 4).

2. Firms networks

Globalisation has brought undisputed changes on competitive field and the way of communicating. It has increased the importance to cooperative networks and business in international markets. In this context a new type of social capital, known as "network capital", arises. Network capital is the expression of social capital in the Information Age. It exists making use of ICTs, since it is a result of cooperation via electronic networks (Simpson L. 2005). Firms can also create collaborative relationships even if these are located far from each other.

The networks' roles are multiple, since they may accelerate the innovative process, increase the capability for continuous learning, combine some specific functions shared with others, stimulate scale economies, help to anticipate trends and changes within the society for new market opportunities.

The efficiency of a network enterprises depends on its stability and its survival is facilitate by three factors: degree of trust among partners, information and knowledge sharing, presence of a planning system.

There are different ways for classifying firms networks, since they constitute a phenomenon with heterogeneous characteristics and aims. There are the "natural networks" characterized by the absence of legal identity and structurally flexible. The "governed networks", on the other hand, have a high coordination degree. According to the strategic cohesion degree, there are the "diverged networks", the " mutual influence networks" and the "converged networks". The first ones usually reach efficiency and effectiveness advantages in the short-term. The second ones are mutually determining to pursue competitive strategies. The third ones represent the most appropriate organizational solution to achieve a common strategic plan. Depending on the integration degree, there are the "complementary networks", in which the technical-productive and economic ties among firms are very strong, and the "independent networks", which ignore the processes in the companies but create shared common interests.

Firms network relationships may increase the level of development since they allow to replicate information and knowledge, and overcome the physical distance problem. The

network expansion is based on important pre-conditions, fundamental for creating stable and global relationship: opening capability, security and above all ICTs diffusion.

3. Data, methodology and results

To reach our purpose, which consists in identifying conditions for network capital development in the European countries, we use a multidimensional scaling analysis.

Multidimensional scaling is a useful tool through which it is possible to produce a graphical representation of a pattern of objects, in this case the 27 European countries, based on the degree of similarity/dissimilarity between them.

The goal is to provide a representative map that best approximates the distances observed between countries, concerning the conditions for network capital development.

This statistical method attempts to build a configuration of the various entities, merged in a small number of dimensions. This is done by defining relations between countries in terms of proximity/distance with respect to the considered indicators. The resulting positioning map has the property to partition the countries into homogeneous groups, so as that the degree of association between two countries is maximal if they belong to the same group and minimal otherwise.

We considered a matrix of 27 Eastern European countries and indicators, representing 4 sets of variables: development background, national security, ICT diffusion both at firm and individual level (see Table 3).

In particular, we have selected the following indicators (source Eurostat):
1)   Opening capability
-       Persons with tertiary education attainment by age and sex (% of 15-64 years old), 2010
-       Number of airports (with more than 15,000 passenger movements per year) (per million of people), 2009
-       External trade of EU (export/import ratio), 2010
-       Total intramural R&D expenditure (Euro per inhabitant), 2010
2)   National security
-       Police officers (per 1000 people), 2009
-       Crimes recorded by the police (per 1000 people), 2009
-       Prison population (per 1000 people), 2009
3)   ICT diffusion at firm level
-       Enterprises using automated data exchange with other ICT systems outside the own enterprise, 2011
-       Enterprises using Internet for interaction with public authorities (demand side), 2010
-       E-government availability (supply side), 2010
4)   ICT diffusion at individual level
-       Broadband penetration rate (%), 2011
-       Frequency of Internet access: once a week (including every day), 2011
-       Internet use: interaction with public authorities (last 12 months), 2011

Data refer to the most recent year basing on their availability.

The model's goodness of fit was assessed via the RSQ (0.91), that indicates the proportion of variability explained by the corresponding dissimilarity distances, and the Stress Index (0.14). As a general rule, results are found to be robust when the size k achieves an Stress Index value lower than 0,15. A two-dimensional model was judged to be acceptable according to the values of the Stress Index, reported in Table 1. Further investigation provided additional basis for choosing the two-dimensional solution: the "elbow" rule

suggests to choose the number of dimensions in correspondence to where the diagram yields an "elbow", beyond which the broken line flattens (see Figure 2).

Table 1. Stress Index and map configuration

Dimensions	Stress Index
1	0,26
2	0,14
3	0,08
4	0,06

Figure 1. Scree plot
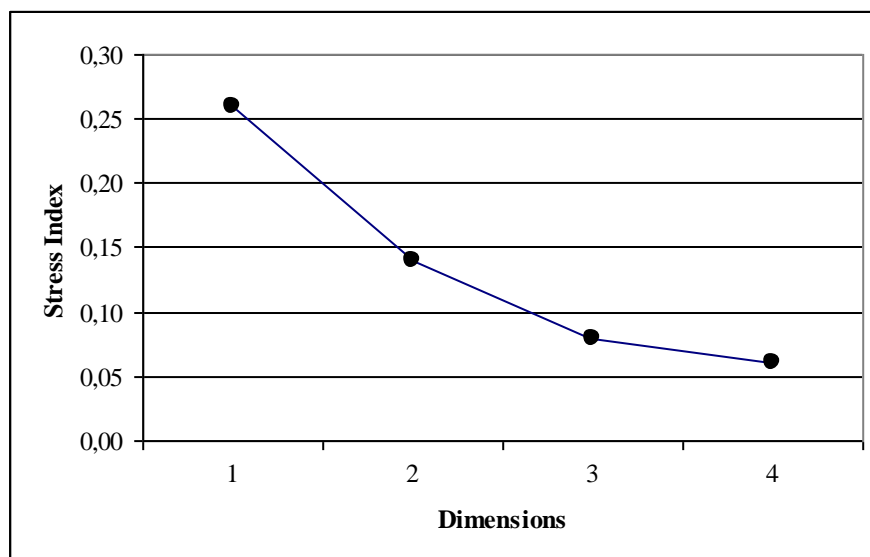
The correlations between dimensions and variables (see Table 2) were useful for naming the axes. The resulting two-dimensional image is shown in Figure 3. The horizontal axis represents the variables concerning ICT diffusion (both at firm and individual level) and national security; the vertical one is related to the opening capability.

Table 2. Correlations between variables and dimensions (r > |0,5|)

Variables	Dimension 1	Dimension 2
Persons with tertiary education attainment	0,54	-0,57
Total intramural R&D expenditure	0,89	
External trade of EU		-0,68
Number of airports		-0,58
Police officers	-0,53	
Crimes recorded by the police	0,83	
Prison population		
Enterprises using automated data exchange with other ICT systems		0,57

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Enterprises using Internet for interaction with public authorities	0,59
E-government availability	0,59
Broadband penetration rate	0,84
Frequency of Internet access	0,93
Internet use: interaction with public authorities	0,93

Figure 2. Cluster of countries in a two-dimensional space
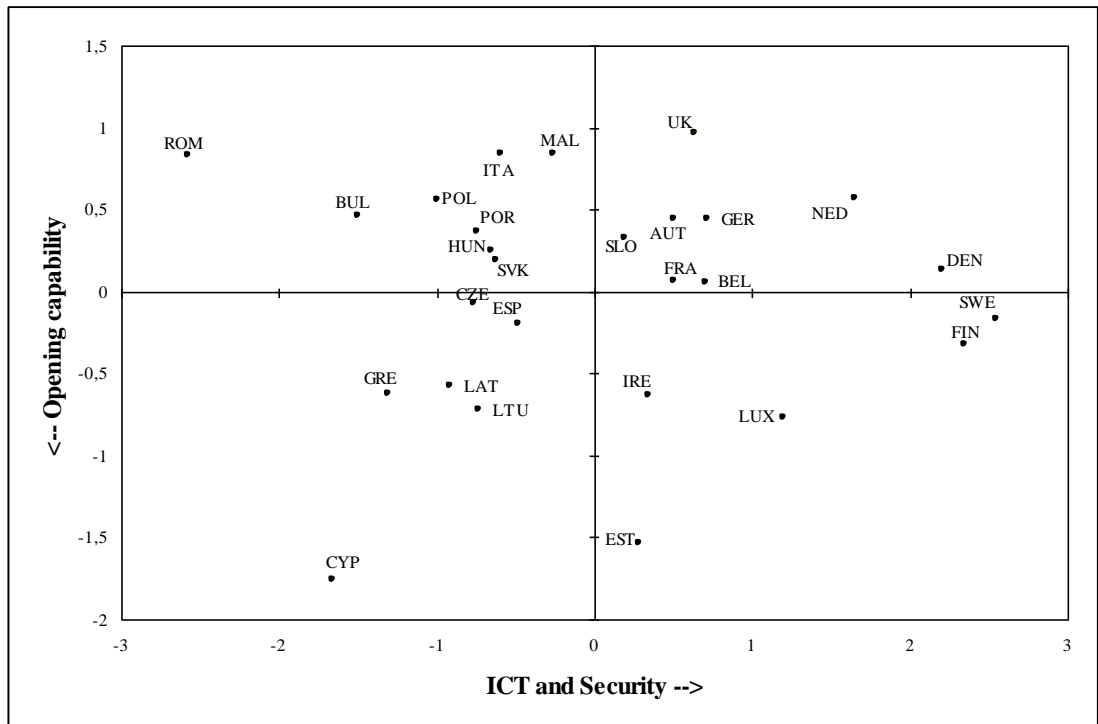
On the right of the chart is the northern cluster, which shows the highest ICT performances and efficiency in security; the group of central European countries, with levels of technology closes to the average values of the sample, lies on the centre; on the left is the cluster of Eastern and Southern European Countries, with its lower level of ICTs diffusion and safety efficiency. On the lower area of the chart there are some countries which show an higher opening capability with respect to the others.

4. Conclusions
In a globalised context, fuelled by ICTs, collaborative relationship among firms could happen, even if these are located far from each other. These stylized fact generated the so called "network capital". So by moving from social capital, as a local development driver to network capital, as a global development driver, we provided a preliminary analysis on some European countries, adopting the multidimensional scaling method that allows us to point out where conditions are more appropriate for firms network diffusion. It is worth to underline that this analysis is only a first step in such an investigation and shall not be

considered as exhaustive in order to thoroughly understand the reference dynamics, it can simply be useful for further and more detailed investigation.

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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.

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

$$\Pi(SC, G, P, H, K) = h(R). \qquad (1)$$

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

$$W = W(SC, G, P, H; R). \qquad (2)$$

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

$$W_{SC}(SC, G, P, H; R) = \frac{\Pi_{SC}(SC, G, P, H; R - W)}{\Pi_{K}(SC, G, P, H; R - W)}, \qquad (3)$$

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

$$V_i = \frac{W - (t_{SC} + t_G) \cdot W}{\delta} = \frac{W(SC, G, P, H_i; R_i)}{\delta + t_{SC} + t_G}. \tag{4}$$

The aggregate value of an industrial district is here defined as the sum of the individual firms values within the cluster

$$V = \sum_{i=1}^{N} V_i = \sum_{i=1}^{N} \frac{W(SC, G, P, H_i; R_i)}{\delta + t_{SC} + t_G}, \tag{5}$$

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

$$(t_{SC} + t_G) \cdot V = SCC(SC, N) - S + GC(G, N), \tag{6}$$

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

$$V = \frac{1}{\delta} \left[\sum_{i=1}^{N} W(SC, G, P, H_i; R_i) - SCC(SC, N) + S - GC(G, N) \right]. \tag{7}$$

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

$$\frac{\partial V}{\partial S} = \frac{1}{\delta} \left[\sum_{i=1}^{N} W_{SC}(SC, G, P, H_i; R_i) - SCC_{SC}(SC, N) \right] \frac{\partial SC}{\partial S} + \frac{1}{\delta}, \tag{8}$$

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 form 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. Buiter 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 canno0t 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.
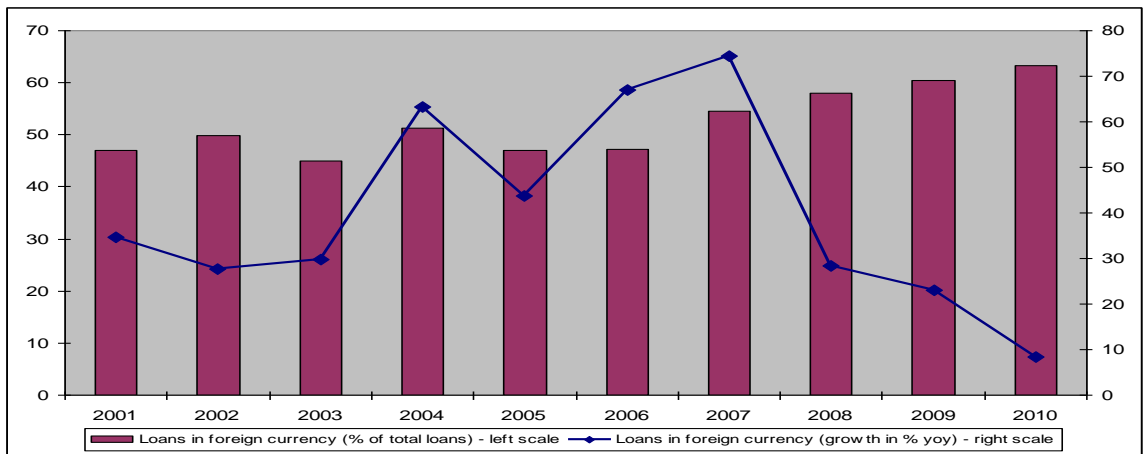
Figure 1. Evolution of the loans in foreign currency in Romania

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.
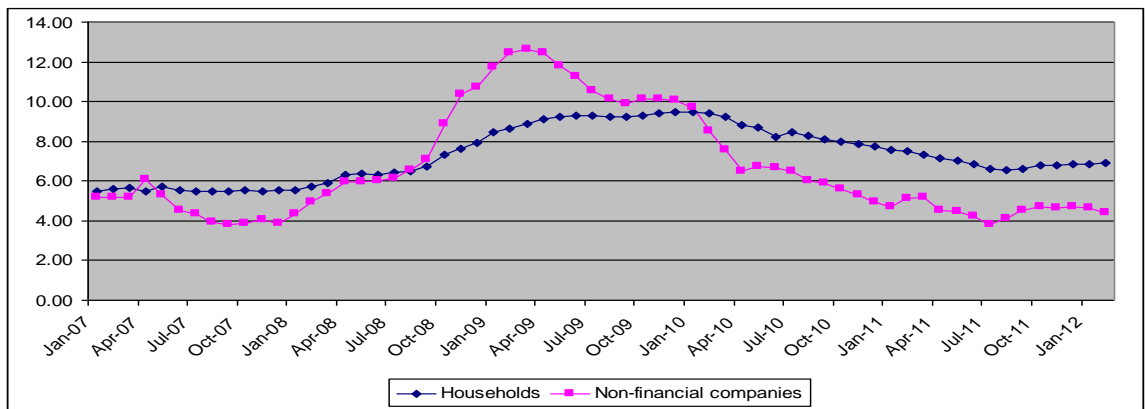
Source: NBR, 2012

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.
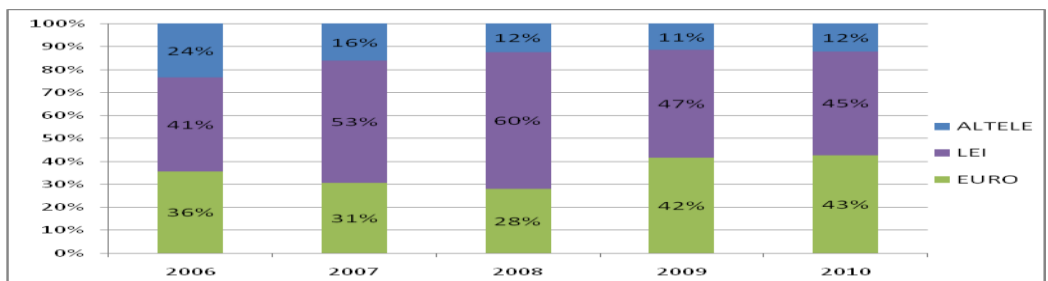
Source: Ministry of Finance – Public debt report 2011

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 I 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.
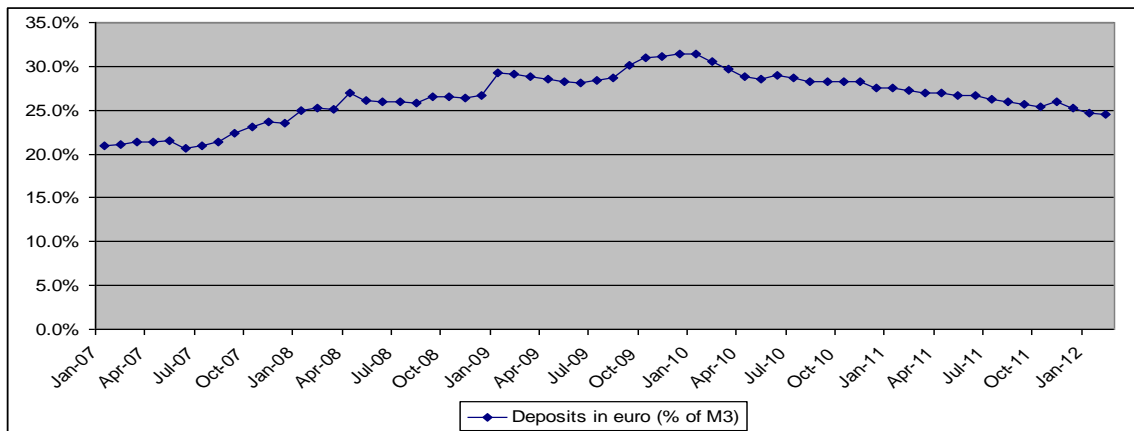
Source: NBR, author's calculations

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 form the highly commercially and financially integrated countries with Romania gets increased.

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A PROPOSAL OF MODEL OF ANALYSIS OF THE TRANSITION FROM SCHOOL TO ACTIVE LIFE OF ECONOMISTS BASED ON INTER-REGIONAL LABOUR MARKET PARTNERSHIP. STUDY CASE OF PRACTEAM PROJECT

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Abstract: In the last years, the integration of young people into the labour market has become more difficult, being accomplished in a gradual, complex and less uniform way comparatively to the years prior to the crises. The rate of youth employment is much lower than among other categories of population, and the insertion of young people on the labour market has become a difficult process, both in Romania and in the European Union, process that is characterised especially through raising the period of time passed from the moment of graduating from school to the moment of finding the first 'significant' workplace (for at least six months and with a length of at least 20 hours of work per week), preferably, from qualitative point of view, in accordance to the qualification obtained. In this context, in order to analyse the way in which the integration of young people into the labour market is done in Romania, the present paper makes, in the first part, a short theoretic incursion regarding the main theories referring to youth employment, transition from school to active life and, more specific, transition from higher education to employment, the main determinants of the transition from school to active life and the way in which the process is affected by the tendencies on the labour market, the ways of measurement and evaluation used up to the present etc. In the second part, the paper tries to propose a research methodology of the transition from higher education in the field of economics to employment, analyse that will be carried out in the project called „The practice of economist students. An inter-regional partnership on the labour market between universities and the business environment" (PRACTeam) in the purpose of creating policy and strategy recommendations for diminishing the difficulties felt by young people in the process of transition from school to active life.

Conceptual framework regarding *transition from school to active life* and *labour market insertion*

The relative high rate of unemployment among youngsters, comparative to the rest of categories of active population, especially in the last period, determined the rise of preoccupations for the analyse of the young people labour market, the factors that influence their employability, the factors that determine a simplification of the transition from school to active live, from the young people, involved in a form of education, to the adult who wants to join the labour market. Literature examines the transition from school to active live and *transition from higher education to employment* closely with *labour market insertio*n or *integration of young people into the labour market* and *youth employment or unemployment* (Cardosa, 2004; Hill and Holzer, 2006; Tovatt, 2011; Bell and Blanckflower, 2011). The analyses taken so far are in correlation with aspects referring to: demographic evolution, behaviour of young people, incomes obtained during their studies, experiences during diverse forms of education, family's incomes, social

networks that the young people can benefit of, the way in which transition to the adult life is affected by the tendencies on the labour market, etc.

In this context, our concern is to identify the main determinants of transition from school to active life, the main transition models, the influence of the organising way of the educational system and the extent to which this system manages to contribute to the insertion of the youngsters on the labour market, which are the methods of measurement and identification of training needs of young people in order to simplify the transition from school to active life, in order to construct a model of analysis and interpretation of the transition from school to active life and insertion of young people on the labor market.

The literature defines the *transition from school to active life* as the process of transition from a young life comprised in a form of education to independent living, where young people gain first experiences of professional integration, no matter if they have completed studies or not (Garcia, 2007:27 cited by Pîrciog et al., 2010:75). On the other side, the insertion on the labour market represents an indicator of passing to the adult life, through independent living, marriage, the decision of having children etc., determined by the finding of a workplace after graduating from school (Hill and Holzer, 2006). This process that, in the last years, has become more ambiguous is realised most of the times in a gradual, complex and less uniform way, being influenced by the replacement of the classical, direct transition model – in which school and labour succeeded, with a model of indirect transition in which school and labour can alternate for certain periods of time and can complete even with periods of inactivity and unemployment.

Knowing this aspects, our approach will try to analyse the *transition from school to active life from the perspective of youngsters insertion on the labour market*, especially of higher economic studies graduates, being preoccupied with predilection of the way in which economic students, respectively higher economic studies graduates, from the North-West, West and North-East regions, respectively counties Bihor, Timiş and Suceava, manage to integrate on the labour market.

During the time, transition from school to active life from the perspective of the insertion on the labour market raised the formulation of some theories as well as some models of transition that try to explain the way of its accomplishment. The main theories regarding the insertion of youngsters on the labour market are: *the theory of human capital* (Becker, 1964), with accent on the analyse of the behaviour towards education and the implications that result on the labour market through wage differences between different levels of training; *the theory of competition for a workplace or the „job-competition model*" (Thurow, 1975), that emphasizes the defensive importance of education in finding a workplace as well as the level of compatibility of the qualifications provided by the educational system; *the „job search theory*" (McCall, 1970; Mortensen, 1970), that focuses on the study of behaviour of individuals during the period of searching for a workplace, the analyse of the way in which the decision of acceptation or rejection a workplace is taken, influenced especially by the level of the wage offered of diverse firms; *the „insider – outsider" theory* (Linbeck and Snower, 1988), based on the distinction between employed (initiated) and unemployed (uninitiated), those being the ones that are looking for a workplace, and among them, the biggest part is represented by young people that graduated from a school but do not have experience and enter into the competition of finding a workplace with those who have experience and who have or have had a workplace.

The insertion of youngsters on the labour market, besides the characteristics of national economies, depends on the way in which every country manages to make an institutional connection between the educational system and the work force occupation measures. Also, it matters the way in which the educational system makes a distinction between university education and vocational education. In this direction, many countries offer a general education, in which competences acquired by graduates are not necessarily in direct link with the competences necessary by the future workplace, and the vocational preparation is done at the workplace. In

other countries, the forming of competences specific to the targeted workplace is obtained through the educational and training system (Velden and Wolbers 2003). In this way, generic models identified in the special literature are: *the Japanese model*, based on a direct tradition: school education – work, based on training at the workplace; *the German model,* dual system in which theoretic forming combines with practical training; *the French model*, based on a training in the school environment, *the American model* - in which common training represents a fusing between the theoretical and practical education (Ehlert and Cordier, 2002). Out of those, the model that best succeeds to integrate youth on the labor market is *the dual model* where education and practice take place simultaneously and allows the student to be initiated (insider) on the labor market during the studies (Velden and Wolbers, 2003). This model is applied in Germany, Austria, Luxembourg, Netherlands, Denmark and Sweden, and the educational system has very close links with business organizations, with benefits for all three parties involved: for students – it helps increase the employment opportunities (82% of German higher education graduates find employment within six months after graduation), for programs offered by universities and companies by maintaining direct contact with graduates who can become future employees (Mickovska-Raleva, 2010).

In addition, the insertion of young people on the labor market is closely connected with the degree of standardization and stratification of the educational system. The degree of standardization means uniform national education system, which allows a comparison of the quality of educational programs offered by various universities, and the stratification is the degree to which education gives young people the possibilities to choose different career path during studies. I then countries where the degree of standardization and stratification is higher young people are integrated quickly on the labor market (Velden and Wolbers, 2003).

A model of transition from school to active life for students in Economic Sciences based on labour market partnership: PRACTeam project study case

The project called *'The practice of economics students. An inter-regional partnership on the labor market between universities and business environment" (acronym PRACTeam)*, co-funded by European Social Fund -"Invest in people, "Human Resources Development Operational Programme 2007-2013, Priority Axis 2" Linking lifelong learning and labor market", key Area of Intervention 2.1 "Transition from school to active life", contract POSDRU/90/2.1/S/64150, total value of the project: 20,941,500 lei, period of implementation: 01.10.2010 - 30.09.2013, has the overall goal of developing the economist students employment skills during the practical training and internship, conducted in inter-regional partnership on the labor market between universities and businesses in order to improve the insertion of economists on the labor market. Among *the specific objectives* of PRACTeam project are included: increasing the employment of graduates of Bachelor degree programs and master programs in economics, the promotion and development of an inter-regional partnership between universities on the labor market, on the one hand, and business, on the other hand, to facilitate transition from school to active life of the future economists; the development and promotion of some partnership regarding the practice and internship programs customized for each student and innovative for each host organization; increasing the interest and responsibility of the business environment for student practice by developing and promoting staff training of employees of the host organizations with role of tutors, and by organizing exchanges of experience and dissemination of good practices.

The PRACTeam project addresses a number of 2430 students and 486 tutors in enterprises in the three counties involved: Bihor, Timis and Suceava, grouped into three target groups. The first target group consists of 486 people from the host organization responsible with the activity of practice having the role of tutors. This involves in every county a number of 162 tutors in enterprises, 54 tutors each year of implementation who are trained to assist students in practice activities. For this target group the project aims to improve skills tutorials in order to support

students in the transition from school to active life. The second target group comprises students from the first cycle of studies and consists of 1620 students that are going to conduct practical training in the three counties included in the project (Bihor, Timis and Suceava). This concerns in every county a number of 540 undergraduate students, 180 students each year of implementation, drawn from the partner university centers, beneficiaries of practical training module and of the customized module of advice and guidance in career that includes aptitude testing for career guidance. For this target group the project aims to increase skills levels and increase practice employment skills. The third target group consists of 810 students in second cycle of studies, which also benefit from the module of practical training and the custom module of counseling and career orientation including aptitude testing for career guidance. This concerns in every county a number of 270 persons, selected from the partner university centers, giving a total of 90 graduate students annually at the level of the three counties. For this target group is also intended to increase skills levels and increase practice employment skills.

In terms of *methodology of implementation,* all project activities are carried out symmetrically in three counties in the area of implementation concerned, namely the local level. Thus, the first six months of each year of implementation of the project are dedicated to training the practical stages in each partner university: establishment of dispatch of practice - PRACTeam Center, identification and selection of target groups, facilitated by the organization and conduction of the PRACTeam campaign as a fair of offers of practice and internship and the renewal and completion of new partnership agreements for the practical training; the identification of training needs through PRACTeam Workshop of practice, training the tutors and training-support materials for the practical training - Manual of the tutor, student, etc. Practice Guide, attending the counseling and career orientation module by the students selected and aptitude testing of students. Last six months of each year of implementation of the project are dedicated to making the practical stages, evaluation and awarding students that prepare and conduct internships.

Upon completion of practical training, in each year of implementation, will be organized the PRACTeam Gala within which will be held the Round Table *"Experience and Good Practices PRACTeam"* – where will take place an exchange of experience and dissemination of best practices on the practical training, the presentation of experience and presentation of results and future exploitation opportunities and takes place *The contest of ideas for improving the activity of the host organization of the practical stages*. Basically at PRACTeam Gala will also present and awards at inter-regional level the best ideas for improving the activity of the host organizations, will be awarded three prizes (I-III) at inter-regional level - one students from the three partner universities and 18 prizes for the best results - will be awarded the best student / specialization (6 students x 3 partners) and will be announced the students who will benefit from internships stages.

Carrying out the PRACTeam project will allow us to establish an inter-regional education research, formation, training and communication network, and to establish an inter-regional database. In addition, the proposed project is a model of organizational practice and internship for students, which will significantly contribute to changing attitudes and increasing of the responsibility of the business environment, university and students towards the practical training.

Conclusions: a proposal of model of analysis of the transition from school to active life of economists

Without denying the importance of other determinants of the transition from school to active life, such as: social status of young people, individual characteristics, social networks whom he has available, socio-economic context in which they live, restructuring and economic developments of the country, diversification opportunities and potential professional trajectories of increasing geographical mobility, we consider relevant to us as potential mobilizing factor in the growth of *young people insertion on the labor market*, the focus on the following courses of action: *the*

analysis of educational programs in economic higher education from 3 Romanian universities: Faculty of Economic Sciences - University of Oradea*,* Faculty of Economics and Business Administration - West University of Timişoara, Faculty of Economics and Public Administration - „Ştefan cel Mare" University of Suceava, qualifications and skills which a young people can achieve by following programs of study offered by these faculties at Bachelor and Master level and how to choose and identify the career path; *the analysis of the youth labour market* at regional level in 3 development regions of Romania: the North, North - West and North - East, focusing on the following 3 counties: Bihor, Timis and Suceava, assessing the employment potential for graduates of economic higher education; *the analysis of the transition from school to active life* of university graduates in Economic Sciences, at regional level, in the 3 development regions of Romania: the North, North - West and North - East, focusing on the following 3 counties: Bihor, Timis and Suceava and the identification of the determinants of transition from school to active life.

The three directions of action will focus on analyzing the following target groups: 3 *faculties of Economic Sciences* from 3 Romanian universities: University of Oradea, Faculty of Economics, University of West Timisoara, Faculty of Economics and Business Administration and "Stefan cel Mare" University, Faculty of Economics and Public Administration; 150 *host organizations for student practice* in the 3 counties of Bihor, Timis and Suceava; 486 *practice tutors* employed in the host organizations for student practice and trained for supporting students for *labour market insertion* in the 3 counties of Bihor, Timis and Suceava; 2430 *students in Economic Sciences* supported for the *transition from school to active life* enrolled in undergraduate and master programs of the 3 universities: University of Oradea, Faculty of Economics, University of West Timisoara, Faculty of Economics and Business Administration and "Stefan cel Mare" University, Faculty of Economics and Public Administration.

For each course of action we propose to complete a specific research methodology, including *quantitative* and *qualitative* approaches with specific research tools. The final study - ***Transition from school to active life for students in Economic Sciences of the Bihor, Timis and Suceava counties*** through PRACTeam project during 2010-2013 will be structured as follows: **1.** *youth labor market diagnoses of the Bihor, Timis and Suceava counties focused on economic higher education graduates employability* (analysis of economic indicators related to employability: employed population by age and economic activity, employment by level of education, youth unemployment rate, percentage of graduates in economics in total number of graduates, share of students enrolled in the economic profile etc.); **2.** *needs identification for practice stages for students in Economic Sciences of the Bihor, Timis and Suceava counties (*research based on the *survey* of the *structured questionnaire applied to students* which has benefited practice stages in different systems, *focus - groups* organized at county level, *workshops* organized at county level etc.); **3**. *a model of transition from school to active life for students in Economic Sciences based on labour market partnership (PRACTeam project study case,* including presentation of students awarded for results in practice stage and for ideas to improve the host organization's activity, *round tables* organized at inter-regional level, research based on the *survey* of the *structured questionnaire applied to practice tutors*, open structured *interview applied to managers of practice host organizations* etc.); **4.** *impact evaluation of transition from school to active life for students in Economic Sciences based on labour market partnership (*research based on the *survey* of the *structured questionnaire applied to graduates* which has benefited practice and internship stages through PRACTeam project).

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DYNAMICS OF FOOD SECURITY IN RECENT DECADES

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By food security we understand the people's access, at all time, to food, needed for a healthy and active life. It can be thought at global, regional, state or local level, but only as a strategy with relevance only to the family, to be able to buy, thanks to its own production or purchase, sufficient food to meet the needs of all its members. Diet must be quantity sufficient, variety and of good enough quality and each family member should be healthy to take full advantage of consumed foods.

Food security can be ensured if three conditions are met: food stocks exist (at any level, from family to national), food stocks are stable and affordable for families to have to provide. In terms of food availability at national, regional and local levels, they depend on the production, storing and marketing network. Any deficiencies in the chain lead to shortages and price destabilization. Such deficiencies occur in all three levels. The worst is nationwide, which is the inability to produce adequate quantities of food according to the population needs. This is the case in many countries in South Asia or Africa. Then, there is failure to storage, illustrated by what happened in the summer of 1995 to our country with wheat. At the family level, the food shortage is poverty, inability to procure necessary food. Shortcomings in the chain production-storage-marketing lead to higher prices, which primarily hits the poorest families.

At family level, inability to have access to food may have a transient or permanent character. The first case occurs when the family temporarily has no access to sufficient food due to a crisis of production, import difficulties, job loss or a natural disaster. When access to food has permanent character for families, we could be talking about chronic food insecurity.

An analysis over the future of mankind should identify current global food security, if there is enough food for a growing population and if the Earth has sufficient capacity to maintain it. It is also important to determine the maximum population that the world can support, developing all its capabilities

Thomas Malthus, English vicar, was the first to reveal in 1798, the gap between population growth and food quantity. The first has an increase in natural geometric progression, because each year the growth is added to the growth of last year, and this amount is the new growth for the following year. For food, basis remains constant, without the automatic addition of annual increase, so to have an exponential growth; improvements should be brought to production system.

Under pressure from technological progress, agricultural production has evolved continuously through history. After the medieval production, performed on small areas, with animal or manual means and especially for family use, by differentiating village from town a new economy has imposed; agricultural trade, with production at village and products sold in town, which caused a high demand for food. That is why in England, between 1700 1800, productivity in agriculture increased by 100% (1% annually) while the population increased only by 0.6%. In France, between 1750-1850 agricultural productivity increased by 60% (0.6% annually), while the population had a growth rate of 0.4%. This increase, although tiny, has made possible to compensate for population growth, especially it has provided the necessary food resources and manpower for industrial development, supporting the first industrial revolution of the mid-century. This, in turn, has created a revolution in agriculture by inventing tractors and other

machines that have begun to play an increasing role in enhancing agricultural work. Thus, he passed from small production to large-scale production

Malthusian prophecies do not seem to be done yet at globally level, as agriculture and, in general, food production, also increased along with population. Nevertheless, the world's population does not enjoy sufficient food.

In 1974 it was estimated that the 80's will be provided an average daily consumption of 6,000 calories per person, with variations from 3000 to 15,000 calories, in addition, annual food production could provide 19% more calories than needed to diets. Evolution of two decades (1970-1990) was also optimistic.

Interestingly, statistics show that food production was enough in the 80's to conveniently feed the entire population of the world, 500 kg of annual vegetable production per inhabitant. Even it has been told that today, in the world it is produced, more food per inhabitant than ever in history of mankind. However, paradoxically, currently hunger is endemic for 20% of humanity. One in five inhabitants of the world haven't enough food and also as a historical perspective, there were never more hungry people in the world than now. The problem is particularly serious, as 40% of Earth's hungry are children.

Beside the hungry in fact, there is still one third of world population living in poverty, even if not at the edge of starvation, but leading a life below acceptability. The fact is underscored by the cost of food for a family, in the U.S., for "basket" it is spent 10% of income, in the EU 10%, 50% in Ghana and in Tanzania 64%. From this point of view, our membership to the first world (which usually all Europe takes part) is questionable, given that this "daily basket" reaches, to us, in 2000 to over 80% of medium income of people, worse than in Africa.

Trying to identify the world poverty, we observe that it is present in Africa, South Asia and Latin America. There are areas where hunger is endemic, such as the Sahel, because of a very long time of absolute drought. UNO action in Somalia is known to rescue hundreds of thousands of people from death by starvation, hunger leading, also to serious deterioration of social relations, up to an internal war. Statistics by region showed a not very pleasant situation, while the world average would indicate otherwise. But it concerns only the XX century years. To ensure food security for the population boom coming decades, are inconceivable only two solutions: expansion of production area (extensive agriculture) or increased production per hectare (intensive agriculture). A third solution, the creation of artificial feeding of chemical, although not impossible, is for now for very distant future.

Starting from the impossibility of increasing agricultural areas, the only solution to meet future needs for food is increasing production. This, in the three key departments: agricultural production, meat and fish production. Calculations can be different: increasing total production, growth, per area unit and per capita growth (the latter in kilograms or calories). It also should be mentioned that meat production can be converted into feed, so also as agricultural production.

Given the serious problems of food shortages in third world, in the '50s was launched a major campaign to increase agricultural production, especially in poor countries, known as the "Green Revolution". Its appearance led to the definition of three types of agricultural systems:

1) An industrial agriculture, practiced in the U.S., Europe, Australia and New Zealand, based on a significant capital investment, practiced on a large scale and having all the modern techniques of production facilities, storage and transport. We can consider that, also the stat agriculture practiced in the former socialist countries belonged to it;

2) A "green revolution" agriculture type, possible in rich regions in high agricultural resources, generally flat, with good irrigation and it was practiced in the countries of South and South-East Asia, North Africa and some countries Latin America countries;

3) A low resources agricultural, specific for areas unsuitable for agriculture (dry, poor soil, high altitudes, especially a forestation and water scarcity, based on a more uncertain rain than

irrigation). Is the agriculture of the countries of Africa south of Sahara, some Latin American countries and in remote areas of Asia.

It is obvious that in the first decades after the war, there were dramatic increases in food production, especially agricultural ones, and is sufficient to mention two cases belonging to the first two types of agriculture.

In terms of industrial agriculture, Europe is a good example, because the grain production of 199 million tons in 1970, reached to 283 million tons in 1990 (a growth rate of 42%), while the cultivated land decreased from 72 million hectares in 1970 to 66 million ha in 1990. This means increased productivity tons of grain per hectare.

For Green Revolution, India is a good example for the production of 50 million tons in 1950, reached to 108,000,000 tons in 1970, and in 1990 to 170,000. tons, so doubling every decade. "Green Revolution" agricultural technique involves changing:

- Giving up their monoculture and rotation;

- Use of new plants, with higher fertility and physical resistance (temperature, drought, poor soil) and biological (diseases and insects), obtained either by hybridization or by seeds brought from elsewhere;

- Intensive use of chemical additives, which are fertilizers and pesticides (insecticides, fungicides, herbicides);

- Irrigation on a larger scale.

With such techniques, applied also in other types of agriculture, the world agricultural production has increased considerably in the first decades after the war.

Massive use of fertilizers has contributed to the extraordinary growth of grain production between 1950-1984 (the ratio of grain supplement / supplement fertilizers - 9,1), but between 1984-1989, although the amount of fertilizer was higher, grain production increase was more modest (report supplement cereal / supplement fertilizer = 1.8).Therefore we believe that we cannot count on infinite growth of agricultural production even by using more fertilizers, there is a biological limit determined by the power plant photosynthesis.

Intensive irrigation of land may be a factor that could help increase production. There are now 237 million hectares of irrigated land, 16% of cultivated land would provide more than a third of world agricultural production. In 1978, irrigated land area per capita reached a peak, however, then falling by 6%.

We should recall, however, also the limitation imposed by water scarcity, which itself represents a problem for human evolution, fresh and recyclable quantities of water available cannot cope with the explosive growth of population. The idea of using sea water by desalination is also not viable because of the prohibitive price that would achieve.

Therefore it is difficult to believe that in the future decades , solutions would be found to maintain agricultural production needs corresponding to population growth, not as global production quantitative, nor per hectare production or per capita.

Meat and derived products (milk and eggs) constitutes a key to food security, providing especially needed protein. However, it is strictly dependent on agricultural production, representing the feed conversion in animal products. These are natural (grassland) and from agricultural production. It is recognized that for a pound of beef ("live") is needed 7 kg of feed, for one kg of pork - 4 kg of feed, for one kg of chicken meat 2 kg of feed, and for a kilogram of cheese 3 kg of feed. So, issues raised by grain production, partly reflected on the animal one, stopping the increase of agricultural production is visible also in the hay.

The amount of grain used for feeding represents at world level about 40% of total agricultural production and has increased steadily since 1960, from 289 million tons to 650 million tons in 1990. So the production of beef and mutton increased 2.6 times, raising consumption with about 26 % per capita.

Discovery of new productive areas, increasing interest in this work (an example can be given the industry sea fishing, initiated also in Romanian, people with no tradition in the field, unfortunately today annihilated), and improving equipment, increased the production of marine fish.

Increase marine fish production was outstanding until 1990, but figures show a decrease in the coming years, with oscillations around a level, the perspective can foresee an increase in fish production, mainly due to aquaculture, but in any case not may expect too much.

The overall conclusion on the prospect of meeting the future mankind need for food is not encouraging. Agricultural production, having grown spectacularly in the years 1970-1990, it reached a plateau difficult to overcome, given that there is no land for cultivation in the world, lack of water will not allow too broad irrigations to bring new land into cultivation, and agricultural chemical treatment has reached the limit of possible assimilation by plants in such circumstances it is difficult to see how agricultural production will keep pace with the 2% annual growth in world population.

Pork production is increasing and not seen a reason to limit this growth, up from lack of fodder. Beef and sheep reached a limit due to lack of pasture, instead chicken can offer some hope, but still limited because of fodder from agriculture.

Nor even fishing seems to be a solution, but it can hope to increase production from aquaculture.

It is estimated that world population will increase from six billion now to more than eight billion in 2020, meaning by 40%.

We observe intriguing situation of Romania, starting from the fact that as the share of food costs in total consumption expenditure of population is higher, we are dealing with a more poor population. Analyzing data provided by the U.S. Department of Agriculture, on our economy, we conclude that 34.3% of Romanians income was used to purchase food, a share almost triple than for developed countries where food costs revolve around 10%.The same source presents the situation in our immediate neighborhood countries: Czech Republic - 15.6%, Hungary - 16.3%, Poland 20.3%. If we take into account absolute amounts, we see that in Romania a family spent an average of 1592 USD. This amount is 13% higher than a Polish family, 9% than in the Czech Republic and 46% more than the Hungarians as a family. Nevertheless due to much lower incomes obtained in Romania than in other countries compared. To remember, at this point in our analysis, is the situation in Bulgaria, which with food costs per family of 804USD, is located only half of what we, the Romanians consume.

From the data sequence above, we are tempted to detach two conclusions: either we (Romanians) are eating more than our neighbors, or on the Romanian market, foods are more costly. But this is contradicted by various statements by politicians, who, at every opportunity point out that food prices in Romania are lower than in other European countries, and then to return to the statements and say that prices cannot be lower than the European average, because then all local producers would prefer to sell their goods on the market which would get the highest price. In this final part of the statement it raises again a question mark: Why we do not identify the same behavior of producers in the Czech Republic, Poland, Hungary or Bulgaria? As for me, things are very simple: the market is one that has the last word. If there are consumers willing to pay a high price for certain products, manufacturers certainly will not reduce prices! Trying to anticipate the evolution of food prices in Europe, we must consider first the upward trend (1.4% per month on average). But, in a complete ranking of European countries, Romania holds the fourth position with 7.4%, after Turkey - 17.6%, Hungary - 9.7% and Poland 8.6%.

Given the above, Romanian food safety must be given special attention, showing extreme volatility amid an election year and the obvious political instability - not less than three governments in four months

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EVALUATION OF THE PROJECT MANAGEMENT ORGANISATIONAL ABILITY OF PUBLIC ORGANISATIONS

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Abstract:The quality of the results of a project or a public programme, as well as the quality of project management consist in management process performance.This analysis tool promotes the idea of initiating a new organisational/functional policy – organisational tools regarding project management, a new standard concerning the complexity of the project and the associated risk, as well as a new standard concerning the project management organisational/functional ability.
Political decision makers, public organisation managers, but project managers as well are the main people in charge of elaborating and taking responsibility for these standards and policies within the organisations they manage and represent.

Keywords: project, evaluation, management, process, decision makers.

INTRODUCTION

In the current context, public organisations that manage or implement projects/programmes (as an objective of their mission, but also as a form of organisation) need a new vision and a new form of organisation at least functionally in order to reach the new positions of public administration.

The quality of its processes and the performance of the activities carried out should be measured, at the current level, established as objectives, standardised and implemented uniformly precisely according to this standardisation as a reference, for every public organisation in Romania. Such an analysis and evaluation will later allow measures that are imposed in the organisation/reorganisation, at least functional, to be identified, which will allow public organisations to manage and implement projects and programmes.

The quality of an implemented project/programme is often established according to an evaluation criterion/series of criteria concerning the management process itself or the implementation stage of the evaluated project/programme.

Although it is hard to accept, processes are those that ensure the organisational performance, not departments, meaning a structure and an organisation based on process rather than on a hierarchical organisational structure. The most common mistake in management is probably making changes in departments when things do not go well, without looking for causes, that is **what processes or which of their steps** *do not ensure the desired performance.*

Changes in departments are only consequences of changes in processes. **First processes, then departments.**

When referring to the quality or performance of a project or a programme, we often take into account as an analysis procedure the evaluation of the project/programme itself or project/programme management at most and we pay less attention to the evaluation of project management organisational/institutional ability – that is how an organisation has the technical and management ability to implement projects/programmes.

We considered this an important aspect and a field which needs to be taken into account and developed, especially when referring to public organisations' organisational/institutional ability of implementing and managing projects/programmes.

As regards the analysis of the current stage of research, the possibility of identifying certain methods or case studies relevant for organisational evaluation as a project management tool does not exist in Romania. Generally, evaluation is focused on projects themselves rather than the project management ability of public organisations, beyond the stage of project proposal elaboration or financing request.

With regard to the international practice, we have analysed the Canadian organisation and project management evaluation of the public administration model. This model, adapted to the organisational nature and reality of Romania, is desired to be just a starting framework for further research and models. The example of the Canadian government is, in the current work, the basis for conceiving and developing a framework model of analysis, evaluation and promotion of an instructional-organisational structure as a project which ensures performance in project implementation and quality in public service provision based on project management. First processed and then departments…

The process of re-conceiving an institutional-organisational structure based on management processes and then on department-hierarchical ones involves the development of analysis and evaluation tools in the first step, meant to identify at least the following aspects:

- ✓ Identifying existing practices in Romanian public organisations to implement projects/programmes (the type and level of the projects etc.);
- ✓ Identifying processes and applied project management activities;
- ✓ Analysing the organisational structure and its impact on project management;
- ✓ Identifying the project management ability – organisational and functional;
- ✓ Identifying the necessity to redesign the management structure at least functional wise, in the implementation of projects meant to ensure the performance and quality of services provided and a better management of public resources (human, material, financial etc.)

ORGANISATIONAL EVALUATION TOOLS. PMI AND CANADIAN GOVERNMENT MODEL

In order to carry out an organisational evaluation it is generally necessary to identify certain elements essential for the elaboration of the final document of the evaluation: the evaluation report and recommendations regarding management process improvement. These elements concern evaluation methodology and techniques on one hand and work tools specific to the evaluation on the other.

The purpose of these elements is to carry out an evaluation organised according to processes, dynamic and participatory, involving every factor contributing to its elaboration. Estimation and quantification in terms of resources and time are also important.

There is a series of work tools for organisational evaluation and, of course, enough models to support their complexity depending on the type of organisation with its specific activities or implemented projects. However, all of these take into acoount *tools/techniques* of quantitative/qualitative evaluation (it may be a questionnaire), a *guide* for analysis and interpretation of results obtained when applying the chosen tool and a work *methodology* to detail the process and the stages of the evaluation process.

The purpose of these elements is to offer guidance for filling out the project management organisational evaluation of public organisations in compliance with standards regarding the project management organisational ability and for the complexity of the projects and the associated risk – promoted by The Project Management Institute and undertaken by the Canadian Government in its process of adapting its own administrative structures according to this model chosen as a reference.

The guide provides additional explanations and interpretations meant to assist target users in filling out and analysing. Target users are represented by the personnel involved in the management, completion, re-examination, approval and/or coordination of programmes and projects carried out by a public organisation. There is also a group of secondary users, that includes other parties interested and involved in the establishment and management of issues, the project management ability and of planning activities for investment projects.

Users of such a guide are encouraged to take into consideration a number of good practices of their own public organisations when they are filling out or re-examining this guide. Ideally,

every employee from the entire organisation should be involved in an evaluation, by comprising every functional and programme area, including directions and the support divisions: financial-accounting, legal, human resources, acquisitions etc., but also project management, strategies, project monitoring and evaluation, technology information and management etc. Therefore, the result of the evaluation is a series of data specific to the organisation, according to its activity segments in terms of implemented projects and programmes, all from a global, consolidated perspective.

This way, project management ability evaluation will provide information and aspects that are essential for the organisation as far as its ability to manage projects and programmes is concerned.

It is important, like we have mentioned before, that decision makers be involved in the completion of the guide through its particularisation according to every participant organisation's needs, so that responsibilities can be taken, from the political and managerial point of view, for results obtained afterwards. This would allow to further improve the existing situation and work practices.

Filling out the guide, through the particularisation of its relevant fields of evaluation and analysis, actually means establishing a documentation methodology and providing documents justificatory for every evaluation criterion. This approach has the goal of ensuring consistent results that can be compared between organisations and facilitating updates and evaluation audits of performances as quality assurance tools for processes carried out within an organisation. After all, a good practice includes the establishment of processes intended for completion, examination and guide approval. These processes are expected to provide the rigour and discipline necessary to ensure the guide is correct and finished in due time and is supported by documented and appropriately updated proof.

Organisations can also wish to take into consideration the elaboration of a glossary of specific terms that can have a certain context or meaning within the organisation, so that coherence and a reciprocal understanding are ensured.

Organisations are eventually encouraged to take into consideration the possibility of integrating a periodical re-examination of the guide with the established planning processes, so that the accuracy of the evaluation tool with new situations is ensured and information regarding evaluation as a management and planning tool within the organisation is exploited.

The guide follows the structure of the project management ability evaluation tool and provides support for every category taken into account (evaluation criterion). The Canadian model chosen for presentation, taken after PMI, offers the following format:

The purpose of the evaluation criterion	A summary of the purpose and field of application for every evaluation criterion relation to the evaluation of the project management organisational ability.
Interested parties	Identifies and describes the role of interested parties that would be able to offer objective perspective and proof for a given knowledge area.
	Identifies some possible causes or consequences for "rating" in a spec knowledge field/evaluation criterion.
Significance of points	There are many factors that can influence the general ability of an organisation. instance, the number and complexity of the projects carried out, the level of matur and the ability of individual resources destined to projects. As a result, while the sc of a certain criterion/field of knowledge can be considered a useful indicator for strengths of an organisation or investment opportunities, the respective field should taken into consideration in the context of the general organisation grade.

This analysis tool promotes the idea of initiating a new organisational/functional policy – organisational tools regarding *project* management, a new *standard concerning the complexity of the project and the associated risk*, as well as a new *standard concerning the project management organisational/functional ability*.

These three tools resulting from organisational evaluation ensures the performance of the organisational management act – management performance, as an element of the quality of processes carried out in that organisation (standard concerning the project management organisational ability), but also project management performance, as an element of the quality of processes carried out in project management (standard concerning the complexity of the project and the associated risk).

Political decision makers, public organisation managers, but project managers as well are the main people in charge of elaborating and taking responsibility for these standards and policies within the organisations they manage and represent.

By applying this type evaluation tools for the organisational ability, two scores result from project management, as presented in Figure 1.
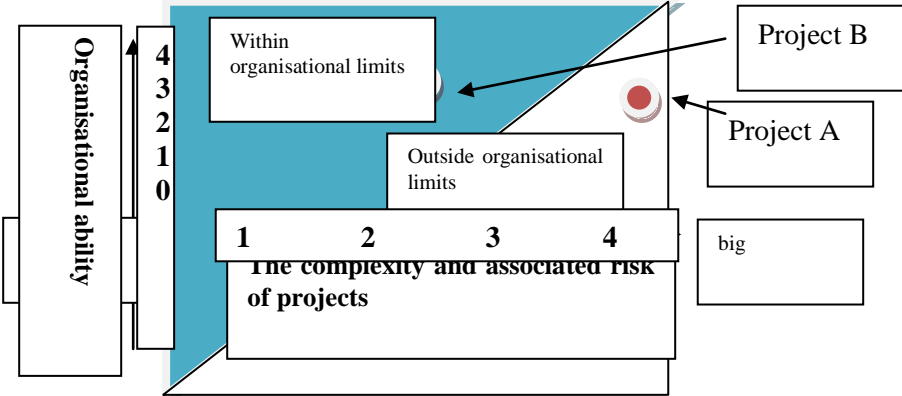
Figure 1: Approval of the project and expense budget based on the complexity of carried out projects and associated risks and based on the project management organisational ability

Figure 1 illustrates how the relationship between the project management organisational ability and risk associated with projects carried out by the organization and the level of complexity determine the limits within which projects can be approved for an organisation.

The ability must usually be proportional to the level of risk and the complexity of the projects for which responsibility is taken. For instance, a high level project management ability and related costs may not be an appropriate investment for an organisation engaging in a few large and complex projects.

THE EVALUATION STRUCTURE[20]

By following the above presented model, evaluation takes into account two categories: support organisation structures and applied project management standards. For an overview, see Figure 2. See Areas of interest (General criteria) and Table 25 with related detailed explanations.

Figure 2 schematically presents the 3 referenced abilities:

- Organisational adaptability;
- Project management (the fundamental structure);
- Assistance given to project management.

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[20] The Canadian Government evaluation model for the project management organisational ability, http://www.tbs-sct.gc.ca/pm-gp/site/home_accueil-eng.aspx

Figure 2. Areas of interest (General criteria)

Organisational adaptability;	Investment portfolio management				
	Investment programme management				
	Organisational assistance structures				
	Project management standards				
Project management (the fundamental structure);	Integrated project management	Purpose	Time management	Cost management	Risk management
Assistance given to project management	Quality management				
	Acquisition management				
	Human resource management				
	Communication management				

Table 1: Areas of interest

Criteria		Definition
Organisational adaptability		
1	Investment portfolio management	This criterion refers to the selection and assistance of investment projects included in investment programmes. These investment projects and programmes are included in the organisational strategic plans along with related available resources.
2	Investment programme management	This criterion refers to the coordinated and centralised management of investment programmes, conceived to meet strategic objectives and envisaged results.
3	Organisational assistance structures	It refers to organisational mechanisms and structures, necessary for carrying out and implementing projects, programmes and the investment portfolio of the organisation.
4	Project management standards	It refers to the verification of compliance with referential methodological standards elaborated on good practices regarding project and programme management and the investment portfolio.

Project management (the fundamental structure)

5	Integrated project management	This criterion includes processes and activities necessary to identify, define, combine, unify and coordinate various project management processes and activities within activities carried out by the project team. In the context of project management, an integrated project management includes characteristics regarding actions of unification, combination and articulation, which are essential to carry out projects and successfully meet requests of the customers and interested parties and to meet planned objectives and obtain expected results.
6	Purpose	It consists in defining and controlling what is and what is not necessarily included in the purpose of the project. It includes processes necessary to ensure that the project involves the entire necessary work and not only the requested one, in order to successfully implement the project through requests constantly updated according to situations that occur.
7	Time management	It includes processes necessary to implement the project within the established periods of time.
8	Cost management	It includes the planning, estimation, budgetary and cost control processes so that the project can be implemented within the limits of an approved budget.
9	Risk management	It includes the processes of identification, planning, analysis, evaluation, control and monitoring of risks associated to the project, measures of preventing and minimising their impact.

Assistance given to project management (support structures)

10	Quality management	It includes the processes and activities of high-performance organisations that determine the elaboration of certain policies and objectives regarding quality, thus ensuring that projects will be implemented at a superior level in terms of meeting solicited needs and requests. A system of quality management includes policies and procedures that improve continuously and constantly activities and processes of a project.
11	Acquisition management	It includes processes necessary so that acquisition processes of services and products in order to obtain results established within the projects can carry out. Acquisition management includes management contracts and control processes for modifications that occur, necessary for contracts or orders to be managed by people with expertise in this field, members of the project team. This means the management of any acquisition contracts carried out by the organisation, which involves a high-performance management with contractual commitments being kept.
12	Human resource management	It includes the organisation and management of the project management team and everyone interacting in view of meeting the objectives of a project. Persons involved have well defined roles and responsibilities at an individual level within the project and the organisation.

| 13 | Communication management | It includes processes necessary to periodically ensure the generation, collection, distribution, storage and monitoring of necessary information within the implementation of a project. |

CLASSIFICATION OF EVALUATION RESULTS

It reflects the importance and relevance of a criterion or field evaluated in comparison with another one and its percentage in evaluating the organisation in terms of project management. This way, every point obtained for each field of interest/general criterion will be adjusted according to the relative percentage obtained for each evaluation category.

Table 2- A model for values and percentages assigned to the defined criteria.

Criteria	No. of questions	Percentage	Maximum points
Investment project and programme management	15	10%	75
Organisational support structures	15	10%	75
Project management related standards	15	10%	75
Integrated project management	15	10%	75
Purpose	5	10%	25
Time management	5	10%	25
Cost management	5	10%	25
Risk management	5	10%	25
Quality management	5	5%	25
Acquisition management	5	5%	25
Human resource management	5	5%	25
Communication management	5	5%	25
TOTAL POINTS	**100**	**100%**	**500**

The maximum number of points that can be obtained is 500 for the 100 questions related to the 12 analysis criteria. Expressed as a percentage, these points correspond with the organisational ability presented in **Table 3**.

Table3 : Classification of the project management organisational ability

Ability category	Definition	Rating
0 – Limited organisational ability – incipient stage	It is the starting level of an organisation that is aware of the necessity of its organisational re-conception in terms of project management, based on projects and programmes it implements or wants to implement. In this category, organisations that implement projects do not promote a consistent project management field of study, neither at a project level nor at an organisation level, based on the individual abilities of project managers and/or members of the project team in order to be successful.	**<25 / 100**
1 – Maintained organisational ability – initial stage	Organisations have the ability to successfully implement projects in order to maintain their operational ability. In this category, organisations apply a limited project management, planning is not very efficient and reference is not always centralised. Hence the dysfunctionality between structures and steps of project management, but at an organisational level as well.	**25 – 49 / 100**
2 – Tactical organisational ability – standardisation stage	Organisations have the ability to implement projects and to adjust their operations according to planned objectives. In this category, management processes tend to become standardised, information relevant to the project is often collected at a central level and tends to get an approval and supervision from decision makers/governors. There are dysfunctionalities at a central project management level, where roles are not very clearly defined and established.	**50 – 69 / 100**
3 – Developing organisational ability – maturity stage	Organisations have the ability to successfully implement projects and they meet their strategic organisational objectives. In this category, there are organisations that include their projects in strategic organisational plans and evaluate the possibility of integrating a multi-annual planning. Organisations define their planning, monitoring, control and report systems, evolved in terms of implemented projects, but at an organisational level. Project management processes are integrated in the organisational processes; project performance analysis is advanced and it provides an input for the improvement of organisational processes; decisional standards for projects are transposed and adopted at an organisational level, as a whole.	**70 – 90 / 100**
4 – Mature organisational ability – innovation stage	Organisations have the ability to successfully provide projects that modify the organisational style, thus becoming advanced organisations that apply an organisational management style based on projects. In this category, there are organisations that, when carrying out their strategic plans, take into account the typology of projects and programmes that help in developing their own procedural abilities. Operational processes referring to project, resource and time calendar approval are periodically re-evaluated and modified according to	**>90 – 100 / 100**

Ability category	Definition	Rating
	necessities that occur. There are good practices as regards project implementation; management processes are always improved, the performance and quality through qualitative and quantitative indicators, defined and standardised at an organisation level, are taken into account. Organisation is designed in such a manner, culturally and structurally, that the success of its strategic projects can be constantly optimised. Their own organisation and project management policies and standards are elaborated, updated and applied.	

CONCLUSIONS

A project management organisational policy is essential because it establishes the roles and responsibilities of every member of the management team according to the abilities of the employees, but especially according to the hierarchical position they hold within the organisation. This way, we can extrapolate and say that the project manager role is held by the Minister-Secretary of State, who holds the highest function hierarchically within the organisation, but who is also politically appointed; therefore, once the person is replaced by a new person who takes on the tasks and prerogatives of the project manager, the ability of project implementation, but also the project management organisational ability are modified. Thus, the two standards that define the project management organisational ability and the project management ability are correlated in the project management policy of every organisation or, even better said, in the political one of a superior rank, promoted at government level.

It is recommended that if such an organisational policy is implemented within the Project Management Policy, limits of approval for carried out projects normally be re-examined periodically and reviewed at least once every three years, as an integrating part of the investment plan, and it should also be included in the investment policy of the public organisation. As a result, the organisation will have to present the results of the evaluation at least every three years along with their investment plan provided in the investment policy of the organisation.

An organisation should carry out an evaluation when a significant change takes place within the organisation so that the project management ability would be different from the previous one.

In order to establish a global understanding of the project management organisational ability, aggregation methods of data relevant within the organisation must be taken into consideration. For instance, data could be collected and analysed at the level of an established project management office. Such a structured approach should facilitate data collection and allow the organisation to identify easily project management points and opportunities to invest in its ability at an individual or a global level.

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DOUBLE ORAL AUCTIONS AND TENDENCIES TOWARD MORAL HAZARD

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Moral hazard can be found almost in all fields of human activities. Moral hazard is a change of economic agent´s behaviour when circumstances change. Theoretical background of moral hazard issue in economics dates back to 1970s. Recognition of moral hazard started by published studies of Pauly (Pauly 1968), Zeckhauser (Zeckhauser 1970), Arrow (Arrow 1971) and Mirrlees (Mirrlees 1999). Current situation of the global economy (fall 2011) was caused largely by moral hazard executed by authorities such as governments, institutions, ranking agencies, banks, chief executive officers, politicians etc. Efforts to stabilise Eurozone, governments bail-outs to banks, governments purchases of toxic assets, rescue packages given to the bank sector and big companies, which are "too big to fail", rescue packages given to debtor nations, golden parachutes given to employees which are leaving companies are nothing but the manifestations of moral hazard in economic and politic reality.This paper uses an economic experiment with 96 subjects to examine the tendencies of economic agents towards moral hazard.Design of the experiment allowed simulating third party's intervention on a market (e.g. state funding accelerating purchase, health care insurance function on the market with health care). Obtained data are statistically evaluated and it is shown, that economic agents incline to moral hazard in case, when it is possible.Study shows how rational agents became less rational in terms of average market price, after intervention of a third party on the market. Third party intervention raises the average market prices presenting a manifestation of moral hazard. It is shown, that under given assumptions, even rational economic agents diverge from rational and market efficient strategies and behave irresponsibly. Despite generally negative attitude towards moral hazard, it is shown that economic agents have tendencies to behave in such a manner.During experiment we observed robust deviation in equilibrium market price before and after the third party intervention.
Key words
Moral hazard, economic experiment, market failures, state funding accelerating purchase, equilibrium market price

JEL Codes
C90, C91, D03

I.Introduction

The problem of asymmetric information and its impact onmarket efficiency was described byAkerlof(Akerlof1970). Akerlof showed that asymmetric information is harmful and can lead to market failure. Moral hazard is one of the possible manifestations of asymmetric information. Generally we assume that moral hazard is a change of economic agent´s behaviour when circumstances change.

For instance, moral hazard is the risk of behavioural changes of insured after contract of insurance is signed. Insured simply transfer one part of a risk to the insurance company and it can

result in his behavioural changes or even in damages of insured object, since he does not bear the financial burden any more. However, moral hazard is not a problem specific only to the insurance industry as it can be found almost in all fields of human activities. Theoretical background of moral hazard issue in economics dates back to1970s. Recognition of moral hazard started by published studies of Pauly (Pauly1968), Zeckhauser (Zeckhauser1970), Arrow (Arrow 1971) andMirrlees (Mirrlees1999).Mirrlees paper was published in 1999, but completed in 1975.

Capra et al. (Capra, Comeig and Fernandez 2009) haveempirically shown that moral hazard increases the chance of failure of investment projects. Study also showed that investors can be separated upon their risk attitudes also in moral hazard environment where such pattern is not expected. Jackson and Schneider (Jackson, Schneider 2011) found that moral hazard can be mitigated by common elements in social background of economic agents. Spenkuch (Spenkuch2011) documented, that people with health insurance do not undertake preventive care actions and are willing to be insured, once they realize, that their health is weak. Andreoni (Andreoni1988) and Costa (Costa 2005) showed that bigger groups have larger tendencies toward moral hazard than small ones. Bradbury and Drinen (Bradbury, Drinen2004) pointed out how different rules between baseball leagues create area for moral hazard among pitchers and how the possibilities of moral hazard induce unsportsmanlike conduct.

One of the most known particular examples of moral hazard related to the insurance market is the case of a small city in Florida in the 1970s. This event was published in Wall Street Journal 12/23/74. In this particular case, more than 50 people suffered accidents of various organs and extremities. The witnesses of these injuries were mainly relatives of the victims and as one investigator noted, most often the parts they seemed to need the least were shoot off. Over 300 000 $ were paid to the victims.

However the issue of moral hazard is not related only with the insurance market. Current situation of the global economy (fall 2011) was caused largely by moral hazard executed by authorities such as governments, institutions, ranking agencies, banks, chief executive officers, politicians etc. The status of the European common currency and efforts aimed at its stabilization by the European Stability Mechanism are often seen as manifestations of moral hazard, because imprudent countries are protected and saved at the expense of prudent countries with better balanced budgets. Another example of moral hazard are the governments bail-outs to banks, thus, banks are no more conservative and are willing to support and finance risky projects. Moreover governments have been buying toxic assets (assets fallen in value which are no more marketable) from the bank sector and has been providing rescue packages to the bank sector and big companies, which are "too big to fail". Rescue packages have also been given to some countries. At this time, lively debate among the population is led to determine laws in order to punish clerks, politicians, and office holders when they act and decide in favour of fallacy and non-efficiency, in order to avoid moral hazard. Examples of mentioned kind of behaviour are the golden parachutes given to employees which are leaving companies (very often these companies are state enterprises). Government benefits for unemployed, for peoples in distress, for parents that have children out of wedlock etc., are nothing but an area for moral hazard, because these public supports encourage people to become unemployed, to stay in distress and to have a child out of wedlock.

According to Kenen and Swoboda (Kenen, Swoboda2000) moral hazard is created by government guarantees of private loans and financial regulations, because cost of risky behaviour is covered by a third party. They mentioned as well that international financial support may contribute to moral hazard because of transferring losses outside of the country.

Previous examples demonstrate that intervention of a third party may cause moral hazard. The aim of this paper is to study and reveal tendencies of economic agents toward moral hazard in thecase of equilibrium market price, when third party intervenes on the market.Experimental design enables the simulation of moral hazard of economic agents in the case of receiving

governmental support (e.g. rescue packages to bank sector, co-financing projects, state funding with aim to accelerate purchase etc.).

However this study treats only aggregate data, not micro data that we obtained during the experiment. We are using economic experiment proposed by Gilette (Gilette1996). To present obtained data, descriptive statistics are used and to test hypothesis, inductive statistics are used.

II. Material and Methods

Experiment was conducted on Technical university of Košice – Faculty of economics, during summer term of 2011. In total, six sessions with 16 students each have been conducted, thus 96 students participated in total. Rationality of subject was induced by monetary payments at the end of experiment, which depended solely on the subjects´ behaviour during experiment. A total of 400€ was paid to the participants. Design of experiment included social, economic and moral aspects of trading.

III. Experimental design

At the beginning of every session participants were randomly divided to buyers and sellers. Participants knew that they were about to trade an unknown good on a market consisted of a given number of sellers and buyers. Participants communicated via an internet chat room. Every buyer was given a reservation price and every seller was given production cost. Buyer profit is calculated as the difference between his reservation price and the price at which he negotiated a transaction. Thus, to make the most profit possible, buyer needed to negotiate transactions as much below his maximum price as possible. On the other hand, sellers´ profit is calculated as the difference between the actual sale price he received from a transaction and his production costs. Thus, to make the most profit possible, seller needed to negotiate transactions as far above his production cost as possible. Of course, any seller could not sell at the price which was under his production cost and buyers could not buy at the price which was above his reservation price. Equilibrium market price and individual buyer (seller) reservation price (production costs) are shown on Figure 1. In our model, the exact value of theequilibrium market price is equal to 9,025 €. To induce trading, average reservation price is above average production cost. Market restrictions have been controlled by the supervisors who had access to chat rooms where participants performed their negotiations. After theexperiment instructions have been presented, participants were asked, if they fully understood the experiment. Any further questions were fully answered. Then experiment started.

After completing five rounds of negotiation and trade, participants were told that the market structure has changed and a third party will intervene on the market. This third party now will pay 80% of the negotiated purchase price in all remaining rounds to buyers. This simulated state funding with the aim to accelerate purchase. After completing ten rounds, final payoffs have been calculated and participants have been paid. Every session lasted approximately 60 minutes.

The argument for the third party intervention is to stimulate economic activity.
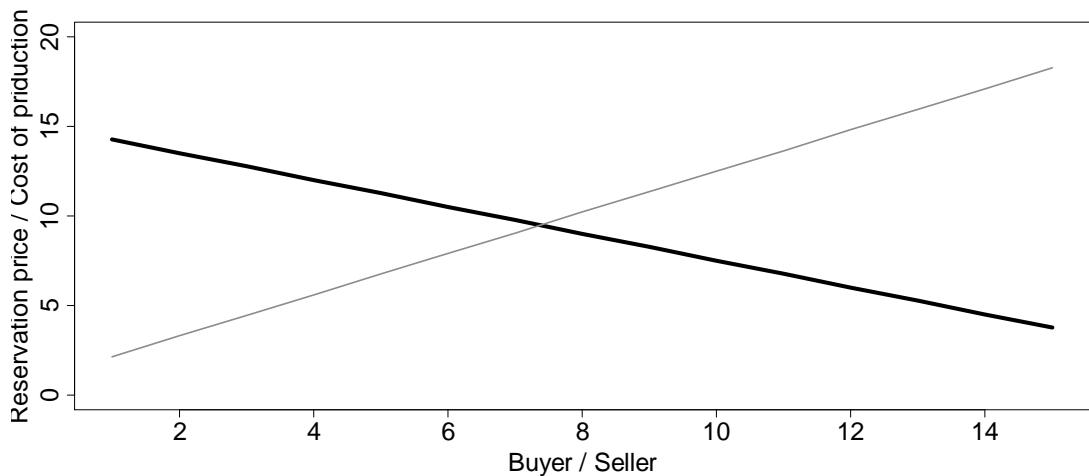
Fig. 1: Equilibrium price
made by the author

IV. Assumptions

Since we suppose that economic agents are rational and profit maximizing during the whole experiment, we do not expect robust deviation in equilibrium market price before and after the third party intervention. Our hypothesis is as follows: intervention of the third party on the market in last five rounds will not affect behaviour of economic agents and the price of the good will not increase. In Table 1, particular reservation prices of buyers and particular production costs of sellers are illustrated. Equilibrium market price is 9,025 €, average reservation price is 10,31 € and average production cost is 7,04 € (higher average reservation price than average production cost in order tostimulate trade).

buyer/seller	reservation price	production cost
1	6,00 €	11,35 €
2	7,50 €	10,20 €
3	9,00 €	9,05 €
4	9,75 €	7,90 €
5	11,25 €	6,75 €
6	12,00 €	5,60 €
7	12,75 €	3,30 €
8	14,25 €	2,15 €

Tab. 1: Prices and costs
made by the author

V. Results and Discussion

Figure 2 presents the evolution of average market prices among six groups within ten rounds. By eyeballing Figure 2 one can state, that in the first five rounds, the average market price is noticeably lower, than in the last five rounds. Moreover, during first five rounds, economic agents were able to trade below equilibrium market price. Equilibrium market price is illustrated on the Figure 2 by a straight line with equation y=9,025. Thus, in aggregate, third party interventions seemed to result in a rise of the market price.
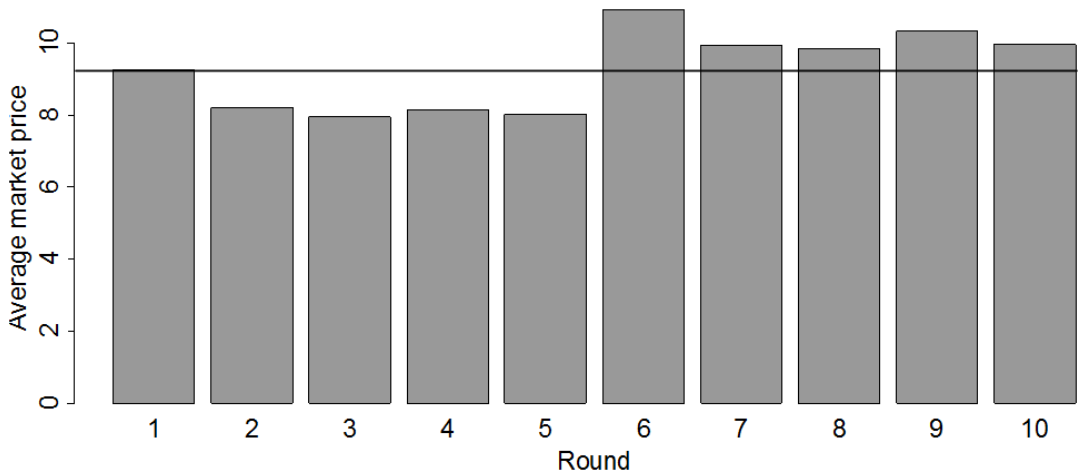
Fig. 2: Average market price over 10 rounds
made by the author

If we take a closer look on the evolution of prices in individual groups we can observe the same pattern as in the aggregate view. Figure 3 illustratesthe evolution of average prices of the good during the experiment. Equilibrium market price is illustrated on Figure 3 by a straight line with equation y=9,025. We can see, that before the third party intervention, only in three cases (groups) the average market price was above equilibrium market price. Contrary, after the third party intervention, only in one case (group) the average market price was below the equilibrium market price.
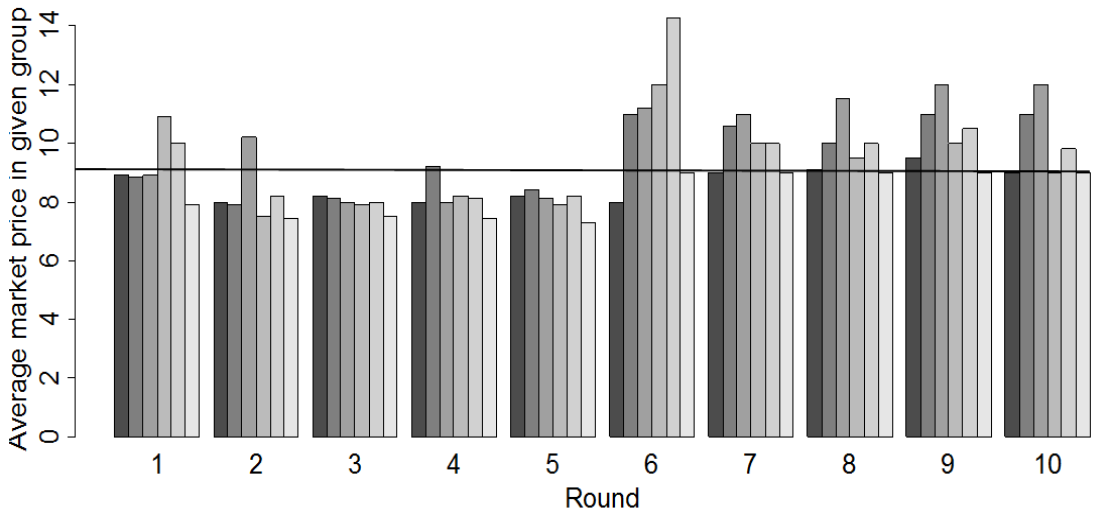
Fig. 3: Average market price of individual groups over 10 rounds
made by the author

To test our hypothesis, we first test our data for normality using the Shapiro–Wilk test and then we use appropriate methods.
Shapiro–Wilk normality test:
H_0: Sample comes from a normally distributed population.

H_1: Sample does not come from a normally distributed population.

P-value for data obtained in the first five rounds is p=0,000139 and p value for data obtained in the last five rounds is p=0,01571. We conclude, that datasets do not come from normally distributed population, thus we will use nonparametric statistics. Since data are not normally distributed and we have two observations which are related, we are using Wilcoxon Signed Rank Test.

H_0: Datasets are from identical populations.

H_1: Datasets are not from identical populations.

Obtained p value is p=2,58e-06, thus we state, that there is a systematic difference between the market prices in the treatment without the third party intervention and with the third party intervention. This conclusion confirmed given hypothesis, that third party intervention on the market deteriorate market efficiency and cause market price increase.

VI. Conclusion

Although Pauly (Pauly1968) argues, that moral hazard is not a problem of morality and ethics, but is simply the manifestation of rational behaviour. Rice and Sen (Rice, Sen2008) showed that novice NBA players´ performance increases in the last season of their contract. However in the case of experienced players, their performance does not change during the whole long term contract. The long term contract can be seen as a surety that overcomes moral hazard incentives. This example shows that tendencies toward moral hazard can be eliminated for example by social aspects of economic agents.

This study shows how rational agents became less rational in terms of average market price, after intervention of a third party on the market. Third party intervention raises the average market prices presenting a manifestation of moral hazard.It is shown, that under given assumptions, even rational economic agents diverge from rational and market efficient strategies and behave irresponsibly. Despite generally negative attitude towards moral hazard, it is shown that economic agents have tendencies to behave in such a manner.

However it is it important to mention, that this study treats only aggregate data, not micro data that we obtained during experiment. Micro data will be the subject of further analysis.

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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 an 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 Austria[21]. The concerned countries have argued their position using explanation regarding the evaluation of serious disturbances on the labor market[22].

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 thereof[23]. 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.

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[21] 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.
[22] The same way acted Spain on 22nd July 2011.
[23] 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 form east with those from west, professionally trained differently, as a result of some different politic, 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 area[24], 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 movement[25].

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.

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[24] 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.

[25] 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.

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 workforce[26].

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 world[27]. 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

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[26] EU Bulletin, Euractiv 29 march 2007.
[27] 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.

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.

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, I 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***"[28].

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.

Time span	Goals and objectives
1957	Joint financing for the programs regarding the increase in of job skills and the development of labor capacity of the workers.
1984	Financing of individual projects of professional training and promoting the workforce.
1989	Financing the strategies for boosting employment and job creation.
1993	Funding integrated programs in the less developed regions with GDP/capita below 75%
2000	Supports the Lisbon Strategy and European strategy on employment according to the objectives on the workforce employment and on the reduction of unemployment.
2007-2013	The allocation of about 75bilion € 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

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[28] www.europarl.europa.eu- the Report on Employment and social issues in the Annual Growth analysis for 2012.

- Promoting through innovation, free initiative and specialization of the qualified in line with the requirements of technical progress labor force
- 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 2012[29] 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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DIMENSIONS OF HUMAN CAPITAL – SPECIFIC HEALTH APPROACH OF NATIONS CAPITAL

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The paper proposes sythesizing 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.

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 exhauted 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 sustainaible 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. investement 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 belive 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 disadvanteged rural areas, through the actions of prefectures and municipalities).

The importamce 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, sens of responsability and duty, faith, i.e. in the case of doctors, faith in the Hippocratic oath, an oath of honor, synthesizing honesty and responsability 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 mainlyno 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 responsability, 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 calues 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 responsability. „The moral responsability 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 responsable, 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, collegues 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 capitaş 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.

Acknowledgements

Note
(1) The character of potential services is highlighted in the literature; foe example, în Jivan, Alexandru. Economia sectorului terţiar, Timişoara: Editura Sedona, 1998. This character is better seen if we invoke in this definition even in Dobrotă, Niţă, coord. Dicţionar de economie. Ediţia a doua. Bucureşti: 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, Timişoara Journal of Economics (TJE), Vol. 4 Issue (nr.) 1(13), 2011 [31 mai 2011].

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MAIN ASPECTS CONCERNING INTELLECTUAL SERVICES PRODUCTIVITY WITH FOCUS TO EDUCATION

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Part of a larger research, this paper aims to point out several key elements of the productivity in the field of services, with application to the intellect-intensive ones: the main concern is for educational services.
Methodologically, the paper starts with the framing in the context of the knowledge based economy and its requirements concerning scientific approach on productivity. Customizations are made to educational services, followed by certain extensions of the issues discussed and synthetic correlations.
Conclusive results underline the intellectual core of most productive efforts of human mankind: investments in human capital.

Keywords: productivity, knowledge, technological progresa, education, economic growth

Jel classification: I25, J24, O15, P36

Introduction

Realities of the new knowledge-based economy requires an appropriate updated approach: to avoid simplicity approach of services productivity - matter so criticized by specialists - issue related to this indicator, must be considered in depth and horizon widened, in all aspects, starting with the identification of measurements used to measure services. Developed economies allocate part of their resources to activities with intensive data processing services and information for which, the measurement results cannot be precisely in traditional forms, so researchers need to rethink how to measure productivity and the result of economic activities.

We must make a clear distinction between work done for the production of services and the results of this work (benefit effects). For example, results of educational benefit, depend, among other things, on the intellectual faculties of the students, on the methods used for development, on all circumstances that may make progress in any way, including the preservation and development.

Customize to education. Some extensions necessary

François Perroux, assings to institutional system a role for growth, plus social and moral climate and psycho-sociological factors. Along with capital accumulation, Perroux talks about acquiring knowledge. On this aspect, Keneth Arrow says that "growth is the daughter of knowledge" (Arrow 1962: 155-173), as being true and inverse correlation in our approach, which will be shown below.

By the 60s of last century took place in the United States, a broad debate among economists on efficient sources of economic growth (Wonnacott 1978).

As "production index" for education, are used most often, the number of pupils and students and the fees for registration and, in analysis, are used index of wage or price (Jivan 2000: 55). According to ARACIS (Romanian Agency for Quality Assurance in Higher Education 2009),

this indicator is expressed by widening access to higher education, dropout rates, learning outcomes and teaching, research results and hiring graduates.

Mihail Manoilescu (Manoilescu 1986:46), comes to defining the problem of productivity in accordance with "the new interpretations of exchange value, which includes the *various and subtle causes*, explored until now by science" (emphasis added). For example, if a product or service that is based on a very recent invention, so it is new on the market, and may have monopoly, we must take into account the main elements that determine the exchange value, namely: the usefulness of its power of attraction exercised (in this regard, marketing has an important role), quality and, of course, price. In other words, the conversion value is the price the customer is willing to pay for the new product or service to obtain a degree of satisfaction. This approach raises specific problem to the intellectual services.

Productivity of educational services is found in all activity fields. For example, a computer is designed by intellect-intensive services (research, information, etc.), in which are working professionals, who must have adequate training (conducted, primarily through educational services), it is produced by industry (where teachers work with proper training), and for use in various activities, their users need also knowledge related to computer (often gained by attending appropriate courses; in the same way, a car cannot be used in traffic if the driver has not learned the rules of the road and has no knowledge to run it).

"As more is known, is increasingly need science. A large area is to increase knowledge and ignorance horizon. Development of an economy is actually based on three pillars: innovation, research and education. Any addition of individual service quality is amplified. The essence of value was and remains useful in certain conditions of availability "(Jivan 2000: 66).

Following the analysis of macroeconomic correlations between economic growth, technological change in recent years and improved quality of labor, Edward F. Denison concludes that technological change and, hence, economic growth, are not insured by the simple purchase of equipment more efficient, but only in terms of labor quality growth, thus increasing the costs for training and education. These expenses are found in gross domestic product growth, which means *that investment in education is money not spent in unproductive sector* (Denison 1962).

The conclusion is that technological progress is determined by labor quality growth, such as the better educational system, more efficient, based on knowledge, which in turn becomes a factor of economic growth.

Returning to the idea of Keneth Arrow stated previously, we could say that, in the national economy, are forming a virtuous triangle (as you can see from figure 1) between knowledge, technological progress and economic growth. The three elements are closely related. Stress (not develop here) the reciprocal of this determinism.
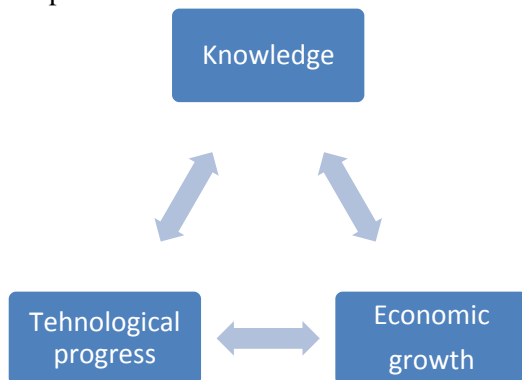
Figure no 1. A virtuous triangle of economic growth
Synthetic correlations between scientific research, education and production activity

On these correlations, worthy of consideration is the so-called "Japanese miracle" manifested in the next period of the Second World War and which is explained by increasing the initial expenditure on education, which led to the existence of much increased number of people better prepared to quickly assimilate technology news.

It was such a new approach to economic theory and, in time to an economic analysis of the educational system. One of the first works in which it is studied from an economic perspective, the relationship between science, education and production, belongs to J.L. Maunoury in 1962, which inventories these twelve correlations:

- *Scientific research* increases the fund of knowledge available to mankind.
- *The production*, also has the products, new information, which are added to the fund of knowledge.
- Existing knowledge *are valued* both in the production process and in obtaining new knowledge.
- Scientific activity is conducted, based on existing knowledge.
- Knowledge is transmitted by the *school system*.
- The production raises problems, whose answer with economic value is found in scientific research.
- *Education* forms *the researchers*.
- *Education* forms suitable qualified labor for *production*.
- Labor force, at anytime can be brought back in the education system for retraining.
- *The production* itself *forms* skilled labor.
- The researchers *improve* their skills and abilities in the *scientific activity*.

The concept of education used above, must include all forms of training: the "classic", modern forms, to "continuing education" (much invoked today). These services with high intellectual charge, form properly trained staff not only for production but also for overall economic activity, which includes intellectual service providers, category in which enter teaching and research staff.

In terms of production activity, it is considering, in fact, economic activity in general (and any human activity performed in the social frame: unit non-profit, relief and health organizations with ecological, religious, political, cultural, etc. objectives). Optical author quoted, seems to be, knowingly, outside the *economy* system, as something special, and not as a sector that works and action largely on economic criteria, through economic units – often, large companies). We believe that more should be added, that not only production activity raises the question of scientific research: but life (in general); here is an analysis from an economic point of view, referring to the scientific research, but also the issues arise, and by life in general, not only by production activities, especially as we must have in mind also intangible economic activities, tertiary economic sphere and optical serving.

Education will be the growth factor, only under certain conditions of market regulation, namely, only if the market absorbs productive educational offer and life of society puts it in value, without spoiling it or without the need for continuous training (adaptation, updating), but to fulfill those conditions is necessary to implement an effective government strategy. Shortly, functionally, a major condition is such that the institutional organization to provide training, on the one hand, the higher formation of human resources and, on the other hand, sucking them as beneficial economic and social system. Understanding the relationship between state and free market, form that is considering leaving the state on account of economic action that will be directly affected by the consequences that they foresee in their decisions, but not losing sight of wider (external effects) and long terms implications- matter in which educational strategies are of the great importance. In this respect, the decision should be *most able to take on an expanded knowledge,* allowing major guidelines to follow, established by the contribution of the intellectual elite (at academic level, while respecting autonomy to the said university), (enhanced), based on perennial values, thus taking into account a wider scope than the term arising from market mechanisms.

We note that these mechanisms always contain the risk of myopic approaches, can very easily, as private interests in achieving efficiency in the short term, to hide the destructive effects - as can be seen (and taken into account) only from a strictly individualistic superior vision, on short term and for limited interests in spatial, temporal and conceptual terms (the area of interest: often only economic).

As an economy is larger and more developed, will be much more specialized workforce, and even higher, trading and demand for goods and services. Major cities are rich because of its increasing division of physical and intellectual labor. Therefore, countries such as Germany, France, Italy etc. attract specialized labor force, cheap, from countries like Romania, Bulgaria, Albania, etc., the first category is still developing, becoming in time economies more powerful and finally, the second category of countries, stagnating or even regress recording.

Many countries, including Romania, have governments that do not prove a very tall professional and efficient on intangible investments and have a plan or strategy to invest in the young nation, and to send enough to study and training in areas that advance healthy scientific and professional can be of major importance for the country. In most developing countries, there is a corresponding interest for training specialists and bringing them country by providing conditions to get out from the crowd and demonstrate that there are intellectual potential. Knowledge (knowledge) seems the only guarantor of economic and social progress, as research-innovation (knowledge creation), in this case, research and education plays a key role (assimilation of knowledge, training and professional modeling), education in general.

Knowledge is defined as the power to understand and capture the essence of facts, certainties and recovery information obtained in the form of experiences and lessons (Druker 1992: 95-104). In many developing countries, as is the case of Romania, the education graduates are often placed in a position to migrate due to the fact that state policies are not sufficiently flexible and visionary in the future (long-term effects) to properly integrate the national economy, the concern for providing adequate employment and paid accordingly, in order to benefit the national economy, such that the extra knowledge. An economy for the benefit of integrating these values in the nation to put a priority and preferentially, is the intellectual intensity centers, including high-impact decision - at all levels, starting with the government.

It is right here, citing inspired formulations of Tom Peters: "turn them on staff in Vital Centre of Intellectual Capital Accumulation ... and not bureaucratic sources of stress (Peters 2011: 24) ... A fully mature company, is one that provides professional ... TRANSFORMATIONAL projects dedicated / excellent customer service".

Conclusions

Professions in the knowledge-based services (the intellect) is developing very rapidly, as firms, companies need people with skills, training and know-how needed to get know each other from different sources, process it and exploit it productively. To the expenditures of this nature, must be given the status that they have: that strategic investment, on long term effects. It is therefore very important to invest in this type of human capital which can contribute to economic and social development of countries. In these respects, logical connections (compared) with the Romanian government crisis policies, speak for themselves (it is not our purpose here for other comments).

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DATA ISSUES IN TOTAL FACTOR PRODUCTIVITY BENCHMARKING: A CENTRAL EUROPEAN PERSPECTIVE

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Total factor productivity is a method of measuring overall productivity of businesses, industries or economies. It is an approach which is recently becoming popular among government regulatory agencies when applying the so-called performance-based regulation. This principle induces regulated companies (for instance, electricity or natural gas distributors) to behave efficiently even if their industries are not exposed to competitive pressures, since they are rewarded for being more productive than other firms in the industry, and penalized in the opposite case.

The aim of this article is to deal with the question what are the main data issues when comparing total factor productivity among firms or industries with focus on the Central European region, which is very heterogeneous in terms of geographic, social, economic and historic conditions.

In the first part, we introduce total factor productivity and the most common methods of its measurement – Malmquist and Törnqvist indexes. Consequently, we divide the data issues into separate categories and discuss them more in detail. The first category of issues is related to defining the set of comparable firms. Many factors, such as the degree of competition in the market, the extent of government regulation, economies of scale, firm size, geographical conditions and historic development have to be taken into consideration. The second category is associated with specifying the time period. TFP estimates should be based on long time series and the period should include the whole business cycle and be representative and exclude extraordinary events. The third group of issues is related to defining and measuring the inputs and outputs. Since a number of difficulties are associated with labor input measurement, it is often included into operating expenditures along with materials and services. The measurement of capital is even more contentious. The outputs should reflect performance, complexity and quality of service rendition. Finally, the fourth category of problems concerns determining the costs of inputs and outputs (cost-based indexes) or defining and measuring the reference technology (distance-based indexes), where some degree of arbitrary judgment and inaccuracy is inevitable.

We conclude with the suggestion to avoid methods requiring large time series such as frontier-based methods of efficiency benchmarking (data envelopment analysis or econometric methods) or Malmquist TFP benchmarking in the Central European region due to huge differences between firms and their environment. However, the question of the best performing regulatory methods is still not clarified and is subject to intensive academic debate.

1. Introduction

Productivity assessment is an important tool both for firms, which need to evaluate their performance in order to find weaknesses and improve their position in the market, and for regulatory agencies, which need to assess efficiency of firms being regulated by the government. Total factor productivity is an approach which takes into account all inputs and outputs of the evaluated firm and aggregates them into a single scalar value. Productivity measurement has recently become popular among government regulatory agencies when applying the so-called **performance-based regulation**. A regulated firm's productivity growth is compared with the productivity growth of other firms in the industry. When the firm succeeds to improve its

productivity more than other firms, it is rewarded by greater allowed revenues. This principle, often referred to as **regulatory benchmarking**, induces regulated companies (for instance, electricity or natural gas distributors) to behave efficiently even if their industries are not exposed to competitive pressures. Most frequently, total factor productivity is measured by indexes of productivity. The results, however, are dependent upon the quality of data.

This issue is particularly evident in heterogeneous regions such as the Central Europe. The aim of this article is to deal with the question what are the main data issues when comparing total factor productivity among firms or industries with focus on the Central European region, which traditionally includes Czech Republic, Slovakia, Hungary, Poland, Germany, Austria and Switzerland. In the first part, we will introduce total factor productivity and the most common methods of its measurement – Malmquist and Törnqvist indexes. Consequently, we will divide the data issues into separate categories and discuss them more in detail.

2. Total Factor Productivity and its Measurement

Traditionally, productivity is defined as a ratio of output over input. The total factor productivity (TFP) approach takes into account all outputs and inputs of the evaluated firm. Therefore, it is necessary to aggregate the set of outputs and outputs so that productivity becomes scalar value. In practice, TFP is measured by productivity indexes or productivity indicators. Indexes have multiplicative form, whereas indicators have additive form. The measures can be based either on distance function, or on price aggregation. Among measures based on distance function, we can cite Malmquist productivity index (Caves et al. 1982), Hicks-Moorsteen productivity index (Diewert 1992: 240) and Luenberger productivity indicator (Chambers 1996). The most common TFP measures which are based on price aggregation are Törnqvist productivity index (Törnqvist 1936), Fisher productivity index (Fisher 1922) or Bennet-Bowley productivity indicator. In this article, we will deal with two most frequently used TFP measures, Malmquist and Törnqvist indexes.

Malmquist index of productivity

A produced can be defined as an entity transforming a set of inputs $\mathbf{x} = (x_1, x_2, ..., x_n)$ into a set of outputs $\mathbf{y} = (y_1, y_2, ..., y_m)$. In order to define Malmquist index, we have first to introduce the notion of efficiency. **Efficiency** of a firm can be defined as a ratio of observed values of inputs and outputs and their optimal values. The analysis of efficiency can be oriented either on minimizing inputs with given outputs or maximizing outputs with given inputs. The production technology can be represented using a set of couples (input-output vectors)

$$T = \{(\mathbf{x}, \mathbf{y})\}, \text{ where x is input to produce y.} \tag{1}$$

Another possible representation of production technology is the output requirement set P(x), e.g.

$$P(x) = \{\mathbf{y} : (\mathbf{x}, \mathbf{y}) \in T\} \tag{2}$$

As a measure of efficiency, we can use the Debreu-Farrell approach (Debreu 1951; Farrell 1957). Using the above-described notation, we can define the Debreu-Farell measure of technical efficiency as the maximum possible equiproportional increase of given output so that it still belongs to the output requirement set.

$$TE(\mathbf{x}, \mathbf{y}) = \max\{\Phi : \Phi\mathbf{y} \in P(x)\} \tag{3}$$

The inverse value of technical efficiency is called distance function.

$$D(\mathbf{x}, \mathbf{y}) = \min\{\lambda : \mathbf{y} / \lambda \in P(x)\} \tag{4}$$

When applying the output-maximizing approach, the lesser the distance from a production frontier, the better is the efficiency score. In the real world, the production frontier is unknown and has to be estimated using econometric methods (e.g. corrected ordinary least squares, COLS) or mathematical programming (e.g. data envelopment analysis, DEA). Using the above described definitions, we can define the Malmquist index of productivity. Consider a period during which the production has changed from $(\mathbf{x_t}, \mathbf{y_t})$ to $(\mathbf{x_{t+1}}, \mathbf{y_{t+1}})$. The Malmquist index of productivity for period t, respectively for period $t+1$, would be the ratio

$$M_t(\mathbf{x}_t, \mathbf{y}_t, \mathbf{x}_{t+1}, \mathbf{y}_{t+1}) = \frac{D_t(\mathbf{x}_{t+1}, \mathbf{y}_{t+1})}{D_t(\mathbf{x}_t, \mathbf{y}_t)}$$

$$M_{t+1}(\mathbf{x}_t, \mathbf{y}_t, \mathbf{x}_{t+1}, \mathbf{y}_{t+1}) = \frac{D_{t+1}(\mathbf{x}_{t+1}, \mathbf{y}_{t+1})}{D_{t+1}(\mathbf{x}_t, \mathbf{y}_t)}; \tag{5}$$

If the technology has changed during the period, these two indexes would result in different values. Therefore, it is common to employ the geometric mean of the two indexes and specify the **Malmquist index of productivity** as

$$M(\mathbf{x}_t, \mathbf{y}_t, \mathbf{x}_{t+1}, \mathbf{y}_{t+1}) = \sqrt{\frac{D_t(\mathbf{x}_{t+1}, \mathbf{y}_{t+1})}{D_t(\mathbf{x}_t, \mathbf{y}_t)} \times \frac{D_{t+1}(\mathbf{x}_{t+1}, \mathbf{y}_{t+1})}{D_{t+1}(\mathbf{x}_t, \mathbf{y}_t)}} \tag{6}$$

Malmquist index is of great theoretical importance. However, it is necessary to estimate the real but unknown production frontier using econometric or mathematical programming methods.

Törnqvist index of productivity

Törnqvist index is an example of indexes which can be calculated from observed empirical data without having to estimate the unknown production frontier. These indexes are often called superlative indexes. Under certain conditions (see Färe et al 2008: 564), they approach Malmquist index. The calculation is based on observed prices (weights) of input and output factors. Let $w = (w_1, w_2, \ldots, w_n)$ denote the prices of inputs and $\mathbf{p} = (p_1, p_2, \ldots, p_m)$ denote the prices of outputs. Törnqvist index of productivity is defined as a ratio of output quantity index Y_T and input quantity index X_T. Usually, the two quantity indexes are specified in their logarithmic form as

$$\ln Y_T = \frac{1}{2}\left(\sum_m \left[\frac{p_{m,t} y_{m,t}}{\sum_m p_{m,t} y_{m,t}} + \frac{p_{m,t+1} y_{m,t+1}}{\sum_m p_{m,t++} y_{m,t+1}} \right] \ln \frac{y_{m,t+1}}{y_{m,t}} \right)$$

$$\ln X_T = \frac{1}{2}\left(\sum_n \left[\frac{w_{n,t} x_{n,t}}{\sum_n w_{n,t} x_{n,t}} + \frac{w_{n,t+1} x_{n,t+1}}{\sum_n w_{n,t++} x_{n,t+1}} \right] \ln \frac{x_{n,t+1}}{x_{n,t}} \right) \tag{7}$$

And finally, the **Törnqvist index of productivity** can be specified as

$$\Pi_T = \frac{Y_T}{X_T} = e^{\ln Y_T - \ln X_T} \tag{8}$$

3. Data Issues of TFP Benchmarking

Robust and reliable TFP estimates depend substantially on the availability of long term and reliable information on input and output measures, ideally for a large number of firms operating in the relevant industry. This approach involves multiple issues which we will discuss in this section. First, a set of comparable firms has to be chosen and the time period has to be specified. Then, as follows from the definitions of productivity indexes, it is necessary to define the appropriate set of inputs and outputs, which have to be measured accurately. In addition, production frontier (Malmquist index) or costs of inputs and outputs (Törnqvist index) have to be estimated. Besides these issues, other can arise from typographical errors, invalid observations and unusual observations that are real outliers (Coelli et al., 2005).

To sum up, we can divide the data issues into four categories:
- Defining the set of comparable firms;
- Specifying the time period;
- Defining and measuring the inputs and outputs;
- Determining the costs of inputs and outputs (cost-based indexes) or defining and measuring the reference technology (distance-based indexes).

3.1 Defining the set of comparable firms

The major issue arises when choosing a suitable set of comparable firms whose productivities will be compared against each other. A great number of factors are influencing each firm's performance (see e.g. Pedell 2006: 24). Some of them are related to the firm itself (size, ownership structure, capital structure, age and quality of assets) and others are related to the environment (inflation rate, interest groups, unemployment, purchase power, customer density etc.) For instance, regulated and competitive firms productivity should not be benchmarked since the productivity of competitive firm is likely to be higher (see e.g. Orazem and Vodopivec 2009) and similarly, the extent of government regulation affects productivity (Crafts 2006) which distorts international comparisons. The empirical evidence on the effects of firm size on productivity is mixed (compare e.g. Leung et al. 2008 and Dhawan 2001), however, economies of scale should be taken into consideration. Capital structure is also likely to affect performance; however, in Central Europe, debt is used to a lesser extent in Eastern countries than in Western countries (Machek 2011). The issue of age and quality of assets is particularly important when comparing developed countries and former states of the Eastern Bloc; in post-communist countries, the development was centrally planned which has an impact on nowadays quality and structure of assets and maintenance costs. Geographical conditions also affect costs; in mountainous countries such as Switzerland, the maintenance and construction costs are likely to be higher than in flat countries such as Hungary. The choice of adequate sample of firms seems to be the very challenging, however, in small countries, domestic data are not sufficient and international benchmarking has to be employed.

3.2 Specifying the time period

In general, productivity growth is more accurately measured in long term, since TFP can vary substantially from one year to another. The time period has to be representative, should include the whole business cycle and exclude any extraordinary events. For instance, Blanchard and Kremer (1997) found that increased competition in the countries of the former Eastern Bloc may have contributed to TFP decline because it disrupted the Warsaw Pact economic connections. Similarly, privatization of state-owned firms may cause a TFP decline, because the technology

gap may discourage enterprises restructuring (Angelucci et al. 2001). Furthermore, introduction or variation of regulatory regimes seems to reduce productivity, but in Central Europe, modern economic regulation has only a short history which further reduces the possibilities of reliable long-term TFP estimates. The lag between investment and its effects is also nonnegligible. Short-term results may look poor, because the effects of investments in infrastructure are not immediate (Brynjolfsson 1993).

3.3 Defining and measuring the inputs and outputs

There are many conceptual and practical issues in identifying the number and level of aggregation of inputs and outputs for each industry. Classical input factors which should be taken into account are labor, capital and materials.

Labor is most often measured by the number of employees or man-hours, which should be corrected, since outsourcing of activities can distort the results. Activities should be well defined and separated (for example, electricity distribution and sale). Moreover, employees can differ in their skills, education and experience, but more skilled employees contribute to the growth to a greater extent. It is preferable to distinguish among these categories of employees. Because of these difficulties, labor input is sometimes incorporated into operating expenditures (OPEX) which are taken as an aggregate measure of labor and materials.

The most contentious is the measurement of **capital**. The capital used in regulatory benchmarking has to fulfill several requirements in order to be included in the asset base (just and reasonable, useful, prudently incurred etc., see Lesser 2007). Moreover, as previously mentioned, the quality and age of capital may vary substantially, as well as its valuation methods. The capital is often measured directly and proxied by kilometers of wires (electricity distribution) or pipes (natural gas distribution) which are invariant to different depreciation schemes. However, the relation between these proxies and real capital stocks is not clear. Indirect measurement of capital is based on the value of assets, which raises the question of accurate and comparable valuation (especially replacement cost valuation methods versus historic cost methods). A good analysis of capital measurement and associated issues has been carried out e.g. by Coelli et al. (2005).

Outputs used in TFP estimates should represent the basket of services provided by regulated firms. Outputs of distribution companies should reflect how much is being transported, how far it is being transported, and the quality of service. The set of outputs should reflect both 'supply side' and 'demand side' (see Lawrence and Diewert 2006: 214). The definition of the quality aspect is particularly challenging, because there is not yet a definite way of incorporating common reliability and quality measures in TFP calculations, since it seems that increases in quality are reflected in a decrease of TFP rather than an increase. Moreover, as we already mentioned, investments in quality improvement make short-term results look poor, because the effects of investments are not immediate, and the investing firm is being penalized rather than rewarded.

There are more issues concerning availability of data and their accuracy and comparability. In tariff regulation, data are provided by regulated companies; it is logical to suppose that they not be perfectly accurate, since regulated companies seek to improve their own efficiency.

3.4 Estimating the costs of inputs and outputs or the production frontier

Usually, the costs, i.e. **weights of outputs** are derived from the share of each output in total revenue (in the case of competitive industries, where prices reflect marginal costs) or output cost shares (in the case of natural monopolies). The latter case is more complicated, since it involves either arbitrary judgments about the relative importance or econometric estimation of cost function (Lawrence and Diewert, 2006). There is an academic debate over which of these approaches performs the best. However, some degree of inaccuracy is practically inevitable. Similarly, the **weights of inputs** are represented by the share of each input in total costs. Capital

input costs can be calculated either directly from estimates of depreciation, opportunity costs and capital gains or indirectly as the residual between total revenue and OPEX, in which case the capital input variables have to be allocated according to their proportion in total asset value.

When distance-based TFP measures are employed, it is necessary to estimate the **production frontier**. This approach involves all inconveniences related to frontier methods such as COLS or DEA; especially the need of a large number of observations to obtain robust estimates, influence of noise and overall complexity. On the other side, these methods incorporate input and output weights implicitly and it is not necessary to estimate them.

5. Conclusion

In this article, we dealt with the question of the main data issues when comparing total factor productivity (TFP) among government regulated firms or industries with focus on the Central European region. This question is important both for regulatory agencies in deciding what regulatory methods to adopt, and for regulated firms in evaluating their own productivity, identifying weaknesses and threats and negotiating with regulatory agencies.

We divided the issues associated with TFP benchmarking into four categories. The first one is related to defining the set of comparable firms. Many factors, such as degree of competition, government regulation, economies of scale, firm size, geographical conditions and historic development have to be taken into consideration. The second challenge is associated with specifying the time period. TFP estimates should be based on long time series and the period should include the whole business cycle and exclude extraordinary events. The third group of issues is related to defining and measuring the inputs and outputs. Since a number of difficulties are associated with labor input measurement, it is often included into OPEX along with materials and services. The measurement of capital is even more contentious. The outputs should reflect performance, complexity and quality of service. The fourth category of problems concerns determining the costs of inputs and outputs or defining and measuring the reference technology, where some degree of arbitrary judgment and inaccuracy is inevitable.

Due to the difficulties associated with the heterogeneity of firms and their environment, which is especially evident in the Central European region, we suggest to avoid methods requiring large time series such as frontier-based methods of efficiency benchmarking or Malmquist TFP benchmarking. However, the question of the best performing regulatory method is still far from being clarified and is subject to intensive academic debate.

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WHY THE INCREASE OF THE PUBLIC INVESTMENTS DOES IS NOT AN ANTI-CRISIS SOLUTION IN ROMANIA?

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The higher public investment during times of economic recession is sustained by most economists, starting with Keynes. However, this solution does is not working in economies characterized by a poor efficiency and by corruption in the management of public funds, such as in the case of Romania. Although in the period 2006-2009, Romania has spent the largest share of GDP for public investment (from EU-27 countries), however the multiplier was less than one, as we have estimated in this study. Using the impulse-response function specific to VAR models, we have observed that the impact of public investment on GDP is limited, which validates the lower efficiency of investments in the Romanian economy. We estimate that the level of the investment multiplier estimated for Romania is smaller than multipliers estimated by OECD (2009) for other countries from the Eastern and Central Europe (0.6-0.7 size on short term). Elasticity of GDP according to public investment is 0.013, ie increase investment spending by 1% causes a more growth by 0.013% over one year. Regarding the second equation, there was an immediate impact on investment spending of industrial capital goods production, the level of elasticity being 0.051. It results that public investment lead to higher increase of industrial production on short term, but to lower economic growth rate on long term. We believe that the main reasons for a lower efficiency of these public investments in Romania are following: the dependence of the projects' objectives on the election cycle, as it generates a "new" prioritizing of the investments; the absence of transparency in the case of the public spending, this fact leading to budget allocations higher than spending made for the achievement of some projects; the absence of a multi-annual budget schedule which blocks the achievement of greater projects or the completion of the projects which have already been started; the money which has not been spent for investments according to the budget granting settled at the beginning of each year; most of the amounts have been wasted by using them during the last quarter of each year during the period 2005-2008.

Keywords: investment multiplier; economic growth; industrial production; OLS regression

JEL: E62, H62

I.Introduction

Theoretically, the public investments have a great short-term multiplying effect upon the aggregate demand and a long-term multiplying effect upon the aggregate offer, especially when they determine the decrease of the transaction costs. However, there are also other conditions which may influence the impact of these spending upon economy. *Firstly,* the government should make sure that will allocate sufficient financial resources for achieving the settled investment projects. Moreover, the local authorities should benefit from the central government's support whenever certain local projects may cease due to the lack of funds. Any cessation of the projects which are financed from the state budget would only generate temporary effects upon output, and the long-term multiplier will tend to zero or it will even become negative. *Secondly*, the public

investment projects should be transparent when referring to the spending and they should not be affected by the corruption spectrum. In Romania the public funds for investment are not being used with transparency, being fateful influenced by electoral cycles. Thus in the last twelve years have started 42.000 public investment projects, which are currently unfinished, the majority of them being blocked due to lack of financing. Hence, the public spending for investment have generated only a temporary increase of GDP.

Regarding the impact of public investment on economic growth, empirical evidences are different. Thus, ones of the IMF studies (2004, 2005) showed that there was no significant relationship between two variables, so that government investments have been regarded as unproductive. On the other hand, Pereira (2000, 2001) estimated in a VAR model on U.S. that public investment positively affects both private investment and domestic production and employment, the whole public investment being considered as productive. A World Bank study (2007) has concluded that there is a positive impact of capital spending on economic growth, particularly for infrastructure spending, education and health. Growth and Development Commission Report (2008) shows that the fastest growing economies have in common the existence of at least 7% share of GDP spent on investments. Other studies has shown that during 1960-2000 there was a positive elasticity of economic growth based on public capital.

Romania is characterized by a paradoxical situation in terms of public investment in that it has the highest allocation in the EU-27 in this field, but shows a poor performance of infrastructure (transport, education, health) according to the Global Competitiveness Index. Thus, capital expenditures in GDP accounted for 5.7% of GDP in 2008 and 5.3% of GDP in 2009, while the European average was 2.7%, and respectively 2.9%. Ratio of public investment in GDP has increased since 2005 year from a previous value less than 4% of GDP. The emerging EU countries (including Romania) is characterized by greater public investment rate volatility compared to developed economies, since they lower their financing capacity, especially during periods of higher budget deficits. Only countries with more prudent fiscal policies during periods of economic expansion (such as the Czech Republic and Poland) have registered an increase of public investment in 2009 compared to previous years.

II.Literature review, methodology and results

To identify the multiplier impact of budgetary capital spending we have used OLS regression and VAR model for GDP and industrial production of capital goods, the period included in this analysis being 2000:1-2011:1 (45 observations). The objectives are to determine the elasticity/multiplier of these variables depending on public investment and their reaction with impulse-response function. We have used a quarterly data series form Eurostat, expressed as annualized percentage changes, relative to the corresponding quarter from the previous year. Public investment data series was deduced from the data expressed in millions local currency units and was converted into constant prices based on the appropriate price index for government expenditure.

In the period covered by this study, the government capital spending have increased by about 20% annually, while industrial production (producing capital goods) increased on average by 6.7%, the average economic growth being 3.8%. The highest annualized growth of public investment was in the first quarter of 2000 (+ 200%) and minimum in the second quarter of 2001 (-40.6%). Most budgetary resources were allocated quarterly investment during 2007:4-2008:3, when the economy was in the expansionary gap. The recession that affected Romanian economy was not offset by increased investment spending than from Q3 2010. Concerning the level of GDP, the highest annualized growth rate was achieved in the first quarter of 2000 (11.6%) and largest reduction occurred in the second quarter of 2009 (-8.3%). In fact, Romania registered a reduction of GDP in each of the quarters 2009-2010. Industrial production began to recovery

from Q3 2009 due to rising external demand from economies with a more rapid recovery of production.
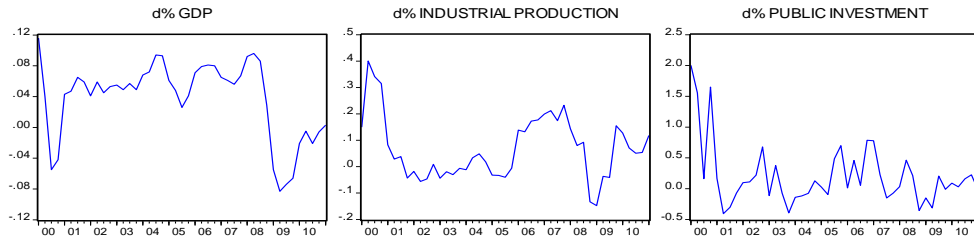
Figure 1 Evolution of GDP, industrial production and public investment

Before performing the OLS regressions and VAR models, we have investigated the stationarity of data series used to identify their integration order. Making an analysis according to the ADF and Phillips-Perron (PP) tests for the stationarity hypothesis for the two series, we may notice a rejection of the H0 hypothesis at the level for 1%, 5% and 10% significance thresholds in the case of public investment and at 5% and 10% significance thresholds for GDP and industrial production (table 1).

Table 1. The ADF and PP stationarity tests

Critical values t-statistic	d% Public investment ADF(0)	d% Public investment PP(0)	d% GDP* ADF(0)	d% GDP* PP(0)	d% Industrial* production ADF(0)	d% Industrial* production PP(0)
	-5.344231	-5.507541	-3.398412	-2.444665	-2.130408	-2.130408
1%	-2.618579	-2.618579	-3.592462	-2.618579	-2.618579	-2.618579
5%	-1.948495	-1.948495	-2.931404	-1.948495	-1.948495	-1.948495
10%	-1.612135	-1.612135	-2.603944	-1.612135	-1.612135	-1.612135

Note: *) non-stationary at the 1% significance thresholds, but stationary at 5% and 10%.

To estimate the multiplier impact of the public investments, we have ve used two models, one of them with economic growth rate as endogenous variable, and the other with change of industrial production of the capital goods, as dependent variable. To take into account structural breaks into GDP and industrial production data series we have used three dummy variables. The first one is related to the first quarter of 2009 and noted $dummy_{2009:1}$, which corresponds to reversal of GDP trend after a period of continuous growth since the first quarter of 2001. The second refers to the quarter immediately following, in which was registered the largest reduction in annualized GDP, namely 8.3%, as noted $dummy_{2009:2}$. The third will be used in regression of industrial production, highlighting the impact of the maximum rate of increase in the second quarter of 2000, being noted $dummy_{2000:2}$.

In the two OLS regression were used as exogenous variables change of public investment, autoregressive components of the endogenous variables to highlight their persistence and dummy variables to capture some structural breaks in the data series. The objective of these regressions is to determine the GDP and industrial production of capital goods elasticity according to budgetary capital spending. We have estimated the following equations:

$$gdp = \alpha_0 + \beta_0 \cdot gdp(-1) + \sum_{i=0}^{4} \delta_i \cdot pb.investment(-i) + \phi \cdot dummy_{2009:1} + \gamma \cdot dummy_{2009:2} + \varepsilon_0 \quad (1)$$

$$i.p = \alpha_1 + \beta_1 \cdot i.p(-1) + \sum_{i=0}^{4} \sigma_i \cdot pb.investment(-i) + \varphi \cdot dummy_{20002} + \varepsilon_1 \qquad (2)$$

where,

gdp – the annualized rate of economic growth;

pb.investment – the annualized rate of public investment;

i.p – the annualized rate of industrial production of capital goods;

i – the lags of public investment;

α – constant of regression;

β – the autoregressive coefficient of the endogenous variables;

δ – the GDP elasticity depending on the public investment change;

σ – the industrial production of capital goods elasticity depending on the public investment change

ϕ, γ, φ – the coefficients which refer to the influence of the dummy variables on endogenous variables

To estimate the coefficients of the two regressions we have used EViews 7 software, the results being included in the table below.

Table 2. The results of OLS regressions

	Equation (1) gdp (41 observations)		**Equation (2)** industrial production of capital goods (44 observations)
α_0	0.011 (2.71); [0.004]	α_1	0.0001 (0.16); [0.01]
β_0	0.76*** (11.9); [0.06]	β_1	0.71*** (8.61); [0.08]
δ_4	0.013** (2.35); [0.005]	σ_0	0.051** (2.14); [0.023]
ϕ	-0.088*** (-4.73); [0.018]	φ	0.197*** (4.31); [0.045]
γ	-0.058*** (-2.96); [0.019]		
Adjusted R-squared	0.84	Adjusted R-squared	0.75
DW test	1.94	DW test	1.82
Jarque-Bera test probability	0.83	Jarque-Bera test probability	0.18
Breusch-Godfrey test probability	0.21	Breusch-Godfrey test probability	0.64
White Heteroskedasticity test probability	0.31	White Heteroskedasticity test probability	0.29

( ) – t-statistic value; [ ] – standard error value; ***/**/* - statistical significance at 1%/5%/10% levels

The results show the existence of an autoregressive model of order 1 in both regressions, the coefficient β being 0.76, respectively 0.71, which corresponds to a relatively high persistence of the two variables. Dummy variables included in the first regression caused GDP reducing by

about 8.8% and 5.8% in the analyzed period, while the dummy variable used in the second model has led to industrial production increasing by 20%. Public investments have not an immediate impact on growth rate, but one lagged with four quarters, which is explained by the existence of lags between the allocation, spending of the government resources and the increase of internal product. Elasticity of GDP according to public investment is 0.013, ie increase investment spending by 1% causes a more growth by 0.013% over one year. Regarding the second equation, there was an immediate impact on investment spending of industrial capital goods production, the level of elasticity being 0.051. It results that public investment lead to higher increase of industrial production on short term, but to lower economic growth rate on long term.

Based on GDP elasticity, we have calculated the multiplier of public investment according to the following relationships:

$$\delta_4 = \frac{gdp}{pb.investment} = \frac{\Delta GDP}{\Delta Public.investment} \cdot \frac{Public.investment}{GDP} \qquad (3)$$

The share of public investment in GDP was 3.2% at the start of the period, value that coincided with both the media and the median of the data series. Therefore, public investment multiplier is only 0.4 (= 0.013/0.032), so that increase of investment spending with one local currency has led to a higher GDP by only 0.4 local currency after four quarters, which is a lack of drive effects of the investments and of the public money wasting. This situation has multiple causes such as cancellation of certain projects and starts others depending on the electoral cycle, funding of an unimportant projects at local level, non-transparent contracts establishment, etc.

As the three variables of the two models are stationary, we have created two VAR model in order to estimate the way in which the shock of the public spending is transmitted upon the GDP and industrial production based on the impulse-response function. For the purpose of selecting the number of the model's lags, we have used the Akaike (AIC), Schwarz (SIC) criteria and the Wald exclusion lag test, according to which the optimum lag is three for the *gdp* model and one for *industrial production* model. Applying the impulse response function it results that increase of the public investment by 1% in the quarter *n* lead to an increase of GDP by 0.004% in the second and third quarters, the effect being almost null after ten quarters. The cumulative increase of GDP after ten quarters is only 0.023%, which also corresponds to an investment multiplier less than one. Concerning the dynamics of industrial production, this registers an increase higher than 0.1% in the first five quarters after shock of public investment. The cumulative growth of the industrial production is stabilizing after three years at 0.08% level.
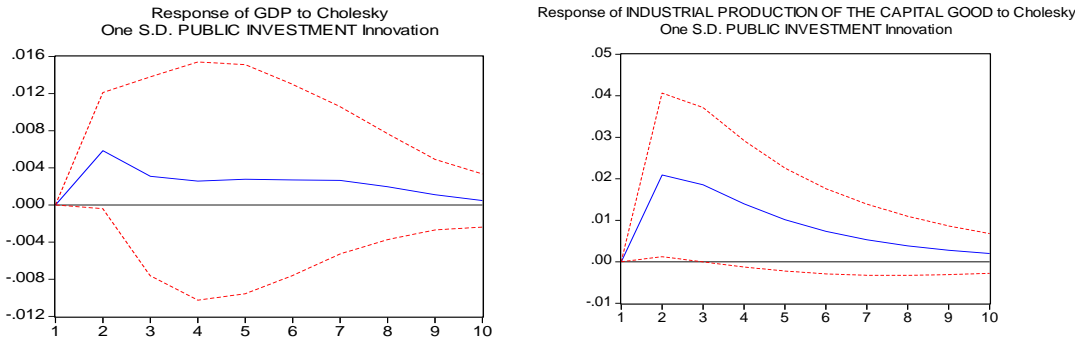
Figure 2 Impulse Reaction response of GDP and industrial production to public investment

III. Conclusions

The level of the investment multiplier estimated for Romania is smaller than multipliers estimated by OECD (2009) for other countries from the Eastern and Central Europe (0.6-0.7 size on short term), even if the GDP share of public investment is higher than average of this countries. In this context, the increase of public investment in Romania does not generate a significantly increase of GDP on the medium term, although this spending are mostly important for their long-term impact upon the potential GDP. We believe that the main reasons for a lower efficiency of these public investments in Romania are following: the dependence of the projects' objectives on the election cycle, as it generates a "new" prioritizing of the investments; the absence of transparency in the case of the public spending, this fact leading to budget allocations higher than spending made for the achievement of some projects; the absence of a multi-annual budget schedule which blocks the achievement of greater projects or the completion of the projects which have already been started; the money which has not been spent for investments according to the budget granting settled at the beginning of each year; most of the amounts have been wasted by using them during the last quarter of each year during the period 2005-2008.

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JAPANESE MONOPOLIST COMPANIES – INSTRUMENTS OF THE 'NATIONAL POLICY'

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As the title suggests, this article discusses the problem of monopolistic Japanese companies, unique features among advanced countries, and perhaps worldwide. The japanese most ardent desire was always to reach and to overcome the Western, and, as a balanced development of all companies would have taken a long time, japanese policy makers decided to support only those with good performances, around them being concentrated all energies in the east Asian archipelago. Following these important efforts (from the State, small and medium companies, people, etc.), as it is well known, Japan has succeeded, precisely by those holdings, to become a tough opponent for developed countries and even to overcome them, becoming the second global power behind the United States.

The importance of this article derives precisely from the fact that these companies (Zaibatsu and later hondings) were the driving force behind Japan's economic development, whether we talk about the period preceding the Second World War or the next one. Even if after the American occupation, it was wanted with at all costs their liquidation, holdings being considered as close to prewar militaristic power, after the American withdrawal from the archipelago, they were rebuilt as a Japanese principle, the foundation of Japanese reconstruction.

The paper aims to embody the main dimensions on which these companies have arrived, as well as their structure, the relations between them, their organization.

On the topic discussed, the literature contains more general issue of the Japanese economy, without being paid (at least in the contemporary period) consideration to these main pillars of Japanese capitalism development. The main work in which they are giving increased attention is written at the end of the Second World War, thus the need for the additions concerning the next period is important. The authors' contribution lies precisely in the synthesis of information that he provides, from the appearance of Zaibatsu in the mid-Meiji era, until the Great Depression of the 1990s.

Keywords: Japan's economy, zaibatsu, monopolist companies, keiretsu, Japan challenge
JEL: O15, O25, N15

Zaibatsu or family cliques represents an element of uniqueness, showing the main pillar in the development of Japanese capitalism, the driving force of economic development of Japan. It is all about family economic and financial holdings that include a large number of enterprises in various sectors. They are present in the shipyards, banks, insurance system, shipping, mining, industrial activities.

The emergence of the largest Zaibatsu is rooted in the rich families of merchants of Togukawa period. During Meiji, internally, these trusts were heavily backed to face international competition that Japan was subject. Then came the First World War; they took full advantage of it, developing at a high rate. With the establishment of militarism (1930), other Zaibatsu have appeared, all beneficiaries of the war, started by the "bounty" of Japanese capitalism.

Over time, a battle for supremacy took place between Mitsui and Mitsubishi, at each one's action corresponding an offensive from the other; when Mitsui began negotiations with Furukawa and Kuhar-Mangyo, in order to seize them in its sphere of influence, Mitsubishi started immediately negotiations with Sumitomo. Mitsubishi's turn followed, with a first step to control Nisso, Nichitsu and Mori, while Yasuda (with satellites Asano and Okura) passing on Mitsui side (Barrett, 1945, p 36). Through these strategic moves, the capital ratio control throughout the industrial development has been a constant one.

Even if rivalry between them was notorious, collaboration is and was more important than the destruction of the other when it comes to foreign confrontation. Race is on the inside, but as soon as a problem arises from outside, they ally against the enemy. Internally, the act as the groups that existed in feudalism, and not as western monopolies. One of the major wishes/targets/objectives of the government's is fight against waste: for example, to avoid losses, Mitsui and Mitsubishi shipyards were merged in 1885, managing to be more competitive internationally. Another important merger was represented by the Nippon Steel, where were involved five Japanese private companies as well as the public company. Thus, the new groups are growing bigger and bigger, the cartel formation law (1925) and the Law of control on Big Industries (1931) helping them.

Throughout the period of their existence, the family cliques have shown dedication to the state, which in turn has always supported them; these two institutions were clearly working together. Under state protection, their size increased significantly, especially during the militarism, when Japan represented a great monopoly. With the entry into the war, it was the moment to use the energies at maximum. In the following table we present the zaibatsu size and the concentration degree in 1939.

Tabel 1. The zaibatsu size and the concentration degree (1939)

Name	Number of companyes controlled in 1939	Capital directly controlled (million yen)
Mitsui	112	1428
Mitsubishi	74	1291
Mangyo	100	1249
Yasuda	50	484
Nichitsu	32	471
Sumitomo	27	442
Mori	30	275
Asano	47	270
Okura	40	176
Nisso	44	165
Nomura	26	159
Furukawa	21	107
Riken	60	102
Kawasaki	24	99
Total	**687**	**6718**

Source: (Barret 1945: 32)

The total paid up capital of japanese companies was 21,073,000 yen, and, as it can be seen from the table, the capital of companies directly controlled by the trusts was 6.718 million yen in 1939 (while in 1942 it reached 8.717). Besides this directly controlled amount, there were 5.013 million yen indirectly controlled. Therefore, a total of 13.304 billion yen, representing over 63% of total capital, was held by the 14 Zaibatsu. Japan's total bank deposits were 19,117,000 yen, while trusts were set at 14,000 yen deposits, over 75% of the total. Before World War One Japanese banks have not exercised such influence as the Zaibatsu in the financing industry (Barrett 1945: 32), (Schwab and Thiercelin, 1991: 61).

These family cliques were dissolved with the defeat of Japan in the Second World War. After becoming clodes to militarists, aiming to monopolize new markets and raw material supply, Americans considered them as a leading cause of the Japanese territorial expansion. Laws against

Zaibatsu were taken immediately after the installation of the regime led by MacArthur in 1947, among the "victims" being almost 60 family cliques. Therefore, not only the significant ones were abolished, thus trying to completely eradicate them.

Although they were eliminated by the U.S. regime in place, representing a Japanese tradition, the Zaibatsu principle could not be removed. Their dispersal lasted only during the occupation of the former enemy and current ally, then resumed the composition of major trusts which have gradually grown considerably. The new giants represent a new form of those existing before the war (Mitsui, Mitsubishi and Sumitomo are the direct heirs of the prewar zaibatsu). If the great pre-war Zaibatsu were based on their own capital, nowadays loans hold the largest share, as these holdings are crystallized around the bank that acts as an *axis mundi*. Therefore, in addition to the fact that large companies hold monopoly positions, they have their own banks, helping them to form extremely strong cores, with activities spanning several sectors.

It can be seen in (Fig. no 1) and (Fig. No 2) that a major difference is mainly the non-membership of new trusts in a single family structure and their mobility in relation to the stiffness of their predecessors. In the post-war groups we also note the existence of cross holdings, which make supervision come from all sides; companies are giving themselves mutually places in their boards (boards of directors within the Group companies have lunch together at least once a week to discuss future goals and strategies (Delassus 1971: 171)). A discordant note is represented by the Bank; it holds a seat on all boards in order to be able to defend its interests and to have access to all information; for example, Mitsubishi Bank sent 27 members of the boards of the 21 companies in the group (All 1989: 16). There are frequent cases in which the government itself has economists and officials in the boards of these holdings.
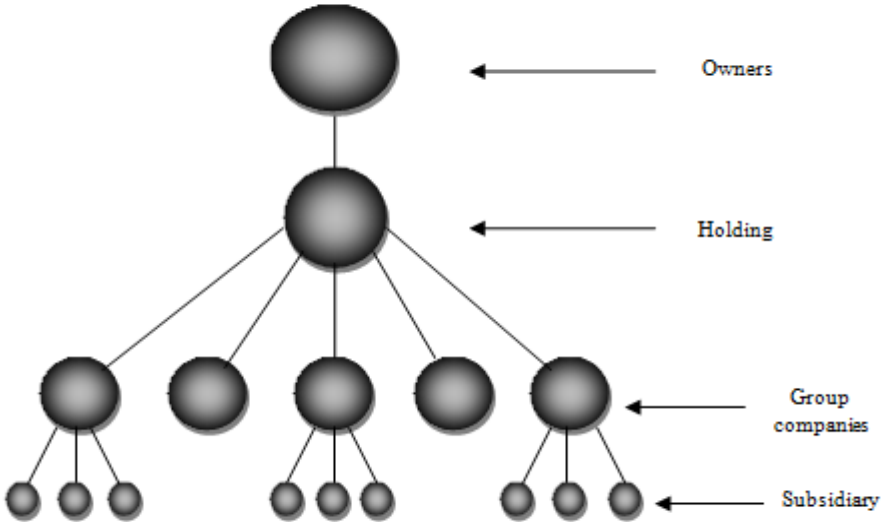
Figure 1. Zaibatsu's structure before the Second World War
Source: (Schwab and Thiercelin 1991: 60)
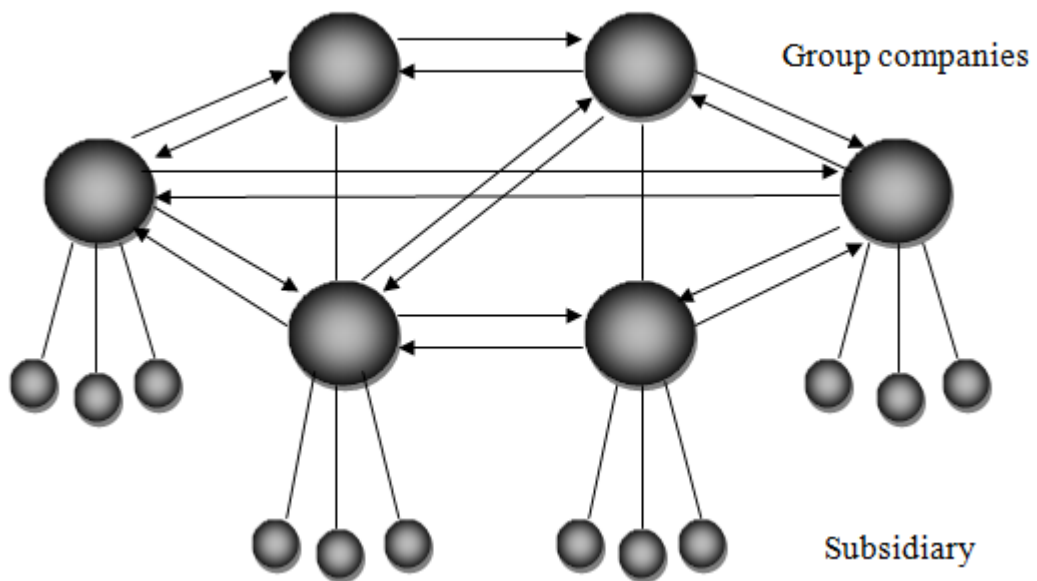
Figure 2. Honlding's structure after the Second World War
Source: (Schwab and Thiercelin 1991: 60)

As Michio Morishima underlines (Morishima 1986: 147), the Japanese had to choose between two types of development, one in which all companies would have received the same treatment and a possibility of development for all, but in a very long time, and a second one, in which a group of firms would be selected and receive special treatment. Just as athletes chosen to represent their country at the Olympics are treated preferentially, this holdings have the advantage of certain privileges. In a society based on Confucian ideology, there is not the problem of a rebellion of those who are not selected, who remain in resignation and trying to do their best to help their colleagues. Keeping parallel with the Olympics, it remains their duty to support them in their attempt to gain the best result. An identity of views was rapidly reached at a national level, glory and pride being important for all Japanese.

Medals do not hesitate to show and, in 1995, among the largest companies worldwide, in the first six positions, five were Japanese.

Tabel 2. Top 15 global companies by their income (1995)

No.	Company name - country of origin	Income (millions $)
1.	Mitsubishi- Japan	184.365
2.	Mitsui – Japan	181.519
3.	Itochu – Japan	169.165
4.	General Motors –USA	168.829
5.	Sumitono – Japan	167.531
6.	Marubeni- Japan	161.057
7.	Ford Motor –USA	137.137
8.	Toyota Motor – Japan	111.052
9.	Exxon –SUA	110.009

10.	Royal Dutch/Shell Group–GB	109.834
11.	Nissho Iwai – Japan	97.886
12.	Wal-Mart Stores- USA	96.627
13.	Hotachi – Japan	84.167
14.	Nippon Life Insurance- Japan	83.207
15.	Nippon Telegraph and Telephone- Japan	81.937

Source: (Nicolescu 1997: 405-406)

The (Table no 2) shows that the Japanese archipelago get where it wanted, representing the main pole of power in companies. Thus Japan is the first country to demonstrate the power of holding.
State activity was always directed toward protecting the giants, the monopolies and the pursuit of common goals with them. By the fact that it supports them, we believe that in Japan there is a state monopoly capitalism, an interventionist capitalism. While the United States supports industries with problems, the Japanese are focusing on the strong ones, in order to be more competitive internationally.
Therefore, we can say thet monopolistic companies represent instruments of national policy, the core, the center of gravity, which compete with Westerners and are always mindful of their products, in order to be in tandem with the vision and wishes of the state. They definetely have an important role in the development of Japan: contributing to export growth, helping to build national strategy, exploring international markets in order to know which way to move production in Japan, importing raw materials and organizing sctivities. Instead the state protects and supports themby all the levers at its hand, making them as we saw above, the "mammoths" of the global economy. As evidence of these dimensions, acad. Costin Murgescu (Murgescu 1985: 207) considers that the costs with collecting information ("key investment in commercial activity") would be higher than the CIA's..

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AN EXAMINATION OF OKUN'S LAW: EVIDENCE FROM EUROPEAN TARGET COUNTRIES

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In this paper Okun's law is tested for six European selected countries in order to compare the responsiveness of unemployment to economic growth over the period 1981-2010. In the first section there is a survey of scientific works that have observed the empirical relationship between growth and unemployment. The countries selected are representative of different socio-economic contexts today existing in Europe, i.e. EU member countries, countries that adopt the Euro, and others which are candidates to join the EU or that although EU members have chosen not to adopt the Euro. Finally, we also refer to the U.S. and Canada, which are country-systems where the regularity of Okun's rule of thumb was conceived. In particular, we intend to represent the data of the macroeconomic variables GDP and unemployment rate in their annual variations for a time series sufficiently long to show the occurrence of the supposed regularity, and then to investigate specific cases, which represent changes compared to the expected variations. In addition to any changes occurred over time in the studied relationship, these empirical observations, along with the reported literature, will help to draw conclusions about the differences regarding the inflexibility and responsiveness to changes in the aggregated output by the labor market of the countries involved in the study.

1. Introduction

The Okun's law is the specific empirical regularity between the unemployment rate and the rate of growth of output formulated by Arthur M. Okun in 1962, which enabled him to find an achievable solution to the difficult problem of estimating an economy's potential output given the actual unemployment. This dependable relationship, although not based on any strong economic reasoning and not a structural feature of the economy, has held up well within the appropriate range of unemployment rates and it can also be exploited in modern global markets both to evaluate the responsiveness of unemployment to economic growth and to study the national labor market performances. Indeed, already from the original work, Okun did not fail to highlight how the labor market structure could corroborate or affect the validity of the estimated relationship. In particular, in Okun's thought, there are three variables that may arise in relation: the degree of participation in the labor market, the number of hours worked per employee and the productivity of labor. In this context, European countries are facing, among other issues, the challenge of the globalization process and are coping with the increasing competition from both the emerging competitors and big international players such as the United States, which, despite having generated the current economic and financial crisis, have been able to tackle, better than other

country-systems, the imbalances arising from the crisis, returning to grow also due to the structure of their labor market. From this point of view, on average the European Union (EU) is characterized by a higher inflexibility of the labor market. However, the EU consists of a set of countries that are only gradually being harmonized by the legislative standpoint and slowly from the socio-economic perspective. For this reason, there is still not a single definable economic standard as European, but there are still both really different and specific macro-regional social and economic dynamics.

The structure of the paper is as follows. Next section provides a review of the literature on Okun's law. The proposed operational framework is presented in section 3. Section 4 concludes, providing some findings and implications.

2. Related literature

Okun's formulation of the empirical regularity has-been tested in several studies over time, which have, *inter alia*, proceeded to re-determine for many countries the range of variation of the two variables directly involved, the GDP growth rate and the rate of unemployment (among the many contributions, see for example Smith 1975, Gordon 1984, Knoester 1986, Kaufman 1988, Prachowny 1993 and Weber 1995). Confirmations have been obtained by the law under investigation, although with obvious differences in the coefficients that regulate the relations between the two variables. In particular, the most responsiveness of employment levels has been observed in Anglo-Saxon countries, especially the United States and Canada. Nevertheless, the European area, mainly the EU-15, is mentioned in economic literature as a case of greater structural inflexibility of the labor market, largely due to the higher government guarantees applied to employed workers. Therefore, in many European countries there is a tendency for lower growth of the unemployment when there is simultaneously a period of economic recession; but at the same time, when the GDP rises again is not registered a strong increase of employment, given that production units cannot subsequently and rapidly reduce the labor inputs per unit of output. Moreover, there are studies based on the asymmetry of the Okun's empirical regularity (see, among others, Silvapulle *et al.*, 2004) claiming that the influence of positive changes of economic growth on unemployment is different from that concerning the negative changes. This asymmetry is observed in this work particularly in the light of the empirical evidence related to those EU countries considered in our analysis.

3. Operational framework: analysis of the European context

Following Okun's law, we investigate the occurrence of, and models for estimating, the empirical relevance given by the relationship between economic growth and unemployment fluctuations for six EU select countries during the last thirty years: Germany, a key State for the birth and economic stability of the European Union; Italy and Spain, since they are two economies belonging to the Mediterranean macro-region, which represent different economic production structures; United Kingdom, EU member which has deliberately chosen not to adopt the Euro; Romania as a candidate for the Euro Area; Croatia which instead will enter the EU with effect from July 2013. Finally, to this analysis we add the two countries which can be considered as a benchmark in this study type, namely the U.S. and Canada, since they are national contexts in which the relationship discovered by Okun should be stronger. The variables considered are the annual change in percentage of Gross Domestic Product (US$ constant prices) and annual variation of the unemployment rate (percent of total labor force) on IMF data from 1981 to 2010 (2012).

Germany (1981-2010)   *United Kingdom (1981-2010)*
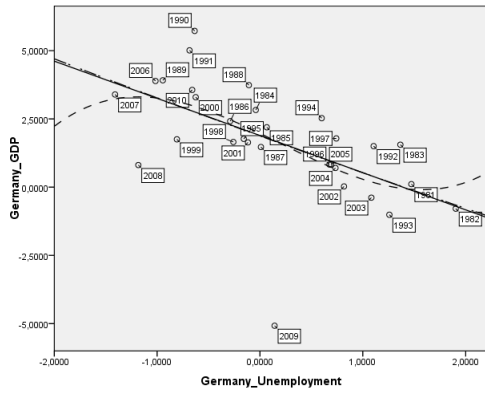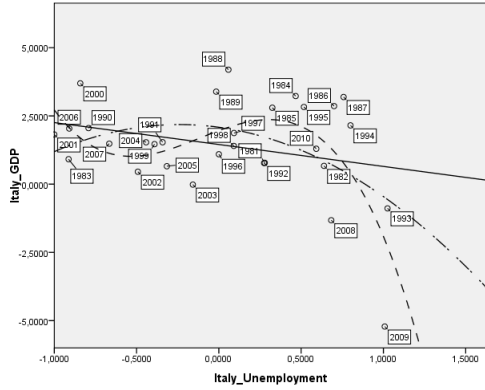
Italy (1981-2010)

Spain (1981-2010)
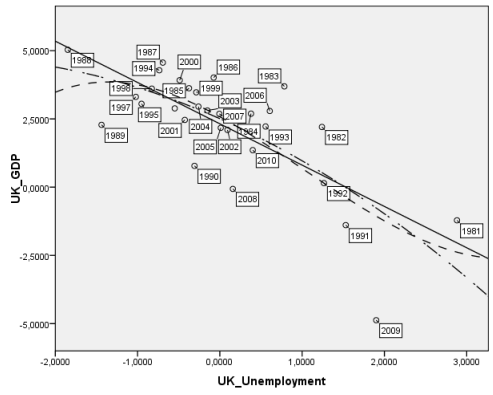
Romania (1986-2010)
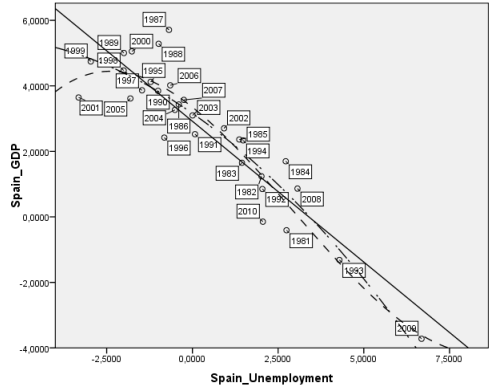
Croatia (1993-2010)
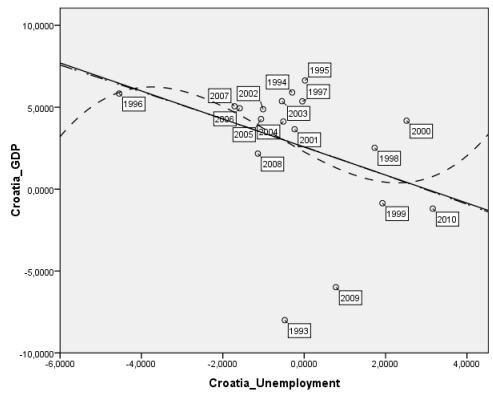
U.S. (1981-2010)

Canada (1981-2010)
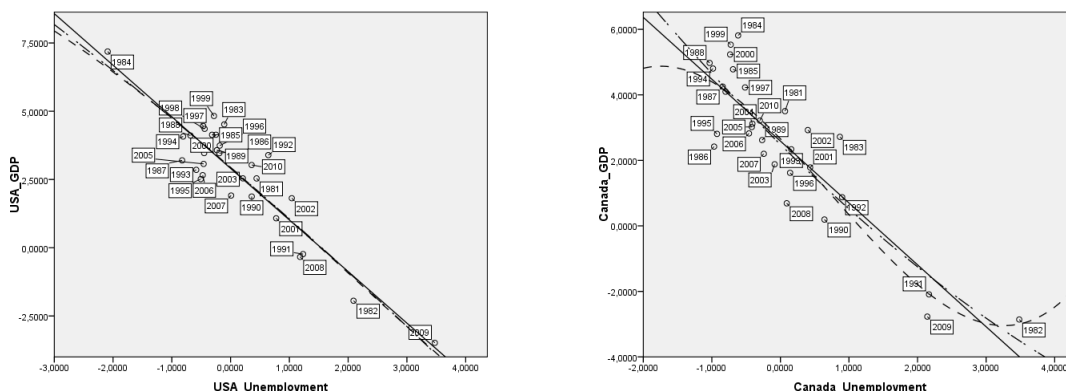
Figure no 1 - Data representation of the percentage annual variation in the unemployment rate and the GDP (over the period from 1981 to 2010); graphical representation of the estimation models of dependence (elaborations made by the authors on IMF data, 2012).

In the previous graphs we show the time series for each EU member, where each point represents the combination of the annual variation in GDP and the corresponding variations in the unemployment rate ($U_t–U_{t-1}$). In each of the graphs, three models are considered for estimating the dependence, linear (continuous line), quadratic (tract point) and cubic (dashed function), in which the GDP variation is considered as dependent variable and the variation in the unemployment rate is the independent variable.

Table no 1 - The model parameters estimated for the eight selected countries (GDP is the dependent variable and unemployment is the independent variable), IMF data (2012).

	Equation	Model Summary					Parameter Estimates			
		R Square	F	df1	df2	Sig.	Constant	b1	b2	b3
GERMANY	Linear	0,328	13,645	1	28	0,001	1,891	-1,362		
	Quadratic	0,328	6,581	2	27	0,005	1,876	-1,370	0,021	
	Cubic	0,341	4,488	3	26	0,011	1,967	-1,813	-0,192	0,325
UK	Linear	0,545	33,571	1	28	0	2,320	-1,514		
	Quadratic	0,565	17,551	2	27	0	2,507	-1,344	-0,199	
	Cubic	0,579	11,937	3	26	0	2,579	-1,650	-0,365	0,118
ITALY	Linear	0,076	2,310	1	28	0,140	1,451	-0,803		
	Quadratic	0,181	2,991	2	27	0,067	2,083	-0,822	-1,716	
	Cubic	0,389	5,520	3	26	0,005	1,958	2,224	-1,556	-4,542
SPAIN	Linear	0,829	135,301	1	28	0	2,920	-0,860		
	Quadratic	0,861	83,811	2	27	0	3,160	-0,729	-0,056	
	Cubic	0,878	62,627	3	26	0	3,347	-0,834	-0,124	0,014
ROMANIA	Linear	0,230	6,881	1	23	0,015	1,034	-1,924		
	Quadratic	0,288	4,452	2	22	0,024	0,011	-2,471	0,523	
	Cubic	0,365	4,019	3	21	0,021	0,486	-3,886	0,044	0,297
CROATIA	Linear	0,135	2,495	1	16	0,134	2,571	-0,856		
	Quadratic	0,135	1,17	2	15	0,337	2,583	-0,859	-0,004	
	Cubic	0,146	0,801	3	14	0,514	2,275	-1,369	0,115	0,053
USA	Linear	0,835	141,57	1	28	0	2,906	-1,890		
	Quadratic	0,836	68,661	2	27	0	2,934	-1,844	-0,032	
	Cubic	0,836	44,114	3	26	0	2,940	-1,868	-0,046	0,007
CANADA	Linear	0,780	99,514	1	28	0	2,589	-1,889		
	Quadratic	0,785	49,194	2	27	0	2,485	-2,067	0,100	
	Cubic	0,794	33,466	3	26	0	2,656	-2,154	-0,286	0,126

made by the authors

In Table no 1 it can be observed that by applying different estimation models Okun's law is always respected, with the functions characterized by a decreasing trend. Table no 1 also shows those countries (U.S., Canada, U.K. and Spain) in which the three estimation models are more representative of the phenomenon, with a higher R square and values for Fisher statistics which provide the best fit to the observed data. For the other countries, on the contrary, the low values of the statistical measures show that the dependency relationship is weak, and the correlation between the same variables highlights fewer relationships. The models produce estimates of the "worst-case" concerning Italy. In fact, there are anomalous data showing for some years a growth of GDP accompanied with increased levels of unemployment (in Figure no 1, see the top right of the graph related to Italy). Naturally, as discussed below, these dynamics might have a practical explanation linked to the known inflexibility of the Italian labor dismissal protection and the related lack of promoting the empowerment of workers laid off. The other major economy belonging to the Mediterranean macro-region, Spain, shows a rather good fit, with an almost constant growth of GDP accompanied with a progressive reductions in the unemployment rate. As can be seen from the Spanish graph, in fact, already the linear model is very good for representing the phenomenon, with about no outlier cases. For Romania and Croatia we have the shorter time series and, therefore, the results presented are less significant. However, the latter two countries have a structure of their labor markets at least partially inflexible and show extreme points, such as the critical year of the current crisis, 2009, where to a strong decrease in the GDP has not meant a decline in employment as strong as happened in Spain (increased over the previous year by more than six percentage points). Germany represent an intermediate case, where the estimation of the models is influenced by extreme cases which are in particular the 2008 and 2009, until now the most critical years on the side of the economic crisis. In fact, in 2009, there was a considerable decline in the GDP of the countries surveyed, from 3 to 7 percentage points, but the ones with more inflexible systems of labor did not show a simultaneous and equally marked adjustment in the unemployment rate. Finally, the two countries studied as a useful international comparison, the U.S. and Canada, and representing the case studies more investigated in the economic literature referred to Okun's law, show a clear-cut dependency relationship between the two variables. For these two countries, all the three kinds of estimation models fit the data really well, highlighting the lower inflexibility of the related labor markets. We notice that the only European country with the R squares ranging similar to the two overseas countries is the Spain, followed by the U.K., so it is more appropriate to make comparisons between these two countries. Indeed, we observe that the first beta of the linear model shows a greater slope of the function for the U.S. case, and therefore it appears as the country in which there is the greatest reactivity between the two variables (Romania has a higher value of beta1 but estimated on less data, and a lower R-Square). By analyzing the range of variation of the variables we note that Italian unemployment changes very low, about a point above and below zero, the worse the country represented by the estimation models. This means the high inflexibility of the Italian labor market, especially for the legal protection against dismissal or lay-off, which *de facto* is a disincentive for firms to recruit new labor force (on these findings see also OECD 1994, Siebert 1997, Nicoletti *et al.* 2000, Bauer *et al.* 2004). The confirmation of the foregoing remarks is also from the average of same variations (considered in absolute values), which is extremely low for Italy, with a result equal to 0,5 compared with about 0,7 of the Anglo-Saxon countries (U.S., Canada and U.K.) and Germany, and more than 1 related to the other countries. In Italy such inflexibility is also transmitted in less variability of GDP, with negative effects on the general economic context because, as seen from the data, such resistance have brought in the last two decades to a nearly constant growth of GDP just above zero, at much lower levels than, for example, the other countries considered in this work. The most noticeable variation with a negative sign for Italy (-5.22%) took place in 2009, when other countries (except for Romania and Croatia), although affected by international economic and

financial crisis, registered decreases of GDP lower while suffering from an immediate decrease in employment levels.

4. Findings, implications and conclusion

Economists regard the Okun's rule of thumb in order to investigate the economic effects of employment. Furthermore, policymakers may use Okun's law as a real-time rule of thumb in order to evaluate conditions in the labor and the product markets. In this study we confirm that a long run relationship exists between unemployment and output, and the results show that an inverse relationship between unemployment and output holds for the six EU selected countries. Therefore, the Okun's law can be used to give a first explanation to the European economic context, because every effort in decreasing the level of unemployment is an effort towards increasing the level of output. Hence, structural reforms of labor market rigidities must persist and more flexibility in labor markets must become an essential feature for Europe. Moreover, the six EU selected countries can enhance their socio-economic development path by investing in activities that reduce the level of unemployment. These activities should include the empowerment of individuals and mainly of the unemployed job seekers and of those workers expelled from the labor market, job creation and entrepreneurial development efforts that are aimed towards employment generation. Addressing this challenge may contribute to the reduction of unemployment, which will ultimately increase the level of output. In particular, in the paper we analyze the responsiveness of the labor market related to the economic growth dynamics by three types of estimation models of the dependence between the two variables under investigation: the annual variation for GDP and the annual variation in unemployment rate.

We have chosen countries that represent in different ways the complex European situation, and based on Okun's law we also carried out an international comparison considering U.S. and Canada as benchmarks, since they are countries in which there is a less inflexibility of the labor market than the European countries. Moreover, the inflexibility of European labor market, especially for dismissals, shape a system established on greater rights and protections, but at the same time it can become an overriding constraint for firms to increase the number of employees during periods of economic growth and for foreign direct investments. We note that in those countries where the dependable relationship between the two considered variables is weaker the employment levels are slightly changed on average, with a stringent provisions against dismissal, but also with an adverse effect on general economic trends. In fact, within these countries-contexts the data show how effective is the lack of dynamism in terms of GDP changes and, as a further demonstration, these are countries that have suffered most of the recent international financial and economic crisis. It can be seen that in those countries where there is a good degree of estimation of the three models of dependence, starting from the linear one, and where the variations of the two variables are higher but not extreme, there are more positive evidence of growth levels. In summary, the adaptability of the workforce to the needs of the economic system can be a significant support to the ongoing processes of growth and development.

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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 cartification

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 enterpreneurs and deposit comapnies (around 10%). The proportion of the corporations was the lowest (around 5%). Regarding the sampling population, LLC's and non profit organizations are overreprezented 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 Könczei 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.
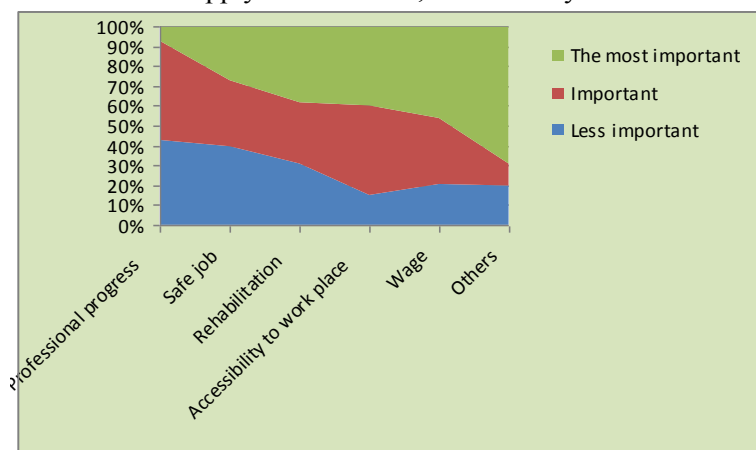
(Figure 1): The importance of factors in working among employers
Source: own research, 2012
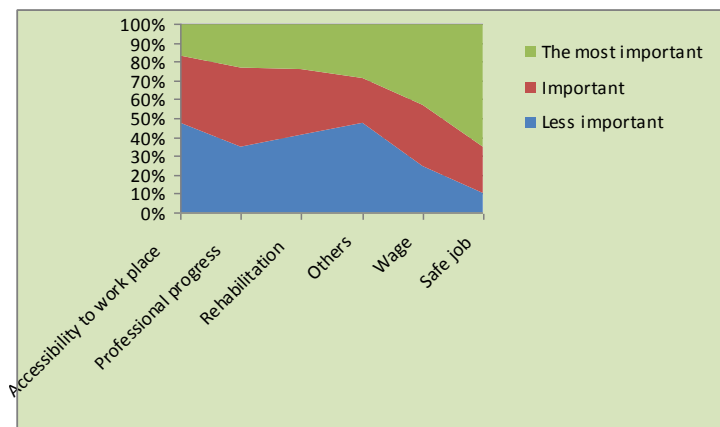
(Figure 2): The importance of factors in working among employees
Source: own research, 2012
Figure 2 shows that amongst employees the safe job was not only the most frequent but the most important factor too. The second-leading factor is the wage followed by other factors.

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).
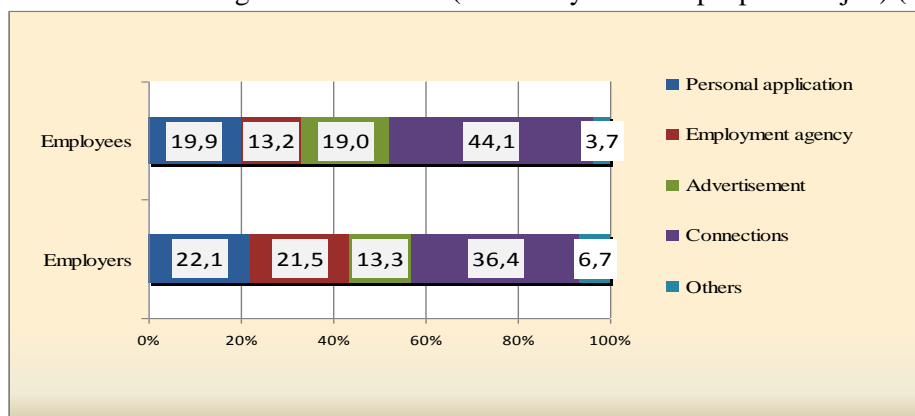
(Figure 3): Distribution of the types of job search (recruitment) among the employees (employers)
Source: own research, 2012

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

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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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A REGIONAL STUDY OF FINANCIAL RESOURCES INVOLVED IN RDI SECTOR IN ROMANIA IN THE LAST DECADE

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The present paper present a study done on the Financial Resources in Research Development and Innovation (RDI) sector in Romania during 2000-2010 . These studies are conducted on the regions and counties in Romania in the specified period.
The present study is part of Doctoral Grant "Implications for innovation, research and development role in the development of Romania's economic competitiveness", during 2010 and 2013 and having Director: Prof. Dr. Alina Badulescu in Oradea University, Faculty of Economic Sciences.

Key words: Educational Finance, Higher Education and Research Institutions , Education and Research Institutions, Management of Technological Innovation and R&D , Technological Change: Choices and Consequences; Diffusion Processes; Monetary Systems; Standards; Regimes; Government and the Monetary System; Payment Systems ; Budget; Budget Systems;

JEL code : I22 ,I23 , I2, O18, O32, O33, E42,H61.

1. Introduction

Economists have increasingly paid attention to the role played by knowledge in explaining countries growth differentials and diffusion both across countries and regions (Barrios&Strobl, 2009; Jones, 2004; Klenow& Rodriguez-Clare, 2005). Although knowledge and technological progress are in this regard seen as the main engines of economic growth in the long run.It may inevitably increase rather than decrease regional inequalities, and spread across time and space. As a consequence, economic growth may foster divergence rather than convergence across spatial units, suggesting that convergence may evolve non-linearly. When considering the theoretical literature on growth and convergence, a wide array of arguments which arise to advocating for the long term reduction or for the persistence and self-reinforcing nature of economic inequalities across countries and regions (Galor,1996; Pritchett ,1997; Lucas ,2000).
The present paper present a study done on the Financial Resources in Research Development and Innovation (RDI) sector in Romania during 2000-2010. These studies are conducted on the regions and counties in Romania in the specified period.

2. Literature review

In the existing literature was studied the firm's investments in RDI as a way to develop technological capabilities. Technological capabilities are the ability to develop and exploit technological know-how, which is the application of scientific knowledge for commercial purposes. The firm can develop its technological capabilities using several learning approaches. The previous studies were focus on investments in RDI because of its importance in generating new knowledge, which can help the firm achieve an advantage that is difficult to replicate by competitors (Cazurra&Un, 2007).

Regional economic integration (REI) and RDI investment

There are many different definitions and types of REIs (Cazurra&Un,2007).
REIs involve the reduction and standardization of government controls and policies over the flows of products, factors, or both among a limited set of countries. REIs differ from the multilateral liberalization of trade promoted in the WTO in several aspects, as they are restricted

to a limited set of countries, tend to be accompanied by the standardization of policies rather than simply the reduction of barriers to trade, and may involve the liberalization of not just trade but also the flow of factors of production.

REIs affect firm behavior. Previous studies have not explored the impact on the firm's RDI investment. There is a large literature on the impact of REIs on country-level trade and foreign direct investment flows (Eden, 2002). The more limited literature on the impact of REI on firms has traditionally focused on the changes in multinational enterprises (MNEs) (Buckley et al., 2001). Some studies are focused on domestic firms and recommend changing strategy in the face of the new environment (Cazurra&Un,2007). REIs have a competing influence on RDI investments, one through product markets and another through factor markets. The REI results in an expanded client base and newcompetitors. These will induce the firm to invest in external RDI after REI to benefit from the easier access to sources of technology.

REIs can be classified in different types depending on the degree of reduction in the controls over the flow of products and factors among the countries (Cazurra&Un,2007):

(1) preferential tariff agreements (PTA) which consist of the partial reduction of internal tariffs to levels below those charged to trade with third countries;

(2) free-trade areas (FTA), such as the North American Free Trade Area (NAFTA), which consist of a reduction in internal limitations to the movements of products among participating countries;

(3) customs unions (CU), such as the Southern African Customs Union (SACU), which demarcate a free-trade area with a common external tariff against products of third countries;

(4) common markets (CM), such as the Common Market of the South (MERCOSUR), which are customs unions with the free movement of factors of production among participating countries; and (5) economic unions (EU), such as the European Union, which are common markets also involving the harmonization of economic policies.

Regional inequalities evolve in a non-linear way that can be traced back in the 1950s. The evolution of regional inequalities was then usually linked to national economic development paths and the process of industrialization.

Was done an analysis of income disparities who suggested the existence of a "long swing" in regional income inequalities, where there is first, a rise and then a subsequent fall of income differentials caused by the industrialisation process, accompanying national development and the decline of agriculture.

Several authors have built on this idea in a regional context suggesting the existence of a bell-shaped curve of spatial development where inequalities should first increase as developed areas benefit from external economies, location of decision-makers, political power, and capital and labour mobility (Barrios and Strobl, 2009). While a non-linear relationship between regional inequality and national income per capita clearly has important implications for economic theory and policy, there is to the best of our knowledge no explicit econometric study that has set out to investigate its existence, although a number of works have been suggestive of its possibility. In the current paper we explicitly test this hypothesis using data for EU countries. The EU economy arguably makes for a particularly suitable case study given the sizeable disparities in economic development across regions and countries compared to the US. While the studies concerned countries engaged in deep structural changes that goes along with industrialisation, there are reasons to believe that regional inequalities may be significantly affected by other types of structural changes and may concern industrialised countries. The EU, in particular, has faced a number of such changes over the past two decades in the context of the EU integration process and successive enlargements of the EU.

3. Research methodology

Research methodology in this paper is based on the simulation of the datas from 2000 to 2009 for

The expenses in research and development activities by occupation and sex and for employees working in the fields of RDI activities. Data were taken from the Romanian National Institute of Statistic updated database Tempo online at 15.11.2011. Data used in this study, for this simulation was taken in April 2012. This research is based on the real data of financial resources from RDI sector, as a case study for Romania.

(Sources:
http://www.insse.ro/cms/files/Anuar%20statistic/13/13%20Stiinta,%20tehnologie%20si%20inovare_ro.pdf)
The central objective was to see what was happened in the period indicated (2000-2010) with financial resources in RDI sector for regions and counties in Romania.

4. Descriptive statistics and results
Total expenditure in RDI activities were recorded from 2002 to 2008. Data were taken from Statistical Yearbook of Romania 2009 and 2010. In this material they will be presented on regions and counties respectively.
Making a Study in Romania on regions and counties, financial resources from RDI sector in Romania we can draw the following conclusions:
Macro region 1 is composed of North-West of the 6 counties components: Bihor, Bistrita Nasaud, Cluj, Maramures, Salaj and Satu Mare region and Central region counties of Alba, Brasov, Covasna, Harghita, Mures and Sibiu. Performing a study on a macro draw conclusions:
In the **North West region** RDI expenses represent 50.13% of values recorded in a Macro region 1. The maximum values recorded in RDI expenditures were recorded in **Cluj** County and was starting in 2002 with a value of 33266.5 RON and the lowest value was registered in 2004 at a minimum value of 22852 RON, then increased by 9.98 times to the value of 228243 RON in 2008 .High levels of RDI expenditures were recorded in the county **Bistrita Nasaud** with values between 1557.9 RON in 2002 and 27315 RON in 2007and in 2008 to be down to 40% in 2007. The lowest financial resources from RDI sector were recorded in **Maramures** county which values vary between 145.7 RON in 2003 and 3723 RON registered in 2008.
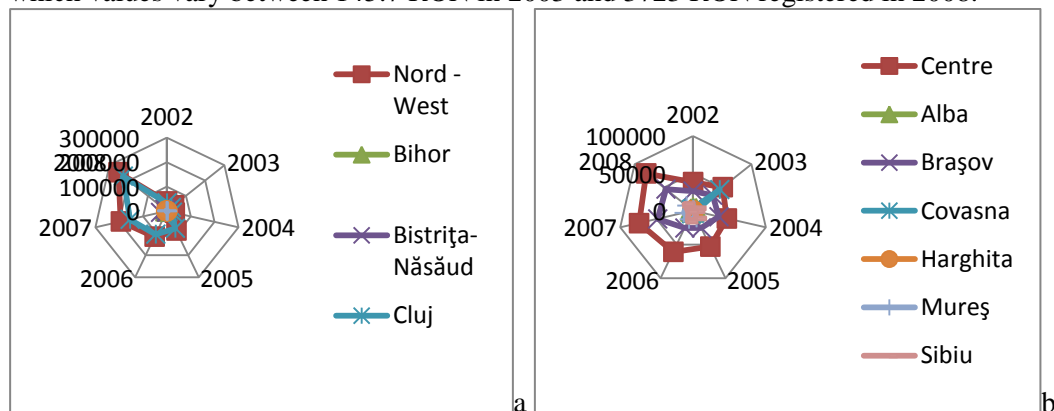
Figure 1:Expenses in RDI system in Romania: a) the values for the financial resources from RDI registered in Region Nord-West and the counties that belong to this region;b) the values for the expenses from RDI registered in Central Region and the counties that belong to this region.
[Source: graphics are from authors results based on the data took from https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=26:]

In the **Central region** of a macro region 1 is found that counties like Brasov, Sibiu and Mures, has RDI activity where are registered RDI expenditures.
In **Brasov** was recorded the largest amounts of total financial resources in RDI activity from which the minimum values was recorded in 2005 and was 25 455 RON. In 2003 the spending

values were 33573.7 RON and in 2004 the values are 35466 RON. Maximum values recorded was 48653 RON. In **Sibiu** expenses with RDI are between values recorded in 2004 as 2607 RON and the maximum value recorded as 16108 RON in 2006. After that the values decline in 2007 to 39.5% of the value recorded in 2006. In **Mures** county the values of expenditures for RDI was in the range of 1515.6 RON in 2002 and a value of 12639RON registered in 2006. RDI minimum values for financial resources were recorded in **Harghita** county, values between 146 RON in 2005 and 1421 RON registered in 2008.

Macro region 2 is composed of the six **North Eastern counties**: Bacau, Botosani, Neamt, Iasi, Suceava, Vaslui and **South East Counties**: Braila, Buzau, Constanta, Galati, Tulcea and Vrancea.

In North Eastern region values recorded for expenses in RDI sector represented 52.4% of the values recorded in Macro region 2 in 2002 respectively 68.39% in 2008.**Iasi** County recorded the highest values for total expenditure from RDI activity between 15116.4 RON values, recorded in 2002 and the value of 176282 RON registered in 2008. In **Bacau** , the values increased from 4439.1 RON 2002 and 8497 RON in 2006 after spending values have plummeted in 2007 to 5925 RON then increase to values of 7983 RON in 2008. In **Suceava** financial resources were in the range of 2258.2 RON in 2002 and 18635 RON in 2008. The lowest values recorded in the North East are registered in **Botosani** and range were from 383.1RON in 2002 and 2871 RON in 2007. In 2008 the values were down to 2637 RON.

In the **South East region** were recorded the amounts of expenditure on RDI sector that represent 47.60% of values recorded in 2002 Macro region 231.61% respectively in 2008. In **Galati** County was the highest value for total expenditure in research -development and innovation (RDI) sector, ranging between 12964.5 RON in 2003 and 25379 RON in 2008.

In **Constanta** county was register values between 4718.2 RON in 2002 and 25379 RON in 2008. Lowest values recorded in the South East were in Vrancea County and were between 134.5 RON in 2002 and 818 RON in 2007 . After that in 2008 the values from the expenses fell to 461 RON.
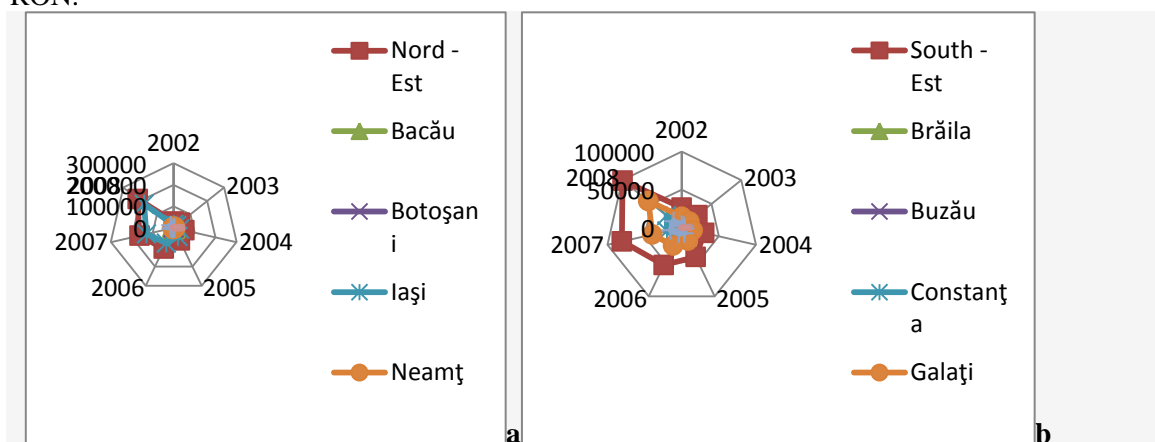
Figure 2:Expenses in RDI system in Romania: a) the values for the expenses from RDI registered in Regions Nord-Est and the counties that belong to this region;b) the values for the expenses from RDI registered in Regions Centre and the counties that belong to this region.
[Source: graphics are from authors results based on the data took from https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=26: *]*

Macro region 3 is composed of **South Region** with his 6 counties: Arges, Calarasi, Dambovita, Giurgiu, Ialomita, Prahova and Virginia and **Bucharest-Ilfov** region with its two components: Ilfov and Bucharest. Expenses in the three macro region were values varies between 393611 RON in 2002 and 2091512 RON registered in 2008.

In the **South Region**, expenses from RDI system vary from 90884.7 RON in 2002 and 231770 RON in 2007. In 2008 the values for the expenses decrease to 229496 RON. The values recorded in the South Wallachia is 23.09% of values recorded in Macro region 3 in 2002 that 10.97% recorded in 2008 . The maximum values of the financial resources of RDI activity is registered in **Arges** county and the variation was from 69021.4 RON in 2002 to the maximum value of 167737 RON in 2007. After that, the values decline in 2008 to 163314 RON. It follows that **Prahova** counties values vary between 10146.3RON spending in 2002 to 43073 RON in 2007. The corresponding values then decrease to a minimum value in 2008 of 27199 RON. The lowest values recorded was in **Ialomita** county, with values between 0 and 765 RON registered in 2002 and 2005.

Macro region 3 includes **Bucharest-Ilfov region** which have the highest values for expenditure on RDI. Thus in the Bucharest – Ilfov region the highest values recorded for RDI activities , the values were in the range of 76.91% in 2002 and 89.03% in 2008 compared to values recorded in Macro region 3. The maximum expenditure of RDI are registered in Bucharest and values range were from 262785 RON in 2002 and 1487299 RON. The registered expenditures in Ilfov county ranged from the values of 39941.3 RON in 2002 and 374717 RON registered in 2008

Macro region 4 is composed of **South-West Oltenia Region** and have the following counties: Dolj, Gorj, Mehedinti, Olt and Valcea. **West Region** have the next counties: Arad, Caras-Severin, Hunedoara and Timis. Expenses recorded in Macro region 4 varies between values recorded in 2002 as 48176 RON and 241464 RON registered in 2008.

In the **South West Oltenia Region**, expenses as financial resources involved in RDI sector were in the range of 21306.5 RON, values which represent 44.83% of values recorded in Macro region 4 and were registered in 2003. The value of 88164 RON registered in 2008, represent 36.51% of values recorded in Macro region 4. The maximum values recorded for the expenditures in the South-West Oltenia were in **Dolj** county and was 11900.1 RON in 2002. This value vary between 11900.1RON in 2002 and 59395 RON in 2008. The minimum values are recorded in **Mehedinti** county and the values are in the range 19 RON in 2008 and 1342 RON 2006. Between the two lies **Valcea** county whose values are between 43801 RON registered in 2002 and 24849 RON registered in 2007.In 2008 expenses decrease by 640 RON.
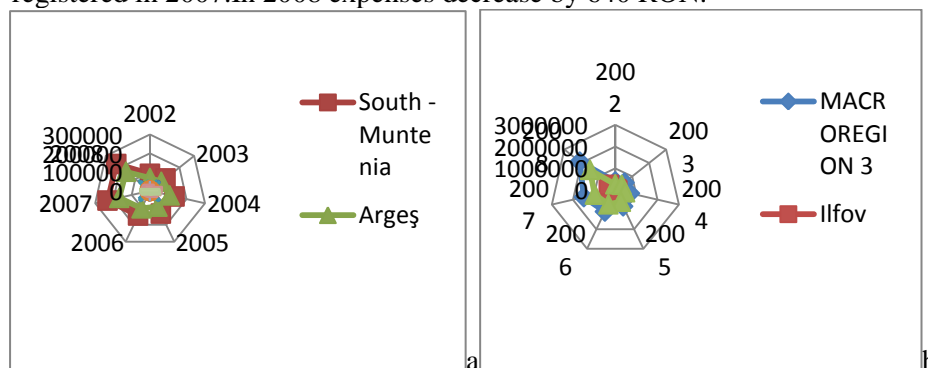
Figure 3:Expenses in RDI system in Romania: a) the values for the expenses from RDI registered in Regions South-Muntenia and the counties that belong to this region;b) the values for the expenses from RDI registered in Region Ilfov and Bucharest.
[Source: graphics   are   from   authors   results   based   on   the   data   took   from https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=26: *]*

In the **Western region** RDI costs were 55.17% of values recorded in Macro region 4 and are 26577.6 RON, value registered in 2002.The maximum value of 63.49% of values recorded in Macro region 4 was registered in 2008 and represents 153300 RON. Maximum values for RDI expenditure in the West Region are registered in **Timis** county with values ranging between

22142.1 RON in 2002 and 109603 RON registered in 2008. The minimum values are registered in Arad county. The values for Arad county were registered in 2002 for the value of 593.8 RON and the maximum value recorded was 21083 RON in 2007.
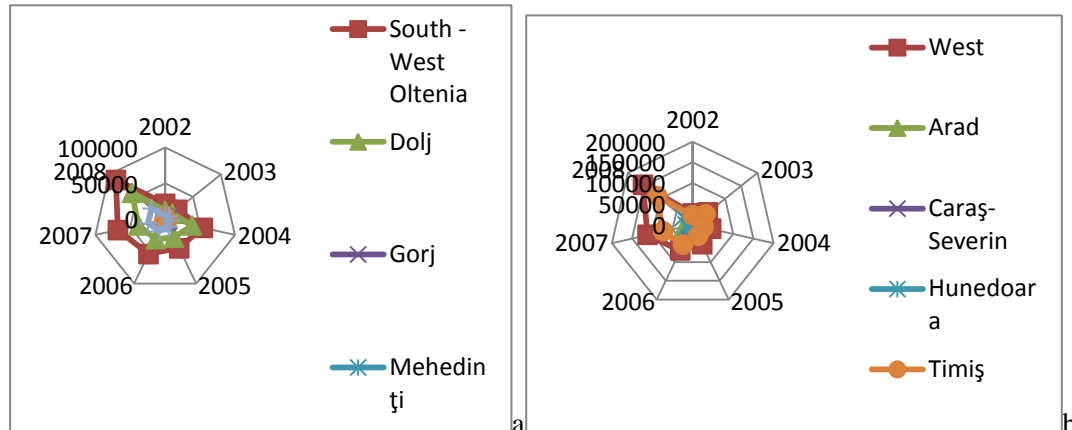
Figure 4:Expenses in RDI system in Romania: a) the values for the expenses from RDI registered in Regions South West Oltenia and the counties that belong to this region;b) the values for the expenses from RDI registered in Region West and and the counties that belong to this region.

[Source: graphics are from authors results based on the data took from https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=26: *]*

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REGIONAL ANALYSIS OF FINANCIAL RESOURCES INVOLVED IN RESEARCH DEVELOPMENT AND INNOVATION (RDI) SECTOR IN ROMANIA IN THE LAST DECADE –STUDY DONE ON MACROREGIONS

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The present paper present a study done on the Financial Resources in Research Development and Innovation (RDI) sector in Romania during 2000-2010 . The present paper analyze Regional Systems of Financial Resources of the research development and innovation sector in Romania in the last decade. In the present paper is done an analysis on the Macro Regions and Regions in Romania.
The present study is part of Doctoral Grant "Implications for innovation, research and development role in the development of Romania's economic competitiveness", during 2010 and 2013 and having Director: Prof. Dr. Alina Badulescu in Oradea University, Faculty of Economic Sciences.

Key words: Educational Finance, Higher Education and Research Institutions , Education and Research Institutions, Management of Technological Innovation and R&D , Technological Change: Choices and Consequences; Diffusion Processes; Monetary Systems; Standards; Regimes; Government and the Monetary System; Payment Systems ; Budget; Budget Systems;

JEL code : I22 ,I23 , I2, O18, O32, O33, E42,H61.

1. Introduction

The present paper analyze Regional Systems of Financial Resources of the Research Development and Innovation (RDI) sector in Romania in the last decade in Romania. In the present paper is done an analysis on the Macro Regions and Regions in Romania.

It suggests that for conceptual and methodological reasons, mostly concerning problems of scale and complexity, that approach may be complemented in important ways by a sub national focus

Taking an evolutionary economics standpoint, the paper specifies the concepts of 'region', 'innovation' and 'system' as the prelude to an extended discussion of the importance of financial capacity, institutionalized learning and productive culture to RDI. The notion of regions as occupying different positions on a continuum referring to processes constituting them was builded. (Cooke, 1997).

2. Literature review

Studies on the firm's investments in RDI, as a way to develop technological capabilities were done before too (Cazurra and Un 2007). Technological capabilities are the ability to develop and exploit technological know-how, which is the application of scientific knowledge for commercial purposes (Pisano, 1990). The firm can develop its technological capabilities using several learning approaches (Malerba, 1992). Studies on the investments in RDI were done because of its importance in generating new knowledge, which can help the firm achieve an advantage that is difficult to replicate by competitors (Helfat, 1994,1997).

The companies can invest in RDI internally or externally (Cazurra and Un 2007) . **Internal RDI expenses** are expenditures on personnel and assets in the firm dedicated to the creation of new scientific or technological knowledge or to the development of commercially-viable innovations.

External RDI expenses are expenditures paid to other firms, to universities, or to other entities dedicated to scientific or technological research, to create new scientific or technological knowledge or to develop commercially-viable innovations for the firm. Internal and external RDI investments are directly comparable concepts (Cazurra and Un 2007). Both of them are monetary expenditures. These not include the acquisition of firms or alliances with other companies in these external RDI investments as done in other studies (Capron et al., 1998;Vanhaverbeke et al., 2002; Cazurra and Un 2007).

In the existing literature concerning the impact of environmental changes on the firm's investment in RDI activities is discussed the impact of technological discontinuities. These studies indicate that radical changes in the technological environment which make the firm to realise a more intensive use of external providers of technology.

Economists paid attention very much to the role played by knowledge in explaining countries growth differentials and diffusion across countries and regions(Barrios and Strobl, 2009; Jones,2004; Klenow and Rodriguez-Clare,2005). Knowledge should give rise to substantial scale effects in productivity stemming from their non-rival nature. Knowledge and technological progress are seen as the main engines of economic growth in the long run. Latter may increase rather than decrease regional inequalities, and these elements are very unlikely to be evenly spread across time and space. As a consequence, economic growth may foster divergence rather than convergence across spatial units, suggesting that convergence may evolve non-linearly. When considere the theoretical literature on growth and convergence, a wide array of arguments arise advocating either for the long term reduction or for the persistence and self-reinforcing nature of economic inequalities across countries and regions(Galor,1996; Pritchett ,1997; Lucas,2000,Canova ,2004).

Interestingly, the idea that regional inequalities are likely to evolve in a non-linear way can be traced back in the 1950s. The evolution of regional inequalities was usually linked to national economic development paths and the process of industrialisation. In an analysis of income disparities who suggest the existence of a "long swing" in regional income inequalities, where there is first a rise and then a subsequent fall of income differentials caused by the industrialization process accompanying national development and the decline of agriculture.

Several authors have built on this idea in a regional context suggesting the existence of a bell-shaped curve of spatial development where inequalities should first increase as developed areas benefit from external economies, location of decision-makers, political power, and capital and labour mobility. While a non-linear relationship between regional inequality and national income per capita, clearly has important implications for economic theory and policy, there is to the best of our knowledge no explicit econometric study that has set out to investigate its existence, although a nu mber of works have been suggestive of its possibility. In the current paper we explicitly test this hypothesis using data for EU countries. The EU economy arguably makes for a particularly suitable case study given the sizeable disparities in economic development both across regions a nd countries compared to, for instance, the US (Barrios and Strobl, 2009).

3. Research methodology

Research methodology in this paper is based on the simulation of the data's from 2000 to 2009 for RDI sector in Romania.

The financial resources in RDI activities were analyzed concerning occupation and sex. Data's were taken from the Romanian National Institute of Statistic updated database Tempo online at 15.11.2011. Data used in this study, for this simulation was taken in April 2012. This research is based on the real data of financial resources from RDI area, as a case study for Romania.
(Sources:
http://www.insse.ro/cms/files/Anuar%20statistic/13/13%20Stiinta,%20tehnologie%20si%20inovare_ro.pdf)

The central objective was to see what was happened in the period indicated (2000-2010) with financial resources in RDI sector.

4. Descriptive statistics and results

Total expenditure in RDI activities were recorded from 2002 to 2008. Data were taken from Statistical Yearbook of Romania 2009 and 2010. In this material they will be presented on macro-regions and regions respectivelly.

From financial resources studies done on RDI in total on the macro region we can draw some conclusions:

The study was conducted during 2002-2008 period , when the minimum expenditure registered was in 2002 as 574386.1 RON and the maximum value of 2980674 was registered in 2008.
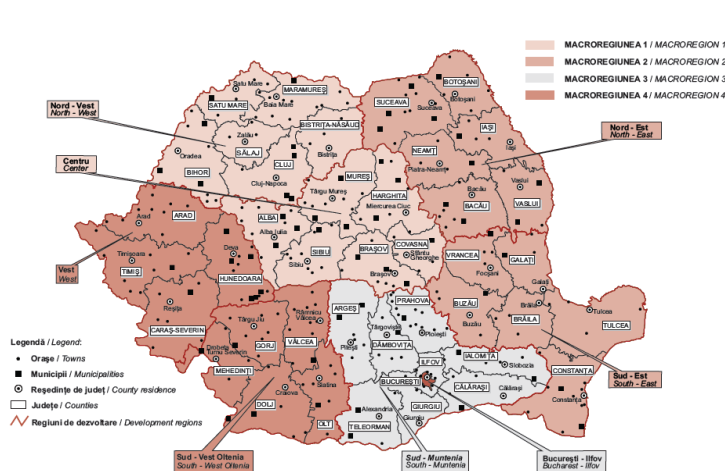
Figure 1: Map of Romania with Macro Regions, Regions and Counties.

In terms of expenditure, the variations on Macro Regions and Regions for RDI sector in Romania is as follows:

In the Macro Region 1 the financial resources had a a minimum value recorded in 2002 as 77169.7 RON and maximum value of 333868 RON recorded in 2008. It seems that spending RDI values were up from 2002 to 2008.

In the Macro Region 2, the minimum value of 55429.4 RON for the expenses in RDI sector were recorded in 2002 and the maximum values were 313830 RON recorded in 2008.

In the Macro Region 3, the minimum value for expenses in RDI sector was 393611 RON value recorded in 2002 and the maximum values was 2091512 RON recorded in 2008.

In the Macro Region 4, the minimum value of expenses were 48176 RON , value recorded in 2002 and maximum values were 241464 RON, recorded in 2008.
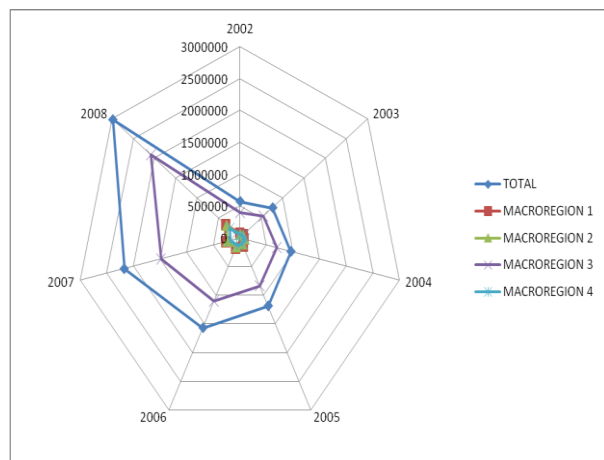
Figure 2: Financial resources from RDI system in Romania represented in total and for the 4-th Macroregions
[Source: graphics are from authors results based on the data took from https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=26: *]*

It seems that Macro regions showed the highest value of RDI expenditure activity in 2002 and the expenditure was minimal and in 2008.

Making a Study on the variations of financial resources in Romania in RDI activities we can draw the following conclusions :

Macro region 1 is composed of **North-West** Region on which belongs the 6 counties components: Bihor, Bistrita Nasaud, Cluj, Maramures, Salaj and Satu Mare and on the **Central region** belongs the next counties: Alba, Brasov, Covasna, Harghita, Mures and Sibiu. Performing a study on a macro regions we can draw the following conclusions:

In the **North West Region** the financial resources from RDI sector represent 50.13% of values recorded in a Macro region 1.

In **the Central Region were** recorded values for financial resources in RDI sector between 24.04% recorded in 2008 from the values recorded in Macro region 1 and the maximum value of 49.87% from 2002. (Although the maximum expenses were recorded in 2008 and the minimum in 2002). Percentage presented here is the ratio value of the recorded value from that year in the centre region values from a Macro region.
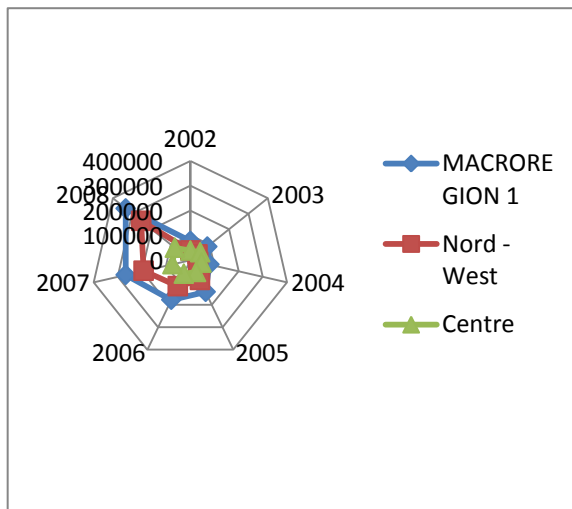
Figure 2:Expenses in RDI system in Romania: the values for the expenses from RDI registered in Macroregion 1 and Regions Nord-West and Centre;
[Source: graphics are from authors results based on the data took from https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=26: *]*

Macro region 2 is composed of **North Eastern regions** to the next 6 counties: Bacau, Botosani, Neamt, Iasi, Suceava, Vaslui and **South East regions** with the following Counties: Braila, Buzau, Galati, Constanta, Tulcea and Vrancea.

In **North Eastern** region the values recorded for financial resources in RDI sector represented 52.4% of the values recorded in Macro region 2 in 2002 respectively 68.39% in 2008.

In **the South East** region were recorded values that represent 47.60% from the values recorded in 2002 in Macro region 2 and 231.61% respectively in 2008.
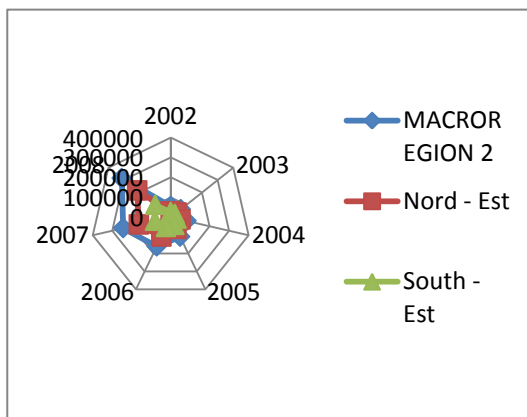
Figure 3:Financial Resources from RDI system in Romania: the values for the expenses from RDI registered in Macroregion 2 and Regions Nord-Est and South-Est.
[Source: graphics are from authors results based on the data took from https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=26: *]*

Macro region 3 is composed of **South Region** with his 6 counties: Arges, Calarasi, Dambovita, Giurgiu, Ialomita, Prahova and Virginia and **Bucharest-Ilfov region** with its two components: Ilfov and Bucharest. Financial Resources from the macro region 3 were values that varies between 393611 RON in 2002 and 2091512 RON registered in 2008. In the **South Region**,

Financial Resources, from RDI system vary from 90884.7 RON in 2002 and 231770 RON in 2007. In 2008 the values for the Financial Resources decrease to 229496 RON. The values recorded in the South Wallachia is 23.09% of values recorded in Macro region 3 in 2002 that is 10.97% recorded in 2008 .

From **Macro region 3** includes and **Bucharest-Ilfov region** which have the highest values for expenditure on RDI. Thus in the Bucharest – Ilfov region are the highest values recorded for financial resources involved in RDI activities , the values were in the range of 76.91% in 2002 and 89.03% in 2008 compared to values recorded in Macro region 3.

The maximum values for financial resources involved in RDI activities are registered in Bucharest and the values range are from 262785 RON in 2002 and 1487299 RON in 2008. The registered expenditures in Ilfov county were in the range of 39941.3 RON values in 2002 and 374717 RON registered in 2008
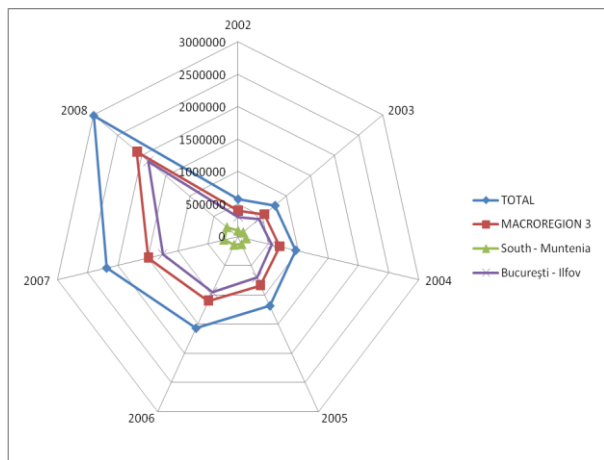
Figure 4:Expenses in RDI system in Romania: the values for the expenses from RDI registered in Macroregion 3 and Regions South-Muntenia and region Ilfov ; [Source: graphics are from authors results based on the data took from
https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=26: *]*

Macro region 4 is composed of **South-West Oltenia region** and have the following counties: Dolj, Gorj, Mehedinti, Olt and Valcea. **West Region** have the next counties: Arad, Caras-Severin, Hunedoara and Timis. Expenses recorded in Macro region 4 varies between values recorded in 2002 as 48176 RON and 241464 RON registered in 2008.

In the **South West -Oltenia region**, expenses as financial resources involved in RDI sector were in the range of 21306.5 RON, values which represent 44.83% of values recorded in Macro region 4 and were registered in 2003. The value of 88164 RON registered in 2008, represent 36.51% of values recorded in Macro region 4.

In the **Western region** RDI costs were 55.17% of values recorded in Macro region 4 and is 26577.6 RON, value registered in 2002.The maximum value of 63.49% of values recorded in Macro region 4 was registered in 2008 and represents 153300 RON.
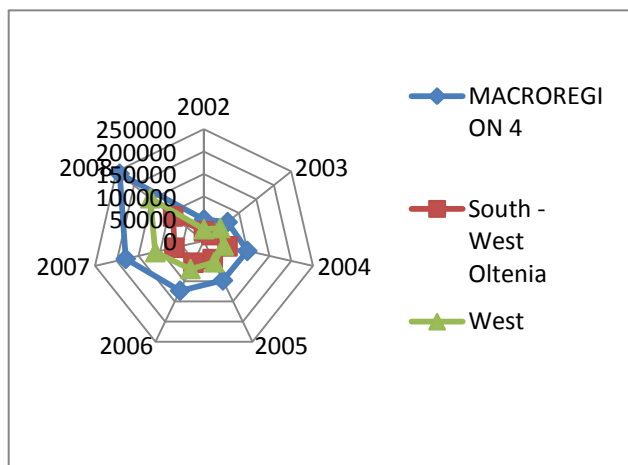
Figure 5:Expenses in RDI system in Romania: the values for the expenses from RDI registered in Macroregion 4 and Regions South-West Oltenia and region West ;
[Source: graphics are from authors results based on the data took from
https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=26: *]*

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LABOUR PRODUCTIVITY AND HUMAN CAPITAL IN THE EU COUNTRIES:AN EMPIRICAL ANALYS

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The role of the human capital in the economy is highlighted in several studies of human capital, endonegneous growth and macroeconomic literature. A special part of this literature is dedicated to the mechanism and the various channels through wich human capital influences economic growth. As 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, difusion 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 countries 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 countries 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 capita, 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, difusion 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:

$$h = \sum_i d_i \cdot a_i \tag{1}$$

where:

d_i is educational expenditures for the i level of education, as share of GDP;

a_i is the educational attainement of the labour force

Extending the work of Judson, the human capital stock in the economy can be estimated using the formula (2):

$$H = \sum_i ED_i \cdot EP_i \tag{2}$$

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 coeficient

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 stoc 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.
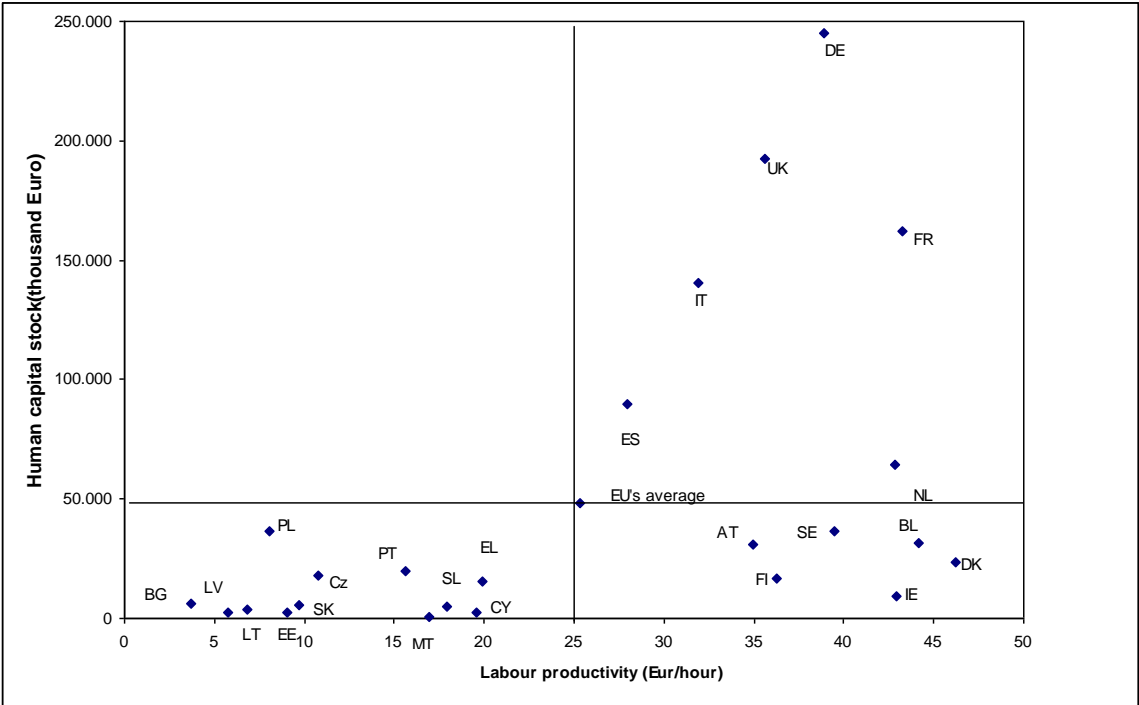
Fig.1 The relation between labour productivity and human capital stock, in european countries, average values for 1996-2008
Source: author's calculations based on EUROSTAT data

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 indicates a strong a 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 Apendix).

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 is a strong linkage between labour productivity and human capital, expressed as a stock, and differences in labour productivity accross the european countries can be explained, in proportion 0f 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 evidences. 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.

Acknowledgment

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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	$y = 16{,}51 + 0{,}0005 \cdot x + 0{,}81$	*not validated*
Netherlands	$y = 31{,}7 + 0{,}0001 \cdot x + 0{,}65$	validated
Austria	$y = 19{,}9 + 0{,}0004 \cdot x + 0{,}57$	validated
Poland	$y = 9{,}1 - 1{,}5E - 05 \cdot x + 1{,}86$	*not validated*
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

THE MARKET VALUE OF HUMAN CAPITAL: AN EMPIRICAL ANALYSIS

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There is a general consensus that human capital is a major determinant of economic growth. Reflections on how human capital is related to growth can be extended by viewing on the market value of the human capital.

The concept of the market value of human capital reflects the efficiency of allocation and utilisation of the human capital in the economy. To measure this efficiency the concept of the market value of human capital is explained and developed in the present paper.

The aim of the paper is to introduce the concept of market value of human capital and the specific objectives are targeted to define his content, to propose a method for estimating it and to provide calculations of it for OECD countries.

The concept of human capital is complex and multifaceted one, consisting of: native human capital (biological), educational capital, health capital and social skills (Neagu, 2010). Clearly, human capital is intangible, a stock that is not directly observable as physical capital. Therefore, the estimation of human capital must be constructed indirectly. The stock of human capital in economy creates economic value, expressed through the economic output per capita. In order to estimate this economic value we have to find an appropriate proxy for the human capital stock producing that value.

In the purpose of our paper, we consider that the economic value of human capital can be estimated by calculating the aggregate value created by the active human capital in the economy. In this view, GDP per person employed is a relevant estimation of value created by the employed labour force. The aggregate value is created by the employed persons with different educational level.

The market value of human capital is calculated by dividing the GDP per person employed to the human capital stocks active in the economy. The human capital stock depends on educational costs (on primary, seconadry, tertiary education) as a the share of GDP per capita weighted by the employment rates. For OECD countries, the market value of their human capital was calculated for 1999-2008, showing their efficiency on utilisation of the human capital stock. The most efficient OECD countries are Australia Austria and USA and the less efficient are Mexico, Czech Republic and Hungary.The market value of human capital has a ascending trend in all OECD countries, reflecting the results of their efforts to valorise their human capital in employment.

The originality of the paper consists on introduction the concept of the market value of the human capital, defining his content and providing estimates for OECD countries.As a concept, the market value of human capital of a country shows the ability of the economy to use the existent human capital to produce economic output. The market value of human capital reflects an aspect of the economic efficiency, by relating the economic output per person employed to the human capital per capita employed in the economy. It expresses the economic output per one unit of human capital, reflecting the aggregate perfomance of that economy.

KEY WORDS: human capital, market value of human capital, employment, education costs
JEL CODES: J 24, J 21, E24, I 22

Introduction

There is a general consensus that human capital is a major determinant of economic growth. Reflections on how human capital is related to growth can be extended by viewing on the market value of the human capital. The concept of the market value of human capital reflects the efficiency of allocation and valorization of the human capital in the economy. To estimate this efficiency, a measure of the market value of human capital was developed in the present paper, by weighting the national output per worker employed by the employment rate and the investment costs in education. The issue of efficiency in allocation and utilization of human capital in economy is important for policy makers, in designing policy measures, under the pressure of the public resources decreasing.

The aim of the paper is to introduce the concept of market value of human capital and the specific objectives are targeted to define his content, to propose a method for estimating it and to provide calculations of it for OECD countries.

The paper is organized as follows: section 1 provides some definitions of human capital, section 2 describe the concept of the market value of human capital, in the section 3 is described the methodology of the study and the section 4 presents the main finding. The final section is dedicated to conclusions and further directions of research.

1.Definitions of human capital

The concept of human capital was first introduced and estimated by Petty (1690). Cantillon (1755) discussed the concept of human capital and estimated the cost of rearing a child until working age. Adam Smith (1776) presented a clear analysis of the concept of HC and included it as a part of the 'general stock (human and non-human capital) of any country or society', where this general stock is composed of the following resources, (i) of all useful machines and instruments of trade which facilitate and abridge labor; (ii) of all those profitable buildings which are the means of procuring a revenue; (iii) of the improvements of land; and (iv) of the acquired and useful abilities of all the inhabitants or members of the society. Afterwards, he added, the ''acquisition of such talents, by the maintenance of the acquirer during his education, study, or apprenticeship, always cost a real expense, which is a *capital* fixed and realized, as it were, in his person''.

According to Schultz(1961), skills and knowledge that people acquire during their formal schooling represent a form of human capital. Schultz invented the term to reflect the value of our human capacities. He believed human capital was like any other type of capital; it could be invested in through education, training and enhanced benefits that will lead to an improvement in the quality and level of production.

The concept of human capital was largely forgotten by economists until its re-birth in the early 1960s with the writings of Becker (1962, 1964) and Mincer (1958, 1962, 1974). These economists rekindled this old concept by reaffirming its links with economic growth and by emphasizing its importance in explaining earnings differentials.

Human capital is represented by the aggregation of investments in activities, such as education, health, on-the-job training, and migration that enhance an individual's productivity in the labour market (see e.g., Kiker 1966; Becker 1997; Schultz 1961, 1962). More recently, this concept has been extended to include non-market activities (see e.g., OECD 1996; Jorgenson and Fraumeni 1989; Schultz 1994).

The Penguin Dictionary of Economics defines human capital as "the skills, capacities and abilities possessed by an individual which permit him to earn income."

According to another definition, human capital represents "the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being" (OECD, 2001, p18).

Laroche et al(1999) defined human capital as the aggregation of the innate abilities and the knowledge and skills that individuals acquire and develop throughout their lifetime. Innate abilities represent an individual's intrinsic potential to acquire skills. They can be defined as all physical, intellectual, and psychological capacities that individuals possess at their time of birth. They are received as gifts by individuals without any action or choice of their own, and they differ greatly across individuals because of heredity, parental decisions, and purely random factors. Acquired skills represent the actualization of this potential mostly through individual efforts involving a cost. These skills are acquired over one's lifetime through intergenerational transfers of knowledge, personal contacts, work experience, on-the-job-training, education and socialization. Since the number of skills individuals acquire through their lifetime depends partly on their initial abilities, this potential is an important aspect of the human capital concept.

The concept of human capital is complex and multifaceted one. Laroche et al(1999) proposed five main aspects to be considered: (i) human capital is a non-tradable good, it is embodied in human beings; (i) individuals do not always control the channels and pace they acquire human capital: as young, human capital decisions are made by parents, governments, society(educational institutions), as individuals able to make independent decisions, they internalize the decision process on human capital investments; (iii) human capital has quantitative and qualitative aspects: human capital investments are not qualitatively homogeneous; (iv) human capital can be general (possibly to use in variety of activities and transferable from one employer to another) and specific(can be used in a limited number of activities).

The definition of human capital also contains the notion of external effects. The influence that individuals have on the productivity of others and of physical capital, as well as the fact that individuals will be more productive, for any given level of skills, in an environment containing a high level of human capital are demonstrating this effect. Human capital also generates what can be referred to as social externalities. These externalities, which include, among other things, increased utility from living in a society with democratic institutions, freedom of thought and speech, and more varied literary expressions and means of communication, enable individuals to live effectively in a society whose members share common goals. The pursuit of common goals, in turn, enhances mutual trust among individuals and strengthens social institutions. The collection of all these externalities has been termed as *social capital*.

Summarizing, the concept of human capital consists of: native human capital (biological), educational capital, health capital and social skills (Neagu, 2010).

Clearly, human capital is intangible, a stock that is not directly observable as physical capital. Therefore, the estimation of human capital must be constructed indirectly. Common approach to human capital measurement include the cost based approach, the income-based approach and education-based approach. We will use further the education-based approach.

2.Conceptual aspects

A country's human capital stock is the value of the productive capacity of its workers. Human capital is important as research generally supports a relationship between high levels of capital and economic growth. Individuals' labour market outcomes are linked to their human capital, although the precise mechanisms by which this happens is unclear. Jones and Chiripanhura (2010) set out an experimental approach to measuring human capital that estimates the economic value to individuals of their highest level of attainment gained in the formal education system.

This paper focuses on human capital acquired through participation in the formal education system, i.e. excluding the human capital gained in the years before primary education and in adult life. For the purposes of this paper, the term human capital is restricted to people's knowledge, skills and competencies, which means excluding other attributes such as the health of the population. Thus, any activity that adds to these can be thought of as investment in human

capital. These activities can take place throughout an individual's life and in a range of environments.

In this paper, we understand the market value of human capital as a valorization of national education investment on the labour market. The market value of human capital depends on how efficiently human capital is allocated and employed in the economy, therefore it depends in a very large scale on the efficiency of institutions.

In the present paper, we take into consideration that the market value of the human capital for a given educational level is expressed by the national output per worker employed, the employment rate and the expenditures for that educational level.

The stock of human capital in economy creates economic value, expressed through the economic output per capita. In order to estimate this economic value we have to find an appropriate proxy for the human capital stock producing that value. In the human capital literature, there are several methods to estimate human capital stock in the economy. For example, there have been used are literacy rates, enrolment rates, and estimates of the average number of years of education attained by workers. These proxies give an idea of how much human capital a country has, but any power they have depends on the assumption that the proxy is collinear with the country's whole human capital stock.

Another approach is to estimate the human capital stock as average years of education of the labour force developed by Kyriacou (1991), Barro and Lee (1993, 2000), Nehru et al (1995). Building on their work, Judson (2002) brought an innovation: to calculate the cost of education and then to weight primary, secondary, and higher education stocks according to their costs.

Based on the findings of Judson(2002), the average human capital per worker, h, is:

$$h = \sum_i d_i \cdot a_i \tag{1}$$

where:

d_i is educational expenditures for the i level of education, as share of GDP;

a_i is the educational attainement of the labour force

In the purpose of our paper, we consider that the economic value of human capital can be estimated by calculating the aggregate value created by the active human capital in the economy. In this view, GDP per person employed is a relevant estimation of value created by the employed labour force. The aggregate value is created by the employed persons with different educational level. The employed population can be divided in three main groups: with primary, secondary and tertiary education. Each group contributes differently at the macroeconomic results, according to the human capital they embodied.

In the purpose of our paper we consider that we can estimate the active human capital stock per worker, following the reasoning of Judson(2002) and using the formula (1).

In this view, the human capital stock in the economy can be calculated by weighting the costs per student in primary, secondary and tertiary education by the employment rate by educational attainment:

$$h = \sum_i ED_i \cdot ER_i \tag{2}$$

h - human capital stock per capita

ED_i -educational costs per student in primary, secondary, tertiary education, as share of GDP per capita;

ER_i - employment rate for population with i-educational level.

The monetary value created by human capital, HCV, is given by:

$$HCV = \frac{GDP / employed}{\sum_i ED_i \cdot ER_i} \quad (3)$$

where:

i - the educational level: 1-primary, 2-secondary, 3-tertiary

ER_i is the employment rate by the i-educational level;

ED_i is the educational investment, expressed by the expenditure per student for the i educational level, as % of GDP per capita.

We assume that the governement expenditure are a good measure of the value of education provided. But there are shortcomings of this assumption. First, education expenditures measure the price of producing human capital at a given time, so is not an accurate indicator of the value of older human capital. Second, educational data provided by UNESCO are not including private spending.Third, the method does not include the foregone earnings during education, that could be quite substantial. Fourth, the quality of education output is not always a direct function of expenditures.

3.Methodology of the study

In the present study, educational and economic data regarding OECD countries are used. The following sources of data were explored: OECD Data Base for employment rates of 25-64 years olds by educational attainement, UNESCO for expenditures per student, in primary, secondary, tertiary education, as % GDP per capita and WORLD BANK for GDP per person employed in PPS, international dollars.

Using the formula (3) it was calculated HCV, in each year, between 1999-2008, for primary, secondary and tertiary education in 28 OECD countries. The results of calculations are presented in Table 1.

A higher value of HCV means a higher efficiency in utilisation of the human capital stock existent in the economy. But, we have to mention that in our formula of HCV, calculation of the human capital stock is based on the shares of educational costs in GDP per capita weighted by the employment rates of the educational levels. As these shares and employment rates are higher as the human capital stock is higher and, finally, the HCV is lower, at a fixed level of GDP per person employed. It is possible that countries with a high level of GDP per person employed and with a high level of human capital stock to have a low HCV. HCV measures the efficiency of the utilisation of the existent human capital to produce economic output.

4.Main findings

As we can see in the Table 1, the countries with the highest human capital value are: USA, Australia and Austria. In these countries, the active human capital is the best valorized on the labour market, the level of employment rates by all educational levels being the highest. The loweste levels of HCV are registered in Eastern European countries as Czech Republic, Poland, Hungary, in Turkey, Mexico and Portugal. Their values are at a half of those registered in USA, Austria and Australia.

We can divide the OECD countries in three main groups by the average level of HCV during 1999-2008: (1) with HCV values between 11-13 $: USA, Australia, Austria, Ireland, Korea, Sweden, Slovenia ; (2) with HCV values between 8-11 $: Belgium, Estonia, France, Israel, Italy, Japan, Spain, United Kingdom; (3) with HCV values between 3,9-8 $: Czech Republic, Denmark, Hungary, Iceland, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Switzerland, Turkey.

The countries from the first group are the most effectively in their efforts to use on employment the stock of human capital produced by the education process. In these countries, the economic

output per person employed is double as in countries from the third group and the employment levels for highly skilled people are between 82-85%.

The countries from the second group are well developed countries, with a level of GDP per capita between 39.000-56.000 $. The rates of employment for the secondary and tertiary education are between 72-87% and shares of education costs of GDP per capita are 25-35%.

Table 1
The market value of human capital in OECD countries, 1999-2008

HCV (constant 1990 PPP $)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average
Australia	10,72	11,13	10,83	11,86	11,92	11,82	11,85	12,39	12,63	12,92	11,81
Austria	10,00	10,78	10,23	11,32	11,20	11,47	11,61	12,05	12,24	12,53	11,34
Belgium			8,77	8,99	9,37	8,57	8,59	8,69	8,60	7,98	8,69
Czech Republic	3,58	3,98	4,01	3,98	3,95	4,43	4,94	4,32	5,04	5,49	4,37
Denmark	4,20	4,14	4,00	4,10	4,48	4,79	5,18	5,35	5,34	5,22	4,68
Estonia					7,83	9,09	9,62		9,21	7,40	8,63
France	9,16	9,37	9,36	9,24	8,54	8,75	9,30	9,44	9,29	9,18	9,16
Greece	8,01	8,25	8,33	8,38	8,58	8,28	7,99				8,26
Hungary	3,67	3,75	3,87	4,06	4,20	3,96	4,87	5,00	5,21	5,35	4,39
Iceland		5,92	5,77	5,56	6,06	6,61	6,70	6,79	6,71	6,80	6,33
Ireland	10,52	10,86	10,66	11,28	12,09	12,64	12,36	11,98	11,58	11,55	11,55
Israel				8,82	8,60	9,84	10,42	10,59	10,76	10,64	9,95
Italy	8,72	9,10	8,76	8,70	8,73	9,05	9,39	8,75	9,61	8,69	8,95
Japan	9,45	9,24	9,23								9,31
Korea	10,56		13,11	11,13	9,96	10,25	10,97	11,14	11,70	10,86	11,08
Mexico		3,86	3,15	3,63	3,80	3,87	4,06	5,02		3,91
Netherlands	6,26	6,57	6,64	6,59	6,46	6,67	6,85	6,92	7,15	6,93	6,70
New Zealand	5,29	11,05	5,61	5,98	6,29	6,68	6,88	7,00	6,93		6,86
Norway				6,17	6,14	6,42	6,73	7,19	6,77	6,89	6,62
Poland				5,41	5,92	5,81	5,75	6,20	6,36		5,91
Portugal	4,67	4,67	4,49	4,61	4,52	4,59	4,46	4,46		4,76	4,58
Slovak Republic	4,66	5,58	5,41	5,49	5,91	6,12	7,73	7,97	9,75	10,05	6,87
Slovenia			5,23	5,61	5,61	15,27	17,64	19,12			11,41
Spain	9,72	9,43	9,21	8,98	8,59	8,45	8,19	7,84	7,57	7,28	8,53
Sweden	11,39	11,33	11,39	11,36	11,83	10,43	10,97	11,38	11,42	11,07	11,26
Switzerland	4,52	4,77	4,47	4,23	4,11	4,33	4,73	5,00	5,47	5,39	4,70
Turkey		5,27	4,76	6,77	5,72	6,33					5,77
United Kingdom	8,60	9,10	9,16	8,19	8,06	8,54	7,98	8,07	8,62	8,80	8,51
United States	11,36	20,37	10,34	11,63	11,52	12,69	13,25	12,38	13,08	13,62	13,02

Source: author's calculations

The countries from the third group are, mostly, former communist countries (Poland, Hungary, Czech Republic, Slovak Republic) or developing countries(Mexico, Turkey), where the stock of

human capital is about half of that the countries from the first group and the economic output per capita is the third of well developed countries. In a separate situation are Denmark, New Zealand, Norway and Switzerland, well developed countries, with a higher level of GDP per capita. In these countries, the costs of higher educated employees are at very high level and the employment rate for these individuals, as well (i.e.90, 15% as average for 1999-2008, in Switzerland).

In all OECD countries the market value of human capital increased during 1999-2008 and the trend is ascending. Spain is an exception, the values are decreasing last years, due to the impact of the economic crisis on the labour market. In the rest of the OECD countries the economic crisis has no significant effects on the valorization of human capital stock on employment, the trends are ascendent or stables. A possible explanation could be the fact that in 2008, the financial and economic crisis was not yet turned into a jobs or employment crisis. A possible evolution of HCV for 2009-2011 could be a downward trend, due to the contraction of economic output in all countries.
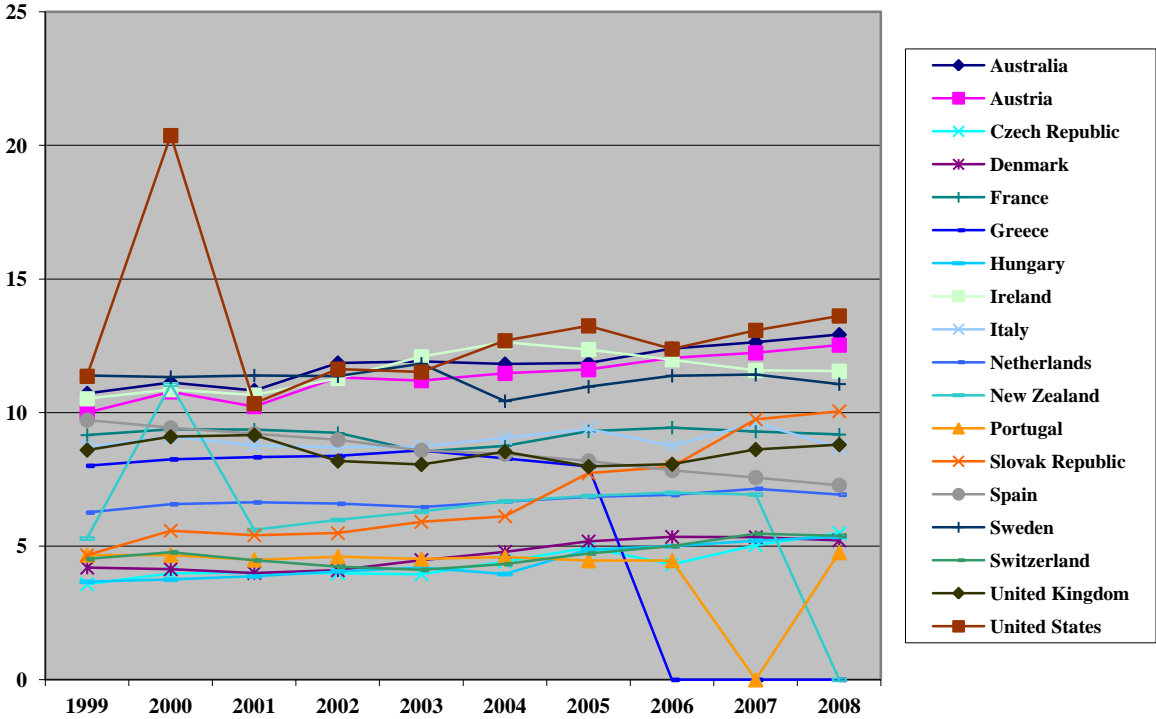
Fig. 1 The dynamics of HCV in OECD countries, 1999-2008
Source: Author's interpretation based on OECD data

Conclusions and further directions of research

The originality of the paper consists on introduction the concept of the market value of the human capital, defining his content, proposing a method to estimate it and providing calculations for OECD countries.

The market value of human capital in OECD countries was calculated for 1999-2008, showing their efficiency on utilisation of the human capital stock. The most efficient OECD countries are Australia Austria and USA and the less efficient are Mexico, Czech Republic and Hungary.The market value of human capital has a ascending trend in all OECD countries, reflecting the results of their efforts to valorise their human capital in employment.

The market value of human capital per worker, as average, evolves between 3,91 $ in Mexico and 13,02 $ in USA.

The market value of human capital has a ascending trend in all OECD countries, reflecting the results of their efforts to valorise their human capital in employment.

As a concept, the market value of human capital of a country shows the ability of the economy to use the existent human capital to produce economic output. The market value of human capital reflects an aspect of the economic efficiency, by relating the economic output per person employed to the human capital per capita employed in the economy. It expresses the economic output per one unit of human capital, reflecting the aggregate perfomance of that economy.

An added value of the paper constitutes the fact that countries can adapt, design or re-design their employment policies on the basis of the present empirical evidences on the market value of human capital. The idea is to raise the valorisation in employment of the active human capital stock in the economy.

A direction of further research could be to investigate how the allocation of human capital through the sectors of the economy influences the market value of the human capital.

It will be useful, as well, to investigate how the efficiency of institutions influence this value.

In this view, it is necessary to find a method to calculate the contribution of the different groups of labour force by educational attainment to the aggregate economic output per capita or per person employed. In this way, we could estimate more accurately the contribution of human capital stock by different educational levels to the value creation in the economy. An analysis of these estimates could be useful in orienting governamental policies in education and employment, to stimulate the accumulation of human capital generating more value for the economy.

Acknowledgment

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EVALUATION OF THE STRUCTURAL FUNDS ABSORPTION RATE BY MEANS OF THE HERMIN MODEL

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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), Bruxelle – 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) mounting 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, mounting 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, mounting 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 mounts 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
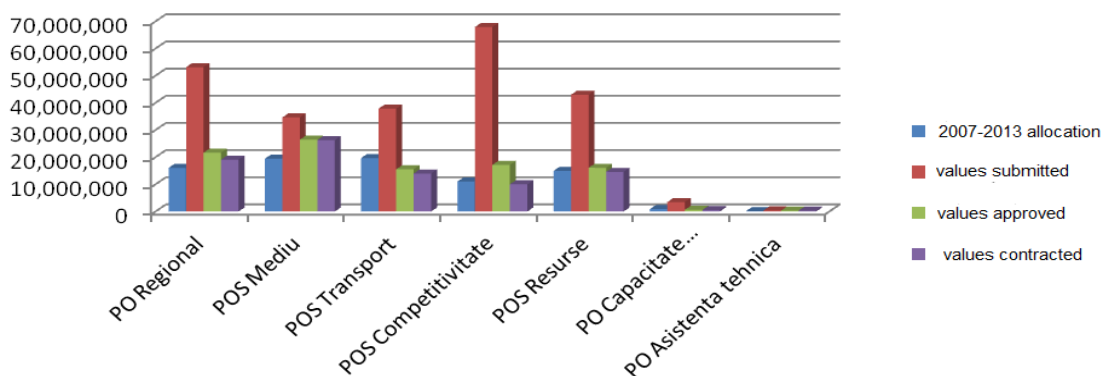
Source: www.fonduri-structurale.ro – personal interpretation

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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STRUCTURAL FUNDS ABSORPTION GROWTH BY IMPROVING THEIR MANAGEMENT

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Grant project management is now a trend in the institutions of various types in Romania due to the opportunities offered by the EU through structural Instruments. Absorbing European funds is a challenge for Romania. The Managing Authority for Structural Instruments, together with the subordinated institutions present deficiencies in their coordination and implementation, the effect being a slow process of absorption of structural and cohesion funds. Taking action to enhance absorption of Structural and Cohesion Funds was done later; some measures are neither effective nor efficient. One of the major problems in implementing the Structural Funds is the continuous change of their national legislation. Therefore it is necessary to take measures to increase the absorption of structural funds and also the national adoption of a stable legal framework applicable to Structural Funds, guides of the applicant and clearly established project calls, without any latest changes, creating a transparent system of project proposals assessment and results communication of assessments to their beneficiaries, the payments required by the reimbursement requests within 45 days specified in the contract and not just their validation, terms compliance in approval notifications and addenda to the contract funding, proper training of the personnel from the intermediate organizations and linking information provided by their staff.

Romania's EU accession involved changes in different areas. One significant change in the area of management is the promotion of Management of funding projects through grants allocated to Romania in both the pre-accession and post accession period. The deficiencies that Romania has in the use of project management were demonstrated in the pre-and post-accession funding. The issue Romania is now facing is the absorption of Structural Funds and Cohesion Funds. This is highlighted mainly by the rate of absorption. To increase the absorption of structural funds is necessary to implement solutions and measures suggested by the European Commission, as well as adopting other innovative measures. This paper suggests the necessary measures to be taken to increase the absorption of structural funds but also the dilemma faced by project beneficiaries financed through these structural and cohesion funds.

Projects management in Romania started to be important and to have a more enhanced use with the advent of the European Union allocate grant funding in both the pre and post period of accession.

If up to the accession to the European Union, Project management was a method used mainly in the institutions focused on production, nowadays this method of management is used in all types of institutions due to funding grants. Grant project management differs from project management practiced in the classic way; this difference is due to the method of projects financing and legislation that need to be respected by each beneficiary of such projects.

Project management, regardless of funding source assumes the completion of stages in project development and implementation. Thus in the *Wideman Comparative Glossary of Project Management terms* one may find stages of a project called: 1.Concept; 2.Definition; 3.Implementation; 4.Finishing (or closing).

A project life cycle is presented as follows: The question identification phase - The identification solutions phase – The planning stage – The Stage of implementation / monitoring – The evaluation / reporting stage after which this cycle is repeated to identify the emergence of new

needs or problems.Problems currently facing Romania in the development and implementation of Project management are visible in the coordination and implementation of grant issues

Romania currently allocates grants funded by the European Union through the Structural Instruments, namely Structural and Cohesion Funds. Although Romania's currently economic situation is poor, being in constant crisis and the Structural Funds represent an opportunity for development and survival regardless of the form and type of institutions, attracting such funding Is precarious.

To facilitate the absorption by the new Member States, the maximum rate of co-financing structural funds increased from 80% to 85%, being also relieved, and certain eligibility criteria. Absorption capacity is given by the responsibility of a Member State to spend financial resources from structural funds, in an effective way, targeting three areas:

- Macroeconomic absorptive capacity, defined and measured in terms of GDP (limited to 4%);
- Financial absorption capacity, defined as the ability to co-finance EU supported programs and projects, plan and guarantee these national contributions in multi-annual budgets and to collect input from the partners involved in various programs and projects;
- Administrative capacity, which is the ability and competence of central and local authorities to prepare projects and programs appropriate and timely, as well as coordination with the partners involved, compliance with administrative and reporting requirements, funding and monitoring of programs and projects and also avoiding irregularities.

Given the definition of absorption capacity specified above, we assume that it is influenced mainly by the managerial and administrative capacities of co-financing. The relationship between absorption capacity of structural funds and regional economic situation is at least a paradox, practice showing that the most disadvantaged regions are facing the greatest difficulties in absorbing these funds, although the need for financial support is essential to economic restructuring in these regions. The main explanation for this phenomenon is given by two factors: on the one hand, the difficulties faced by regional authorities for lack of experience and qualifications, followed by red tape and slow nature of EU decision-making in circumstances where sequential procedures for appointment, especially central and regional authorities, are not quite clear. Thus, questions related to absorption capacity largely depend on institutional factors, both the EU structures, as well as national ones.

To identify and understand the Structural and Cohesion' deficiencies is needed an overview of their planning, based on needs identified in their strategies concordonata European Union, the implementation and to reporting and evaluation. Because these funds do not allow complete implementation, an overview and reporting results are needed to the European Union. So it will consider how their planning and implementation by both Authorities Coordination of Structural Instruments and beneficiaries of projects financed through Structural intemrediul these instruments.

Planning of structural and cohesion funds is the National Development Plan 2007-2013 in which we identify an analysis of Romania's development needs in line with EU policies and strategies, measures proposed to eliminate the weaknesses identified in the SWOT analysis carried out and results to be obtained through implementation of proposed measures. Based on the National Development Plan 2007-2013, it was developed the National Strategic Reference Framework 2007-2013 which presents the main operational programs and interventions with results to be obtained in each operational program. Each operational program is based on an Implementation Framework Document which is the starting point in developing Guidelines for Applicants for each priority axis and key area of intervention. These documents are complemented by EU legislation applicable to such financial instruments as well as national legislation.

Implementation of these Structural Funds and Cohesion Funds on macro level is carried out through the 7 operational programs managed by the Structural Instruments for Coordination

Authority through management authorities for each operational program and the intermediate bodies. These operational programs and the financial allocations for each program are the following ones:
- Sectoral Operational Transport Programme - 4.5 billion Euro
- Human Resources Development Sectoral Operational Programme - 3.4 billion Euro
- Increase of Economic Competitiveness Sectoral Operational Programme - 2.5 billion Euro
- Operational Programme for Administrative Capacity Development - 208 million Euro
- Environment Sectoral Operational Programme - 4.5 billion Euro
- Operational Programme - 3.7 billion Euro
- Technical Assistance Operational Programme - 170 million Euro

Accessing these structural and cohesion funds by final beneficiaries is a logical process but most of the times a heavy one. The accession of a non-refundable financing form consists of an application based on a specific applicant guid,e project applications for each call, this request goes into a process of evaluative criteria established initially selected projects will be contracted and carried out by the beneficiaries based on laws established by the Structural Instruments for CoordinationAuthority and Management of each program. Monitoring and implementing powers beneficiaries enter the intermediate bodies which in turn are reviewed by superior bodies of control.

The statement that the submission stage of a project is difficult is that the call requests in a project regardless of the operational program many changes Applicant's Guide - general or specific conditions based on new changes - Changes in the request for proposals on various issues, including shift deadline for grant applications and even the applicant's eligibility. The most striking example is the request for proposals within the Sectoral Operational Programme in 2009 when submitting projects was brought forward by the extending from June of 2010, when through a press release dated 25/09/2010 (Friday) given at 16.00 hours, is announced the closure proposals date on 27.09.2010. These changes lead to demotivation potential beneficiaries and the low absorption of these funding denoting poor management of coordinating institutions.

Another negative aspect related to access and coordination process is the assessment of applications, namely the lack of transparency in the management authorities of operational programs, such as Human Resources Development Operational Programme for which payment was stopped by the European Union following an audit control to regulate irregular situation captured in the audit report in February 2012. One of these situations is the lack of communication results transparency in assessing applications for funding recipients that led to the lack of links recommended by project evaluators in the evaluation of the project files by their contraction in the Annex 1 - Application for funding. Lack of long transperency and project evaluation process, sometimes even a year after admission to the contract (request for proposals 109 of Human Resources Development Program - Industrial Transition from school to work) leads to demotivation and giving the contracting project for which funding request was submitted by the beneficiaries.

If accessing and contracting these projects with grant funding through the Structural instrument making is a cumbersome process that denotes lack of experience of staff involved in their planning and evaluation of project applications, representing a rate of about 20% of Managemtnul projects. Impleemntare stage and reporting / evaluation of these projects can not be better. Project planning is one of the main steps for successful project, but this stage is poor, Implemntare stages, evaluation and reporting their shortcomings leading to demotivation confort possible beneficiaries and a low rate of absorption.

Implementation of projects financed through Structural Instruments requires a rigorous and thorough compliance with legislation. Thus these types of projects are subject to national laws especially laws imposed by the European Union in this field. One of the obstacles in impleemntarea this type of project is necorelatiile legal and legislative changes, especially in

finance and public procurement. An example of these changes is the modification of Eligible Expenses Order afferent Human Resources Development Operational Programme which was modified in the very process of impleemntare the project, its latest version was published in August 2010. According to modify this order each beneficiary of projects funded through this program was required to review and replan the project budget. The emergence of new instructions during the implementation of projects with different specifications and new regulations are not only hindering the implementation of projects. These constant changes, especially in the instruction denote a poor initial planning and also a national legislative instability.

Legislative changes occurring during the implementation of projects and grant programs have negative effects because they involve changes and adjustments being repeatedly designed and programs. These changes lead to demotivation potential and current beneficiaries of grant projects that slow the absorption of structural funds.

Another impediment to increasing the absorption of structural funds is the pre-financing payments and reimbursement requests in the project. So if projects beneficiaries had to wait up to six months to start pre-financing payment of project activities and in some cases a period of one year to transfer the amount corresponding to a request for reimbursement, although in the financing contract stipulated a period of 45 days. These delays in payment of pre-financing and reimbursement requests result in termination of funding due to the inability of beneficiaries to submit amounts for the activities covered in the grant applications. Termination of the grant has effect on the absorption of structural funds.

Absorption of funds currently reimbursable according to the Report of the Structural Funds Managemnt Authority in March 2012 highlights of afferent absorption once effectuate the payments by beneficiaries Managemtn Authority, which is in proportion to allocate 17.77% of the total Romaine and European Union on the other hand highlights the real absorption efectuater payments by the European Commission that Romania is at a rate of 6.56% of the total European Union allocate Romania.

Given the balance of Structural Funds published by the Ministry of Finance - Authority for Structural Instruments Coordoanrea, one comparison between 2009 and 2010 but absorption afferent report of March 2012 we said that programs that have a larger share of structural funds absorption are ROP, the very first and sector Operational Programme Human Resources Development Operational Programme is ranked last transport. To increase the absorption of other software is required and corrective measures taken now to examples of good practice from other operational programs. One of the reasons that cause a low rate of absorption in the Sectoral Operational Programme Transport is the eligibility of the solicitor; specifically in this program are eligible applicants Transport Ministry and its subordinate institutions. So we can say that in this ministry is not prepared and experienced person needed to implement these types of projects or the general eligibility conditions are too demanding.

Also we see a trend of increasing rate due to absorption of Structural measures adopted by the Authority for Structural Instruments Coordoanre. These measures taken during the Applicant consisted of simplifying guidelines and conditions of eligibility measures.

In all operational programs are identified problems arising from both their impleemntarea implementation reports and the Action Plan but Prioritarare. Thus the major problems identified and measures taken are:

Llaunch requests for proposals due to lack of monitoring by the Authority for Coordination of Structural Operational Programmes Managing Authorities - monitoring of project applications and launch applications for Acle priority or d einterventie areas which have not yet been released

- Lack transaprentei applicant in formulating guidelines - the guidelines for consultation giving the applicant the potential beneficiaries

- Too short deadlines for submitting grant applications - deadline for requests for proposals at least 10 days from start to closing the call for proposals.
- Guides the applicant with unclear conditions, this effect was adopted as the simplification of the applicant but also documentetiei guide the projects.
- Long evaluation and contracting projects - monitor and identify issues that lead to these plocaje and adopting corrective measures
- Process check payment requests long - speed verification of payment claims for payments under the conditions stipulated in the grant agreement.
- Deficiencies in implementation of legislation regarding public procurement - standardization of public procurement documentation for all operational programs.
- Deficiencies in control and control check lists and documentation of public procurement - European Commission recommendation on the correlation of the national legislation with European public procurement
- Deficiencies in control and audit - audit scheduling and execution control and then control institutions to track the implementation of measures recommended by the control group through the Audit Report.
- Deficiencies in terms of number of personnel and its training in the IB and the Managing Authority - vacancies in these institutions and supplemented according to the needs identified tinanadu into account the number of projects under evaluation, contracting, during its implementation and evaluation, contracting and payments but also the volume information. Another recomanadare would be appropriate training of personnel working in these structures.
Other problems identified in the implementation of Structural think is next
- Undue delays in preparing operational programs by managing authorities
- Adoption of measures imposed by the European Union a long period of time
- Lack of experience in planning tools specific grants, because c [palnificarea pre strategic grant funding was made by the European Commission;
- Formation of intermediate bodies and regional units of delay without clear identification of roles being changed contaant structured;
- Low culture in project management for both public bodies and the private;
One of the most effective measures adopted within an Operational Programme was to reduce the percentage of co-beneficiaries. Thus in the Operational Programme Human Resources Development for institutions of higher and university invatamant percentage was decreased to 2% cofinanatare. The adoption of this measure was to increase the absorption of structural funds for universities and especially university education institutions.

Conclusions
Clearly indicate advantages, limitations, and possible applications. Given the descriptions we conclude that the Structural Instruments is an advantage for Romania in support of and remedy the problems identified and to align the country's development requirements of the European Union.
Capacity of project beneficiaries with grant allocated by the Structural Instruments intemrediul to adapt to the many legislative changes is also strength and their success.
Lack of experience in Projects Management in the institutions Romain is a weakness with negative effects. This lack of experience and knowledge of the principles of project Managemtnului sees the staff involved in coordinating and monitoring implememtarea financial instruments.
Poor planning of Structural Instruments negative effects, re-planning continues and further changes lead to inefficient control them.
Most of the problems identified in accessing, implementing, monitoring and reporting related project planning.

Legislative and political changes in the country have negative effects, modification and replacement policy leaders Managing Authorities, Intermediate Bodies leads to the appearance of changes in projects which benefit the beneficiaries of these projects are creating the confusion among them.

Stabilization of Structural applicable law is the basic condition for ensuring a degree of absorption of Structural Instruments as high by the end of 2013.

Increasing the absorption of Structural Instruments lately is largely due to measures adopted validation and payment of reimbursement claims and not related specifically contracting projects.

Necessary measures to be adopted in future consist mainly in stabilizing the legal system applicable to such proiectre, compliance temrenelor provided under contracts to finance projects to remove the bottlenecks financaire the beneficiary institutions, evaluation of projects in a relatively short and creating a evaluation transparent, uniform enforcement of regulations in all intermediate bodies, specialized personnel of the institutions managing these tools to help beneficiaries and potential benefit in the process of accessing, implementation and reporting.

The need for proper project management is clear from all the descriptions in the economic and social development of the opportunities offered by the European Union.

Identify examples of good practice in accessing and implemntarea Structural Instruments from other EU member countries is an opportunity to increase the absorption of Structural Instruments.

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Stadiul absorbţiei furnizat în cadrul Situaţia la 31 martie 2012 a depunerii şi aprobării de proiecte, semnării de contracte de finanţare şi efectuării de plăţi către beneficiari – www.fonduri-ue.ro

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 propseprity 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 resouces 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 oder 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 Ceauşescu colapsed because of his desire to increase in the country's industrialization. Basically he showen 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 datas 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 andthe 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 swithched 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 eas 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 annualy 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 pemanent 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 matyerial damages were estimated to 10 billion lei. Under these circumstances, Ceauşescu (in those days was away with his wife on a visit to Africa and returned immediately) was forcedto 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. Ceauşescu appreciated that the essence of the crisis boils down to lack of balance between allocations for investment and living standards of the people.

Ceauşescu 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 paranoic 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 Ceauşescu 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 determinationbut 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 Ceauşescu's and those of Gorbaciov, more open and viewing hasbeen 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 steped 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 Ceauşescu 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)

Year Country	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 şi Europa. Acumularea decalajelor economice (1500 – 2010),* Editura Polirom, Iaşi, 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 leaded 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 highschools 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 highschools by the number of students enrolled(%)

Period / Type of high school	1968/1969	1978/1979	1988/1989
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, Bucureşti, 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 insustrialism 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.

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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ENERGY CRISIS IN COMMUNIST ROMANIA

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If during the interwar period Romania has managed to move from an agrarian economy to an industrial-agrarian one, after the 2nd world war in Romania, as in other communist countries, has monitored the further development of the industry. It wanted to be a true industrial revolution.Over time one can identify several types of industrial revolutions, each giving impetus to a given development cycle, which had its beneficiaries and the losers. At first it was steam power, and then use the internal combustion engine, which used oil instead of steam. While other countries developed would increase of production capacity of nuclear power, a higher stage of economic development, in Romania continued the industrial development on the same grounds as in the inter-war period. This has had very serious tracks for the Romanian economy and society, since before and during World War II, the German war machine operated within the national resources of energy. The time and manner in which each country is part of this race are defining the social welfare. Unfortunately, Romania has failed to take advantage, each time losing the start. Creation of some production capacity and the development of industries (metallurgy, chemical industry, iron and steel industry), which consumed significant energy amounts was the wrong decision for the future well-being of the country. Oil impacts which have affected the world economy, hit also Romania. The first oil shock (impact) was more easily broken because of the continued use of internal resources (oil, coal, natural gas), but the second shock was catastrophic. It was too much for Romania after being forced to use those resources in the last decades (including the interwar period). Romanian leaders probably had in mind that Western countries were developed by enhancing industry of this type, but they did it in a different historical period when also the prices of such resources were much smaller and the lack of them was not a possibility. The outphasing of economic policies have resulted in a major negative impact on the population. In order to cope with the shortage of energy has been passed to the rationalization of energy products for the population consumption (from public lighting and restaurants program to heat and hot water rationalisation).
Perhaps the crisisof energy resources necessary to support an antiquated economic system was one of the major causes that resulted in social complaint from the Communist Romania.

Keywords: energy resources, communism, Romania, oil shocks (impacts), rationalization of domestic energy consumption

JEL Code: N 54, P 26, Q 32, Q 34

Introduction

Along with the first division of labour and human awareness of the importance of their needs and obtain a larger welfare as far as possible, resources have been converted to factors of production. The largest global energy problems and, by default, in the last century have been caused by the oil crises.

1973 is considered on worldwide the end of accelerated growth and the beginning of a economic hardship period for most countries of the world. Usually, entry into recession in the world economy is linked to the oil shock from 1973, when the producers group within the organisation of Petroleum Exporting Countries (OPEC) have increased the price of oil a few years apart followed the second oil shock (1981-1983). The oil price increases have marked on the worldwide the transition from an era of cheap oil to one of the expensive oil and volatile in price

terms and conditions of purchase. The world prices from 1980-1981being in real terms by about five times higher than in the first half of the year 1973. (1)

Still after the first oil shock the world economy has suffered, being very involved developed countries which were important industries based on consumption of petroleum. In many countries the European capitalist annual average rate of inflation over the decade between 1973 and 1983 surpassed the 10% (champion being Portugal with an annual inflation rate of 22.6%, while at the opposite pole were Switzerland with 4.3% and the Federal Republic of Germany with 4,9% annually). (Maddison 1995: 84) Many States were faced with budget deficits and considerable rises of public debt. Obviously that U.S. economy was strongly affected, cracking significantly also the dollar.

But the impact of the two successive recession of the years 1974-1975 and 1981-1983 on the gross domestic product was rather moderate (Murgescu 2010: 321).

The Situation of Romania

Oil shocks for Romania have had a significant negative impact to the economy because since the late 1950s was enhanced industrial development (lacking a rationality and maintaining a relatively acceptable proportions between sectors) based on a high energy consumption (2).

Domestic production of oil was overstates (extraction of oil in the country has not exceeded 15 million tonnes), giving evidence of an exaggerated and unfounded optimism. During the first oil crisis Romania has tried to compensate the international crisis by national oil extraction. Domestic production has reached a historic maximum between 1975-1977, with levels of around 15 million tons of crude extracted oil, after which the stocks accessable began to show signs of exhaustion relative, what did that in subsequent years the production to fall (Ivănuş 2004: 469-471).

It followed the second oil shock. In the 1930s, Romania was based on economic and political relations with Iran as the main supplier of crude oil to the national economy. In early 1979 he triggered the revolution in Iran, and over a year was irakiano-iranian conflict began. Thus, Iran crude oil production has been reduced from levels of around six million barrels daily before the revolution at levels below four million barrels in 1980 and less than two million in 1981-1982 (Murgescu 2010: 393). In this case the main international oil supplier since 1980 but was Iraq, and Iraqi production after the start of the war has subsided considerably, Romania was obliged to purchase crude oil prices in the worldwide.

The situation of the consumption and production of crude oil in Romania is observed in tabel no.1.

Tabel no.1 Energy consumption, production and imports of crude oil in Romania 1960-1989

Year / Indicator	1960	1970	1975	1980	1985	1989
Electricity consumption, including losses in networks (billion KWh)	7,6	32,7	?	67,9	75,0	83,7
Crude oil extract (million tonnes)	11,5	13,4	15,0	11,5	11,3	9,2
Crude oil imported (million tonnes)	-	2,3	5,1	16,0	14,6	21,8

Source: *** - Anuarul Statistic al României 1990, p. 472-473, 500-501, 626-627, Ivănuş Gh. – Istoria petrolului în România, Editura AGIR, Bucureşti, 2004, p. 470

A significant proportion of imports was produced according to special agreements. In consideration of the benefits of services and/or exports of goods, petroleum and the cost of the invoice is very hard to determine. However in the 1980s it was higher than the average of the years 1985-1989, representing a heavy burden for the balance of payments of the Romanian Socialist (Murgescu 2010: 393). But, these imports were made only for the putting into service of

immense refining capacities and other industrial compound built by weather authorities. The regime's bid on the grounds that the production of fuels and refined chemicals in order to allow recovery of the amount of imports and of course to reduce the trade deficit, but Romania was losing about 25 bucks for every tonne of refined products sold in the West, compared with the price paid on importation of crude oil (Turnock 1986: 272).

For Romania the biggest problem was in the period of the second "oil shock" whereas on the first pass using the domestic resources that it has supraexploatat from beneath Kings. The avings program established in 1982 on measures culminated in the production of energy and the development of the energy base until 1985. Energy production has been covered in coal power plants. Because of the defavorable evolution of crude oil, a solution would have been the substitution of crude oil with other energy sources. The most appropriate remedy would have been natural gas, but domestic production of methane gas was much in demand in the past (Ionete 1993: 81). According to the official national gas production increased from less than 20 billion cubic metres in 1970 to nearly 28 2 billion cubic metres in 1980, it reached a maximum of 29,26 billion cubic metres in 1981 and then it was gradually reduced to 27,2 billion cubic metres in 1985 and 22.2 billion cubic metres in 1989 (*** - Anuarul 1990: 472 - 473). This situation has led to increasing the share of consumption of coal, but which involved the extraction of coal with low energy value (the share of coal in the production of electricity increased by only 5.7% from 26,5% in 1980 to 32.2% in 1989, and the failures in relation with the plan were very high, contributing to the usage of installed capacity and to the Romanian's economy distortion) with harmful effects on the environment (Murgescu 2010: 395).

Industry consumption continued to grow both in absolute terms (from 43.7 billion kWh in 1980 to over 49,3 billion kWh in 1985 and almost 55.6 billion kWh in 1989), and in relative terms (from 64.3% from total expenditures in 1980 to 66,4% in 1989) (*** - Anuarul 1990: 500-501). Dynamics of energy resources exploitation in socialist period is shown in table no. 2.

Table no.2 Dynamics of energy resources exploitation in Romania during 1950-1989

Energy resource type	1950	1960	1970	1980	1989
Electricity (billion kWh)	2,11	7,65	35,09	67,49	75,85
Extracted coal (thousand tonnes)	3,89	8,16	22,83	37,81	66,46
Extracted crude oil (thousand tonnes)	5,05	11,50	13,38	11,51	9,17
Gasoline (thousand tonnes)	1,50	2,79	2,79	4,76	6,07
Extracted methane gas (billion cubic metres)	2,06	6,70	19,97	28,16	22,22

Source: Murgescu B. – *România şi Europa. Acumularea decalajelor economice (1500 – 2010),* Editura Polirom, Iași, 2010, p. 341

In the early years of communism the greatest efforts have been made in the energy industry and energy industry for the extraction of fuels (Cucu, Jordan 1984: 226-238) which have absorbed over 50% of industrial investments in the quinquennial 1951-1955 and, although their share has declined since then, stayed in first place until the mid-1970s, when they were overcome by investments in machinery construction industry (3). These investments have allowed the extraction of crude oil rise (5 million tonnes in 1950, 11,5 million tonnes in 1960, 13.4 million tons in 1970), coal (2,7 million tonnes in 1950, 4, or 5 million tonnes in 1960 and 8.1 million tons in 1970), lignite (0,8 million tonnes in 1950, 3.1 million tonnes in 1960 and 14 million tonnes in 1970) and methane gas (2.1 cubic metres billion in 1950, 6.7 cubic metres billion in 1960 and nearly 20 billion cubic metres in 1970). New hydro electric power stations were put into service, which led to growth of electricity production from 2.1 billion kWh in 1950 to 7.6 billion kWh in 1960, 35.1 billion kWh in 1970 and 67.5 billion kWh in 1980. On the other hand, the potential growth of the energy industry began to collapse in the 1970s-1980s.

Thus, the extraction of crude oil reached a peak in 1975 and subsequently decreased in spite of efforts to maintain; It also increases the production of coal and methane gas and they slowed, which forced Romania to use as growing fuel with lower calorific value (lignite, shale), so the less economically efficient and more environmentally destructive; the project of building a central power stations at Cernavoda was delayed too much, work began in 1982, and their slow pace in terms of restricting imports made as the first reactor to be put into service until 1996. Under these circumstances, production of electricity, although it has continued to grow, has not coped increase in consumption, especially of industrial consumption. Romania in 1970 export 2.4 billion kWh (6.9% of its energy production) and in 1989 reached to import 7.8 billion kWh (over 9% of consumption) (Murgescu 2010: 344).

Social implications
In 1978-1979 the problems have worsened. To the seriousness of the national economy and the adiministrativ chaos was added also the fuel problem is scumpeau more and more and thus serious problems have arisen in the supply of energy products (for example, in the case of electricity, public lighting has been drastically reduced, and in winter between the two years have made many calls to the public to limit heating of dwellings. The fuels were rationalized; It has reached a crisis, the most affected tourism and foreign tourists, especially from „neighboring and friend countries" who have not hesitated to trenchantly express the disagreement with such measures, which eventually turned out as expected, very unprofitable for Romania's tourism.

At the end of the 1970s in order to improve the condition of the population have taken some measures, but which failed to solve the problem altogether because energy rationing was far too drastic: ended some investment in this industry (refinery from Borzeşti, mining Rogojelu, a new probe in Ploieşti and determination to change to daylight saving time – on 19 May 1979). But they could not solve the problem which was very delicate. Later it was switched to a clear reduction in domestic energy consumption (it is well-known that Ceauşescu developed a bauble for the industrialization of the country). In July 1979, the State Council has decided a series of measures to reduce the consumption of fuel and the use of electricity, heat and gas (Păiuşan, Ion, Retegan 2002: 243 – 244).

Energy consumption of the population has been reduced, including the supply of domestic hot water and heating in homes under the slogan irritating and revolting „Take an extra coat"(Păiuşan, Ion, Retegan 2002: 275). In the winter of 1984 and 1985 was adopted a new plan of „rational use" of electricity (the restaurants were closing at 21.00, the artistic cultural activities – should be conducted so that the consumption of electrical and heat energy, to be as small as public lighting, the reduction of businesses and housing at 50% from the previous winter) (Giurescu 2003: 717 - 718). The winter of 1986-1987 was not gentle with Romanians, being the most glacial of last century (Stoenescu 2004 – 2005: 7). On 7 February 1987 was issued a decree by which it was reduced by 20% of energy consumption in the production units, which led to a brief outburst of social complaints (Giurescu 2003:726).

It was developed the industry of mechanical engineering intended for the general public, but for the production of cars with little consumption were produced Oltcit and Dacia 500. In 1989, the electricity consumption of the population had fallen to less than the losses in electric networks of transport and distribution (Ionete 1993: 79). In relation to the beginning of the period of Communist Romania in 1989 produced 25 times more electricity per capita (over 130 3.276 kWh kWh in 1950), 18 times more than steel (623 kg per capita compared to 34 kg in 1950), 2.5 times more grain (794 kg per capita compared with 316 kg per capita in 1950), have considerably greater number of dwellings with modern facilities, and infant mortality had decreased by over 4.3 times (the children of deceased 116,7 until a year to 1,000 live births in 1950 to 26.9% in 1989) (Postolache 1991: 469 - 471).

Conclusions

The progress measure consisted of global production and per capita and, especially, its speed of growth. Any other evaluation criterion was secondary. But once the product has increased and the degree of exhaustion of resources. On the horizon appeared the „rare economy”.

The Romanian economy was built on an energofag calapod; because of the beginnings country's industrialization due to the fact that it coincided with a relative abundance of resources, and when the world prices are modificau hard, were relatively stable. All this in combination with a centralized decision-making arrangements have resulted in a reduction of the ineluctable savings and a susceptibility to an inefficient use of resources.

In the early 1980s, due to the appreciation of the energy imported resources (prices of delivery requested by the Soviet Union were close to world levels) and tightening credit conditions on the world market, socialist countries have experienced serious problems in repayment of debts and ensuring the continuation of economic processes. In most countries have been reductions in the investment level, which has reduced and more possibilities of adaptation to the new economic conditions.

You can appreciate that the energy policy of the authorities took a leading role in the failure of haynie in the 1980s. Eventually, Romania was not only a victim of the big energy problems of mankind, but was the victim of its own improvidence (managers' improvidence) and the wish to strongly impress the international economic and political environment. The solving of these problems tried to be made almost exclusic, battening on the population.

Acknowledgement

Notes:

 (1) The world oil price has increased during 1973-1974 from approximate 3 dollars/barrel to over 12 dollars/barrel, has fluctuated in the next years to around 14 dollars/barrel, and during the second oil shock increased to levels above 30 dollars/barrel, reaching occasionally 38 dollars/barrel.

(2) It has been produced, in particular, after the Council for Mutual Economic Assistance (CMEA) , Romania was assigned a minor role in the vision of Romanian leaders since then by the fact that you wanted to become an agro-alimentary main source, as opposed to the German Democratic Republic or Czechoslovakia that were to follow the path of a strong industrialization.

(3) According toTurnock D. – *The Romanian economy in the twentieth century, Croom Helm,, Londra, 1986, p. 161,* the investments in the energy sector and fuels accounted 50.7% of industrial investments in 1951-1955, 40.5% in 1956-1960, 34.3% in 1961-1965, 30.9% in 1966-1970, 26.2% in 1971-1975 and only 24.3 % in 1976-1980.

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ORGANIZATIONAL CHANGE: BUSINESS PROCESS REENGINEERING OR UTSOURCING?

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This article aims to propose a case study analysis in order to confirm literature assumptions and to provide suggestions for future improvement of the company presented.
Often, management has to take decisions about business process reengineering or outsourcing in order to maintain firm's viability and growth. We focus on the relevance, difference and usefulness of outsourcing and business process reengineering to support organizational change in the managerial function of the firm analyzed. We show BPR success and the need to embrace BPO principles so as to have a relevant content that could and should be the basis for imprenditorial change and innovation. According to literature, our objective is to propose the outsourcing paradigm – in its form of cosourcing - as a future solution which would help the firm's management to concentrate resources on the core processes, redeploying key personnel to more strategic roles.

1. Introduction

We live in a world of inexorable change, where the network of economic, political and social processes that form the social Kosmos described by Ken Wilber (1995; 1996) and the economic one (Mella 2008) is continually being redesigned; traditional processes are abandoned while other processes are added, spurred on by the *new technologies*, which change the way organizations operate (Hayes and Jaikumar 1988).

Not only do the cultural bases of the individuals and the cultures of the organizations change, but the organizations also evolve through modification of their structures, processes and output, in the attempt to loosen the old restraints while setting new objectives and rewriting the programmes for their achievement.

A good *change management process* is conceived of as a *"systematic approach and application of knowledge, tools and resources to deal with change. Change management means defining and adopting corporate strategies, structures, procedures and* technologies to deal with changes in external conditions and the business environment"* (SHRM). This process becomes physiological, for individuals (Lewin 1951), social groups, or organizations (Senge 2006), and it represents the natural approach for dealing with change both at the individual and organizational levels for all types of organization. (Hiatt 2006).

> Hammer and Champy (1993) believe that having the correct product and service at the right time encompasses a form of obsolete thinking in a *change* environment, due to the limited life span of products. The decision managers have to take is whether to adopt a

radical reengineering approach or to outsource, in order to stimulate firm's performance (1).

The most successful corporations today are those that continually search for new and innovative processes and technologies that will allow them to adapt to the ever-changing business environment. Those that do not embrace change, nor have a strategic vision of opportunities for operational and product improvements, most likely will experience a loss of market share, revenue and profit margin.

In a period of change an organization needs to reinvent it's competitive advantage (Jaworski and Kohli 1993) and to do this the firm should:

- consider strategy not only linked to vision, but continuously questioning what is being done, why it is being done, and how can it be done differently,
- analyze top management commitment, vision, strategy and objectives both at the organisational and functional levels,
- individuate where change is necessary and set up clear goals, with projects broken down into manageable parts,
- promote cross-functional activities, shared objectives, and externally oriented thinking, and
- decentralize decision making to a point as close to the customer as possible.

While improvements can be made to pick up or maintain best practice, to get ahead requires radical breakthroughs in performance, i.e. the reengineering of business processes (Earl and Khan 1994) or outsourcing (Hammer and Champy 1993).

The pages that follow illustrate some empirical evidence related to an applied research project that has been done with the main objective of strengthening the role of guidance and support to the business of the Management and Finance of an Italian medium - large firm in the field of intermodal transports.

The article aims to illustrate the current and therefore the usefulness of Business Process Reengineering (BPR) to support the processes of change in the management function and to understand the necessity to outsource the activities too costly to be reengineered, in a view of organizational viability and performance.

2. Framework

In our case study, the paper discusses BPR implementation and our suggestion to go towards a process of outsourcing involving one function of the firm. Therefore, we will start our article presenting literary reviews on BPR, the case study as an application of BPR, and our suggestions towards a business improvement, through outsourcing. The analysis presented don't want to preserve the status quo, but to change, fundamentally and radically, what is done: it is a dynamic approach.

3. Business Process Reengineering

The term Business Process Reengineering (BPR) was first introduced by Hammer (1990), Davenport and Short (1990), as an approach to management processes involved in raising performance.

Since initiation, it has become a popular management tool for dealing with rapid technological and business change in today's competitive environment. BPR evolved from the experiences of a few US-based companies in the late 1980s (Martinsons and Hempel 1998).

The aim of reengineering is to facilitate the match between market opportunities and corporate capabilities, and to ensure corporate growth (2).

Several authors have provided their own interpretation of the changes being applied to organizations, for example Davenport and Short (1990) have described BPR as the analysis and design of work flows and processes within and between organizations. Other authors such as

Talwar (1993) have focused on the rethinking, restructuring and streamlining of the business structure, processes, methods of working, management systems and external relationships through which value is created and delivered. Hammer and Champy (1993) have promoted the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service, and speed.

Petrozzo and Stepper (1994) believe that BPR involves the concurrent redesign of processes, organizations, and their supporting information systems to achieve radical improvement in time, cost, quality, and customers' regard for the company's products and services. While Lowenthal (1994) describes the fundamental rethinking and redesign of operating processes and organizational structure, the focus is on the organization's core competencies, to achieve dramatic improvements in organizational performance, as BPR's essential components.

Particularly interesting is the comparative analysis carried out by O'Neill et al. (1999) who highlight the focus on the processes and change made by different authors on the topic (see table 1).

Analysis perspective	Authors
Business process improvement	Harrington (1991)
Core process redesign	Kaplan e Murdoch (1991)
Process innovation	Davenport e Short (1990)
Business process transformation	Burke e Peppard (1993)
Breakpoint business process redesign	Johanssen et all. (1993)
Organizational reengineering	Lowenthal (1994)
Business process management	Duffy (1994)
Business scope redefinition	Venkatraman (1994)
Organizational change ecology	Earl et al. (1995)
Structured analysis and improvement	Zairi (1997)

Table no 1 – BPR different perspectives' - our elaboration from O'Neill et al. (1999)

Table 1 illustrates that the main objective of the BPR, whatever definition adopted for it, is to support organizations in achieving significant improvements in critical business processes.

According to Day (1994), we want to point out two distinctive principles according to which we elaborated our case study and successive analysis in order to undertake a change management process (BPR or Outsourcing):

1) setting the objectives: they must involve customers' satisfaction, and

2) coordinating the organization's activities in order to generate a learning process: it's a complex horizontal process that will require definition of boundaries and horizontal connections amongst culture, change, and unfiltered information that is readily available to all team members (Senge 1990a).

In fact, we embrace Schaffer and Thomson thinking (1992) who highlighted how focusing on results rather than just activities makes the difference between success and failure in change programmes.

Put into strategic context, Senge (1990b) and Deming (1993) advocate for BPR a systems outlook involving customers, suppliers, and the future in order to achieve long-term corporate objectives. According to Gulden and Reck (1991), we believe that the success of a designed process don't lie in what it is performed today, but rather in thinking about how to reshape it for tomorrow.

The case study presented in this paper fits with Hammer and Champy's identification of three motivations that lead companies to undertake an analysis of organizational change (1993):

- companies find themselves in deep trouble: if a company's costs are higher than profits or than its business model will allow, if its product failure rate is higher than the competition's, if in other words, it needs productive, economical and financial improvement, that company clearly needs business reengineering,

- companies that are not in trouble but whose management expects a trouble coming,

- companies that are in peak condition and see an opportunity to develop to a leader position (over their competitors).

Numerous researchers and practitioners believe that top management commitment is the most important factor for a successful BPR effort (Davenport 1993; Janson 1993). They argue that BPR never happens bottom-up, and a reengineered process alone will not change the way people work. Champy and Arnoudse (1992) identify the role, attitude, vision, and skill or knowledge of leaders as necessary for successful BPR. Especially, they state that BPR must be more top-down driven than a quality improvement plan because of its radical change requirement.

We believe, according to Senge (1990), that BPR focuses on processes that are inherently cross-functional, leadership by those who have comprehensive perspectives and the authority to coordinate different interest groups is essential.

Hammer and Champy (1993) also emphasize the importance of measurement and rewards for reengineered process performance. They argue that employees must be paid on their performance and ability. Measuring the performance of a process and people is important for evaluating BPR, but the way of measuring is sometimes inadequate. To get employees to operate productively in teams, share information, take initiative, and display other behaviors that are now important, top management must devise new rewards and management processes, in order to evolve towards a learning organization model (Senge 1990).

To review more concrete factors of BPR success we can go to Bashein, Markus, and Riley (1994) who argue that financial conditions and human resource specialist involvement are critical to BPR success. According to this perspective Janson (1993) adds that clear, honest, and frequent communication is also important for successful BPR implementation and can help minimize employees' resistance.

Furthermore, we remember that to create a complete winning BPR, it's necessary to have a successful team made up of people from different interests (Katzenbach and Smith 1993). The size of a BPR project team, its members level of skill, a shared goal, and mutual accountability among team members are important factors for successful project team management.

4. Case Study: CEMAT SPA

This study is an illustrative case analysis (Yin 1989). Any claims about the broader view of BPR or outsourcing being typical and beneficial to industry should not be taken as statistically significant or empirically substantive. Our task, for future research, is to increase this research with an empirical one where data will be collected from a representative sample of many companies.

The results of this study provide anecdotal evidence for the plausibility of our claims and serve to illustrate the application of the framework of analysis and proposal we have provided.

Being an applied research project, we took as a reference model, the one proposed by Zuber-Skerrit (1991) and from which we derived the following four main phases:

1 - *Planning stage*. This phase analyses clearly the problem as belonging to a business environment, both from a scientific point of view, both from a practical point of view. With reference to this project, we analyzed the creation of a governance structure for the project, the formalization of the objectives and strategic directions, including the preparation of a detailed plan of the project;

2 - *Action phase*. This phase involves the execution of the provisions in the planning stage and it has been crucial the knowledge of the available literature. For this reason, the project, and therefore this paper, has provided an analysis of national and international literature. Among the activities, during this phase, particular importance went to the direct observation and conduction of workshops with staff directly involved in the project and indicated, in order to provide a comprehensive view of activities within the area considered;

3 - *Monitoring period*. We organized data collection for review and critical processes analysis (i.e., flow of activities, curves of presentation, processing time, criticality, etc.).

4 - *Being prepared*. Data has been collected in order to formulate feasible solutions to the identified problems.

4.1 General overview of Cemat: characteristics of the intermodal transport.

Intermodal transport is a particular type of transport carried out using a combination of different mediums such as trucks more trains or trucks and ships. Its characteristics are listed below in Table - 2.

Objective	Carry a unit from the sender to the recipient with the lowest possible consumption of resources
Environment	Demand for transport services
	The effects of policy decisions, such as laws, regulations, taxes and subsidies
	How to transport in competition
	The infrastructure
Resources	Trucks
	Machines to handle equipment in the terminals
	Railcars
	Ship
	Staff
Components	Conveyors
	Operators of railway structure
	Railway companies
	Shipping compagnie
Managers	Transport agents and logistics operators, even in the absence of formal power
Clients	Chargers directly or through agents who organize the shipment
Decisors	Formally no one, but forwarders and logistics operators play an important role
Planners	As described above, but with closer cooperation between the terminal operator and manager of the railway infrastructure and railway companies Planner

Table no 2 – Characteristics of intermodal transport of Cemat – our elaboration

The combined transport done by Cemat is composed, mainly, of unaccompanied combined transport (ferroutage) providing land transport semi-trailers, swap bodies and placement of containers. In Italy the market of railway transport is anomalous and underdeveloped compared to the rest of Europe, as a result of the strong diffusion of road transport. Among the domestic market and internationally there are significant differences, since Cemat manages alone traffic, direct customers and suppliers. It follows that, in Italian market, Cemat is solely responsible for

the final results. By contrast, the international market consists of, predominantly, by a set of axes managed in collaboration with partners. The results obtained in the international market must, therefore, be shared between partners and Cemat. This distribution can only generate strong implications both in commercial activities, both in the administrative and control.

In table 3 we can see some statistical data that represent Cemat activities in 2009.

Statistical data – year 2009	National market	International market
Transportation	138.626	469.994
Loading unit transported	179.666	655.846
Trains moved	7.673	19.827

Table no 3 – Our statistics on domestic and foreign market – source Cemat database.

4.2 Objectives of the project

The general objective of a *correct organizational development* has been translated into sub - objectives:

1) support the introduction of a *vision for processes*, through a clear understanding of both the activities within the firm and the main critical factors in the performance of the same. In fact, Barrett (1994) suggests that the key to successful reengineering lies in the development of a vision of the process. The key element is visioning the outcome (Goss et al. 1993).

2) exploit all *possible synergies* between the different organizational functions;

3) promote a greater *orientation to performance*;

4) promote the *cultural development of human resources* involved in the project: this will induce benefits in terms of motivation and productivity. Several authors (Harrington 1991a; 1991b; Lowenthal 1994; Duffy 1994) concentrate on the need to take account of the human side of reengineering, in particular during the change of organizational management.

Some authors (i.e. Mumford and Beekma 1994; Bruss and Roos 1993) suggest that the management of change is the largest task in reengineering. Kennedy (1994) on the other hand, incorporate the human element of reengineering due to the perceived threat it has on work methods and jobs.

Hammer and Champy (1993) pointed out some enterprise features more suitable for the application of a BPR project, namely: 1) the urgent need for change to recover low levels of competitiveness or to reduce costs, under penalty of exclusion from the market 2) the need for change to avoid having to deal with future problems but probable, and 3) the need for change to seize opportunities that will give the company a competitive advantage positions.

On departure of the project, Cemat needs to change in line with point 2 and point 3. In particular, with reference to point 2, the decrease in volumes in the domestic market and competitive pressures in the international market, have pushed Cemat to review its processes to make them leaner, faster and more effective, less expensive and where possible. With regard to point 3, however, Cemat has embarked on a path of renewal management, partly as a result of being part of the State Railway Group (Trenitalia), which provides for the introduction of SAP.

Since the intermodal business is very particular, Cemat has decided to undertake a project of change, departed from proper exploitation of the wealth of knowledge accumulated over the years, dictated by the desire to minimize the phenomenon of convergence towards industry averages, very frequent in the presence of integrated management solutions and standardized. This intention has justified in part the emphasis that the project has had during the AS-IS for detailed formalization of existing processes and their criticalities. The economic crisis, however, has emphasized the urgency for change more to resist the systemic decline in business volumes.

4.3 Methodology and analysis

Both Deming (1993) and Senge (1990) have written about the importance of *systems thinking* in understanding workflow, business processes, and the impact of feedback. In order to have a full understanding of the effects of what is being done, it is necessary to understand the whole process and how it fits into the organizational system.

Therefore, many authorities (Klein 1994; Grover and Malhotra 1997; Stoddard and Jarvenpaa 1995) recommend a thorough understanding of current processes before embarking on a reengineering project. Current processes can be understood and documented by flow-charting and process mapping.

With reference to the analysis of existing administrative and financial processes, the methodology has provided:

- an analytical mapping of the activities through causal analysis activities (the logic inputs / activities / outputs). This activity has been the most critical of the whole project due to the typical activities performed by Cemat, and due to the lack of adequately formalized documents to draw a clear representation of the activities and critical areas connected to each of them. We would like su underline that, except for the invoice manager, the employees profile of competences analyzed is low with a level of experience related, in most cases, only the activity in Cemat. This has made it a bit more complex, at least at the beginning of the project, the use of the methodology presented in this section.

- the definition of the job description;

- identification of critical issues associated with the activities carried out; this task is complicated due to the presence of some critical function unrelated to the managing of active and passive cycle. This involved a series of interviews with other business functions, including especially, the Sales Manager and Production Division.

- the consolidation and enhancement of knowledge gleaned by suitable instruments: 1) graphical representation of the processes through drawings in Microsoft Visio, 2) relational database created specifically (Process Activity Framework) for the collection of information gathered on the field and the production of reporting.

With reference to the improvement of existing administrative and financial processes we analyzed all activities carried out manually or mainly in manual mode. Each of these activities has been classified as follows:

1- *automatable activity*, in the case in which it is possible to automate business carried out in a manual or mostly manual way. Automatable activities were classified as follows:

a- *automated activities* (AS-IS improvement). This is the case with all those manual tasks that are predominantly manual or automated through the use of computerized procedures more or less complex;

b- *activities with automated rule* (AS-IS improvement). This is the case of all those activities predominantly manual or manuals that are now performed through the support of a file of personal productivity (usually Microsoft Excel) based on a set of rules are not codified but nevertheless necessary for the proper conduct of activities in question. In this case the use of computerized procedures must be done taking into account the implicit rules observed in the activities.

c- *tasks can be automated with condition* (AS-IS improvement). This is the case of all those activities predominantly manual or automated manual which involves a more or less significant impact on how the work of other business functions. The leverage information technology in this case can not be separated from that organization;

d- *tasks can be automated* (TO - BE reengineering). This is the case of all those activities predominantly manual or automated manual which would lead to rethink the logic of the process to which they belong. These activities have been reported separately as the primary objective of top management is to highlight, in a first instance, all those activities predominantly manual or

automated manual in the short term, according to a logical improvement and reengineering;

2- *activities to change without automation*, where we can improve the efficiency and / or efficacy of one or more activities without the use of procedures for computing facilities, but speaking about the organization and processes within the Administration Finance. Also in this case the logic of the work is directed towards an improvement and not to a process reengineering analyzed;

3- *activity not automotable*, in the case where it is impossible to automate an activity carried out in manual mode or predominantly manual;

4- *activities not automatable but eliminatable* by the Administration, Finance because they have a different organizational nature, almost always in the back office for marketing and / or production; for automated activities already in AS-IS (including those with rules and conditions), the methodology of the project involves the detection of worktime and frequencies, and the characteristics of the inputs and outputs generated.

5 Results

The results of this project are the product of an intensive work within the firm, summarized as follows:

- Identification and analysis of existing administrative and financial processes: 20 processes and 4 main support processes within the active cycle, 5 and 8 main processes supporting processes covered by the passive cycle;
- 551 business cards available by accessing a relational database created ad hoc;
- more than 600 factors input / output mapped to the activities;
- 76 between paper files and database analysis;
- identification of 78 critical issues, divided into strategic and operational;• 9 types of reports for a total of over 2000 pages and printable pages.

These values assume more sense especially if they are compared with the data available to the Administration and Finance at the beginning of the project, namely:

- Active Cycling:
- 10 procedures;
- 78 activities mapped;
- 13 files mapped;
- no match role / activity.

- Passive Cycle:
  - 7 procedures;
  - 56 macro activities;
  - 5 mapped files;
  - no match role / activity.

- Perception that something is not working properly without knowing exactly what and how much.

CRITICALITIES	WIDTH TO –BE	PURPOSE TO – BE	LEVERS TO - BE	TIME ORIZON
Strategic	*General vision (firm perspective)*	*Rengineering, strong impact on the processes and business model definition of*	*definition of new shared models to be introduced gradually in the firm*	*Medium – long*

		new models to be introduced gradually in the company		
Operative	*Focus on specific operational areas within administration and finance*	*local improvement with an incremental logic*	*Improvements involving I.T. and organizational (HR management) aspects*	*Short – medium*

Table no 4 – Criticalities found – our elaboration

During mapping process we found criticalities as described in table 4. There are two macro cathegories:

1) *strategic criticalities*, characterized by a high potential impact on future business performance. The resolution of these problems involves one or more projects of reengineering with reference both to individual business processes, and the business model as a whole. Projects of this magnitude often involve the introduction of new management models, on a medium-long term time horizon.

2) *operative criticalities*: their resolution promote incremental improvements and is, almost always, aimed at the recovery of efficiency in one or more business processes (i.e. recovery Full Time Equivalent), intervening both at the level of I.T. systems, both at organizational level on a short-medium term time horizon. We want to underline that the need, for Cemat, to restore the processes to efficiency involves, also and necessarily, the increase in duties and responsibilities of people employed.

> One of the Cemat strategic criticalities observed is the absence of a systemic vision (Senge 1990; Mella 2009) and synergy between different organizational business units. From fieldwork it was found that the business activities are strongly anchored to the personal initiative, based on formalized procedures, and less on the real business drivers. This indicates a lack of integration and coordination between the different business areas. Such situation reflects both the absence of automation in the field (RFID, Barcode, etc..), both of a smooth and timely administrative workflow. Moreover, procedures inside the Administration has been developed according to an incremental logic to deal with a number of exceptions arising from the lack of connection with other functions and with the various stakeholders.
>
> A possible evolutionary scenario (which will be discussed in the following paragraphs) is to promote a corporate culture oriented to the improvement of employers' skill, formation, recruitment, etc.

Interventions aimed at process improvement for resolving operative criticalities, include the informatization of some activities and review of certain organizational conditions, without altering the structure of the process and / or system that currently supports it.

In particular, these interventions were aimed at increasing the reliability of the calculation procedures of the management system (AS400 - pending the development of SAP system) to avoid manual control activities, as at present.

The priorities of intervention was addressed by top management to the improvement of the manual tasks or mainly through the use of manual IT procedures (78 activities) or organizational interventions (12 activities) (3).

According to Davenport (1993), this project has enabled the Cemat Administation to create the conditions for maximizing the benefits arising from the introduction of an ERP system. The

analytical mapping of processes and activities has allowed us to understand and discuss the successes of BPR and the possible evolutionary paths of the Cemat business.

The increase of automation and the saving of FTE, for example, involves the need to *qualify deeply* permanent staff in the company, in order to *improve processes in their totality*: both the standard ones (characterized by replacing men with machines) and both those where the HR component is crucial in the formation of a shared vision (Senge 1990) and critical to the business processes' success.

6. How to improve agility?

Our findings in this case study are a signal of how BPR can be considered a technique that can effectively support business change. As for all technical and managerial tools, even BPR cannot represent by itself a panacea for removing the obstacles that naturally occur in any situation of incremental or radical change. The latest is a necessary condition to compete and not just a simple distinguishing factor. Successful companies are those that are able to change and continuously innovate competences rooted in the company, at all levels of the organization, promoting a corporate culture focused on performance and value creation.

From evidence, undertaking a second phase would be significant for Cemat in order to implement our findings and applications of BPR with the advantages of a strategy of outsourcing.

As we see in this case study, staff management plays an important role in BPR, but it would become more stressing in the future. In our opinion, it would be important, for Cemat, to increase its *attention on human resource* (HR) *management* relation to business processes since it takes a combination of management leadership and employee participation and is also an enabler of social and organizational transformation, making it an integral part of an organization's strategy (Parker 1996). Its aim would be to improve training, attendance management, remuneration, recruitment and benefits to staff.

7. Towards outsourcing: from a make or buy decision to a strategic choice

The term outsourcing was used in 1982 (Van Mieghem 1999) to identify the decision by which one or more processes or activities necessary to obtain a product or a component, even an organizational function – originally undertaken in-house by a certain organization – are regularly entrusted by a firm – the outsourcee – to an outside organization, the outsourcer (supplier or provider), who carries out the activity and sells the results to the former.

The first feature of outsourcing, from the production point of view, is that the outsourcee "takes outside" the firm processes and functions already carried out internally and does not only acquire – "brings inside" the firm – factors or services that were until then produced by outside firms.

This feature is not always clearly explicit. For example, the Dictionary of Business (Collins 2005) defines outsourcing as the "purchase of components, finished products or services from outside suppliers rather than their production within the firm". "In some cases this is done because turning to outside suppliers lowers costs, because the outside suppliers have greater technical competencies, or because they offer a greater variety of products.".

The outsourcing process can occur physically outside the premises of the outsourcing organization or inside the organization.

In the first case, *outsourcing* can be viewed as service *contracting-out*: that is, as the outsourcing of services necessary for production (Domberger 1998). In the latter case it is service *contracting-in* – or *co-sourcing*: that is, the carrying out within the organization of processes with capital and know-how resources owned by others. We will focus our attention on this second aspect of outsourcing.

Outsourcing is a flexible phenomenon; in theory everything can be outsourced, with the exclusion only of business or managerial activity.
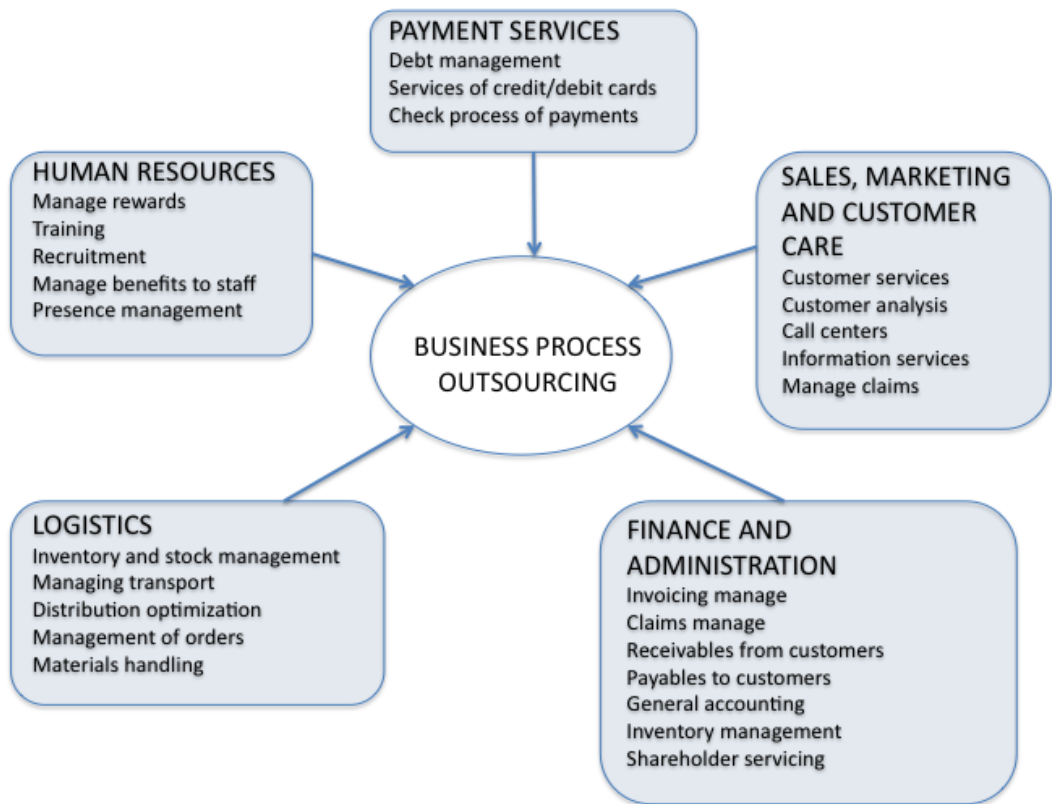
Fig. no 1 – The most typical processes outsourced. Our adaptation from Gartner (2004)

"Make or buy" specifically indicates the decision-making process to decide whether or not it is more convenient to produce in-house or to externally acquire activities "up the line" or down the line", even professional activities (Besanko et al. 2005; Espino-Rodriguez et al. 2008).

As Williamson (1989), Chalos (1995), and Roodhooft and Warlop (1999) indicate, from a theoretical point of view the propensity of firms to adopt outsourcing is a function of the difference between the price of the external producer (the marginal cost of the external service market) and the marginal cost of in-house production.

Along with this general motivation, other drivers spur on the decision to adopt outsourcing, with various studies attempting to indicate the most important.

Based on a survey of over 1,200 firms, Deavers (1997) identified five principal factors:

1. the need to increase the firm's focus on the core competencies;
2. guaranteeing access to world-class capacities and competencies;
3. accelerating the benefits from re-engineering (i.e. in the case study discussed), going so far as to rewrite the firm's processes from scratch;
4. sharing the risks between the outsourcee and the outsourcer;
5. the possibility of freeing up the firm's resources to focus attention on the management of the core competencies

According to Sharpe (1997), outsourcing arises to reduce the costs the firm faces in order to respond to economic change, and thus it is a means for creating flexibility; Abraham and Taylor (1996), on the other hand, believe firms adopt outsourcing for manufacturing and service transformations in order to give stability to production cycles and to benefit from the specialization of other firms.

Heshmati (2003) instead notes that the outsourcing decision is complex due to sunk costs, stating unequivocally: "The choice to continue production in-house or to undertake it externally through outsourcing involves considerations other than just the difference between production cost and supply cost", going on to claim that outsourcing should not be considered as simply a make-or-buy decision, based solely on a comparison of explicit costs, but also refer to previous investments that give rise to "sunk costs" for the firm. Without their total amortization, sunk costs can have a negative effect on the decision to adopt outsourcing for production.

In recent years outsourcing has moved from being a pure make or buy tactical decision to becoming part of a strategy for changing the way business is done.

In fact, by tradition firms originally considered outsourcing as a solution to short-term problems, such as a sudden or unexpected increase in demand, an interruption in plant or equipment functioning, or the launch of a new product.

Today firms consider outsourcing as a *network of stable aggreements* with specialized suppliers as part of a long-term *strategic perspective*.

According to Quinn and Hilmer (1994), from a *strategic perspective* outsourcing allows management to optimize the firm's resources in four principal ways:

1. by maximizing the output from internal resources by concentrating investment and effort on what the firm "does best;

2. by developing the core competencies by setting up barriers against present or future competitors who might try to enter the firm's areas of interest, thereby protecting its competitive advantages

3. by utilizing the investments of outside firms, as well as their innovations, skills and specializations, which could be maintained in-house only through continuous investments and innovation

4. by reducing the risks from rapidly changing markets and fast-evolving technology; an outsourcing strategy shifts the risks involving technological updating and R&D costs outside the firm, thereby shortening the production cycles and making responses to customer needs more flexible and rapid

It has never been easy to develop long-lasting competitive advantages, but in a competitive and technological environment that is vaster and more dynamic than in the past, firms, like Cemat, must deal with complexity – from globalization, new technologies, and the emergence of new competitors – by turning to new strategies.

8. Outsourcing decision in Cemat: competitive strategy model

Kedia et al. (2005) refer to Porter's (1985) generic strategies concept to assess the advantages and risks of outsourcing production, affirming that outsourcing can allow the firm to combine and obtain advantages from all three areas of generic strategies: cost leadership, product differentiation and focus.

The competitive advantages arise from cost leadership "*when the company manages to be the producer with the lowest costs in the industry*" (Porter 1985: 149). With the generic strategy of differentiation, the company builds a competitive advantage when it "*tries to be unique in the fields that the buyer appreciates*" (Porter 1985: 129).

Considering Cemat, the outsourcing of HR functions shown in Figure 1, according to literature, would allow management to concentrate resources and attention on the "core competencies" of the company, allocating cost savings obtained from outsourcing to increase the value added of the product by investing, for example, in Research and Development, with the opportunity to obtain benefits from new services or new productive processes.

Our analysis, moving from the the need of Cemat's future business improvement, integrates what we said above about outsourcing and BPR and emrbraces the concept of value chain, introduced by Porter. He says that value chain "disaggregates a company in its strategic relevant activities in

order to interpret costs behavior and current and potential sources of differentiation" (Porter 1985: 150). It includes five primary activities and four support activities (see figure 2).
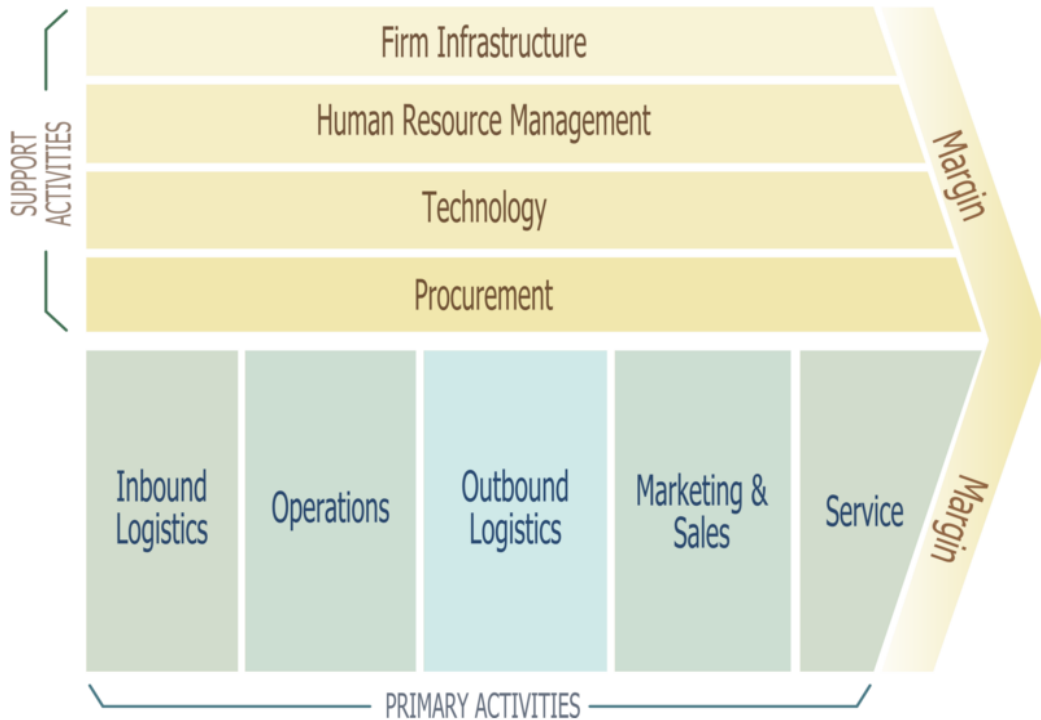
Fig. no 2 – Value Chain – our elaboration from Porter (1985).

The value chain - precisely as it represents the links between the various activities and expresses the potential synergies between products and services - allows to express the value of a given product or service in terms of assets needed to produce it, just distinguishing between primary activities and support activities.

It is essential, for Cemat, identifying the nature of competitive advantages and to identify strategic actions to protect and strengthen them.

Kedia et al. (2005) suggest to analyze each primary and support activities in sub-activities and groped to identify: 1) what contribution each sub-activity leads to the competitive advantages of the company, 2) what contribution each sub-activity leads to the "core competencies". 3) what sub-tasks should be outsourced in order to maintain and / or achieve a competitive advantage.

To implement this analysis, the sub-activities identified in the value chain can be placed in a matrix "competencies / competitive advantages" (Kedia et al. 2005) - which could take the form shown in Figure 3 - to examine how each contributes to the core competencies and competitive advantages of the company.

We suffest that the combined examination of the value chain and the matrix provides the elements to decide which sub-activities or activities give in outsourcing.

The ones that are in the low-down position are potential candidates for outsourcing because their contribution both to the "core competencies" both to the competitive advantages appears modest. These activities consume unnecessary resources without giving the company a competitive advantage. These considerations are opposed to the sub-activities which, high-high ranking in the matrix, are the main sources of competitive advantages, they should therefore be kept inside, protected and enhanced.

The central position is represented by sub-activities that do not contribute significantly either to the "core competencies" or to the competitive advantages of the company, for them there is a choice between development, through investment, so as to become strategic resources in the long term, and placed in the high-high position of the matrix, or being considered as candidates for outsourcing.
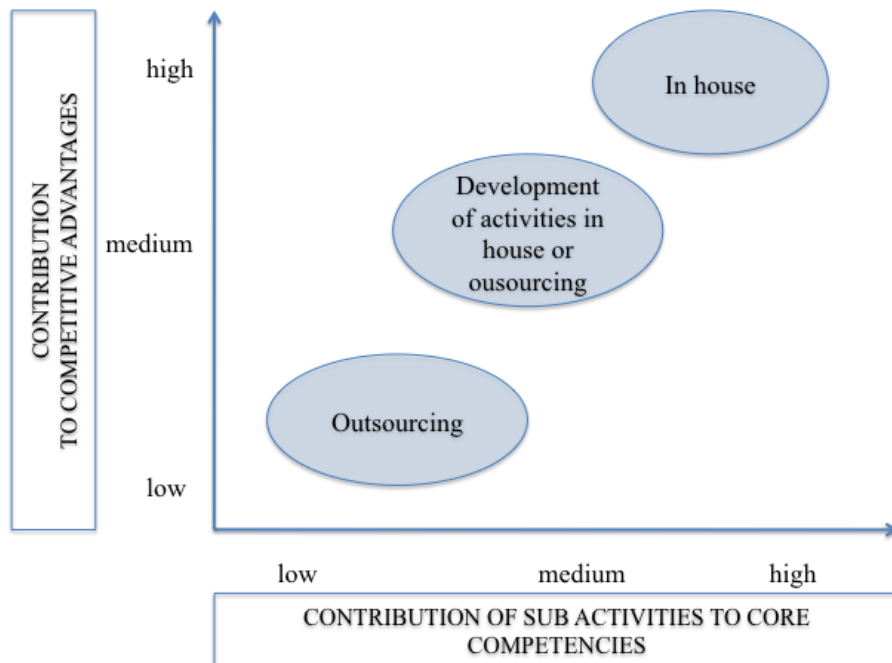
Fig. no 3 – Matrix "competencies / competitive advantages". Our elaboration from Kedia et al. (2005).

The use of technical analysis of the value chain and the construction of the matrix has been crucial in defining which activities are to be recommended to outsource, this analysis must necessarily be accompanied by the activity of management who must locate, even with other accurate analysis, what are the sources of "core competencies", the sources of competitive advantages, and the links between these sources.

We would point out, for completeness, that the changes in the economic and competitive environment require, often, reviews of decisions regarding outsourcing. Outsourcing is not a decision "once for every" (one-off).

These tools identify current positions of a firm, while each competitive strategy must be the result of a projection of future needs and also consider the probable response of competitors.

8. Conclusion

In many cases, outsourcing offers companies a low cost, low overhead and quickly implemented solution that helps rid them of paperwork, as well as mundane mailroom and data-entry functions.

> BPR is a typical "insourced" (in-house) process, often stretching corporate resources and requiring significant financial investments and intellectual capital.
>
> Cemat managers has expressed the need to improve internal control and productivity but, in a first phase (approximately 2008-2011), cannot expend the needed resources in HR improvement, ongoing formation and HR management.

> For this company, in a second, suggested, phase (approximately 2012-2015) a better solution could be to *cosource* business functions involving HR management in order to reduce costs and to benefit of all the outsourcing advantages.

Remembering that cosourcing is a business practice where a service is performed by staff from inside an organization and also by an external service provider, we believe that Business Process Cosourcing (BPC) is an innovative approach, offering organizations, such as Cemat, a new and highly effective "total" business solution plan to improve productivity, efficiencies and costs.

The HR team's cosourcing will be designed to assist Cemat in putting together a total solution that will behave similarly to an in-house services center. And, much like an outsourcer, a cosourcer will handle all, or many, of the front-end processes such as helping selecting staff, people knowledge improvement, while operating under a service level agreement that defines quality and turnaround time.

According to Porter's Value Chain (1985 – see fig. 2) and still discussed above, Cemat should think to cosource the support activity specified in the HR management, and specifically, management remuneration, recruitment and training (see figure 1).

In this way it would be possible to obtain the production of data stream relevant to the business starting from field (i.e. stations) and, therefore, a real-time connection with the processes of business (sale, production, etc..).

Cemat and its management is increasingly being pushed to invent new ways to increase performance, productivity and profitability in today's highly competitive business environment. In a changing world, executives continually search for solutions that will reduce the expenses while expanding market share.

We have deeply seen the looking to an in-house solution or contracting with an outside supplier, is not an easy choice. A company must take decisions about company policies, resource availability, working capital and time.

> The suggestion of cosourcing, for the future of Cemat, has the main objective to combine all the key elements and benefits of outsourcing, discussed above, with the additional advantage of the service provider becoming an integral part of the client's value-added relationship with internal and external customers and stakeholders.
>
> Utilizing the latest technologies, a cosourcing provider system, in Cemat, can offer a better channel of communication which involves all the areas of the organization management.
>
> All the benefits of outsourcing are realized, but in addition, functionality is increased to an even higher level, since cosourcing ends and the internal process begin.
>
> The cosourcing paradigm we propose allows Cemat to lower transaction processing costs, increase control and reporting having the advantage of a minimal or no capital expense; this approach could redeploy key personnel to more strategic roles.

9. Notes

 (1) The choice depends on the magnitude of the needed change, the feasibility of it, and the resources required to accomplish it (Davenport, 1993).

 (2) It's necessary to point out that outsourcing could be a product of reengineering, even if it do not define reengineering (Lowenthal 1994).

 (3) For manual activity we mean an activity carried out without (or reduced) use of information technologies and an activity whose effectiveness depends on checks carried out by the operator and not by technology.

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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
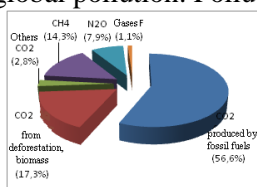
Source: Hill K. Marquez, *Understanding Environmental Pollution*, Third Edition, Published in the United States of America by Cambridge University Press, New York, 2010, pg 204

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
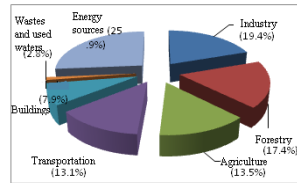
Source: Hill K. Marquez, *Understanding the Environment Pollution, Third Edition*, Published in the United States of America by Cambridge University Press, New York, 2010, pg 205

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
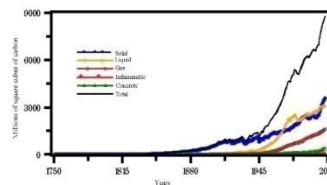
Source: *Carbon Dioxide Information Analyses Center*, available online at: http://cdiac.ornl.gov/trends/emis/glo.html accessed on 29.10.2011

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 (CO_2) 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

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 recurred 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 on 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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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 polluters 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
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
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 perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso	Thousands of perso

	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	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															
	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand
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 between180 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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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%.
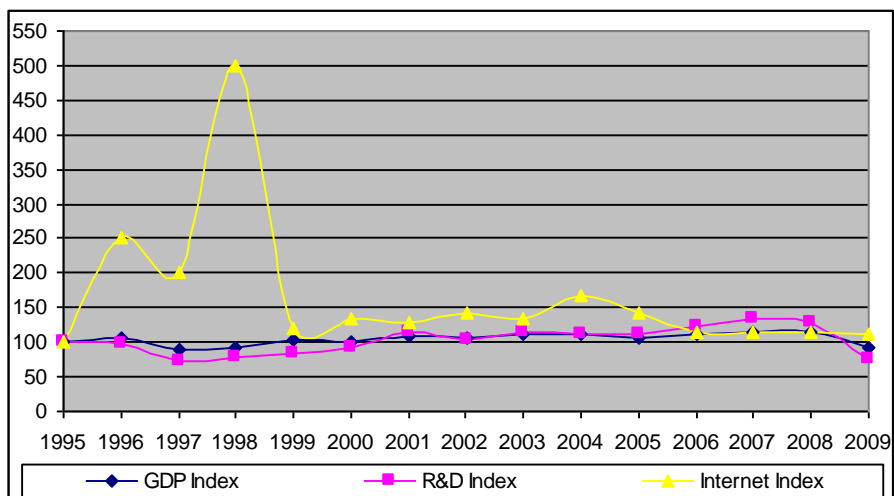
Source: according to Table 2
Fig. nr. 1. The dynamics of the real GDP and its influence factors

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:

GDP = α + β1 * R&D Expenses + β * Internet Users + ε (1)

	A	B	C	D	E	F	G	H	I
1	SUMMARY OUTPUT								
2									
3	Regression Statistics								
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		df	SS	MS	F	nificance F			
12	Regressic	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		Coefficient	andard Er	t Stat	P-value	ower 95%	pper 95%	ower 95.0%	pper 95.0%
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 β1 is 0.56 and of β2 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 β1 is 9.29 and of β2 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:

GDP = 3638.91 + 0.564*R&D Expenses + 567,382*Internet Users + ε (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 tehnology

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

1. Inclusive e-government
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.
2. Efficiency and effectiveness
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.
3. High-impact key services for citizens and businesses
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.
4. Key enablers
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.
5. E-participation
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 Commision, 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 documents10.2%, 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 foe 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 perfectioning 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 anf Pociovalisteanu 2011: 46).

Table no. 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
Souh - 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

As Table no. 1 and Fig. No. 1 show, the number of female graduates:

- continuosly 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 no. 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
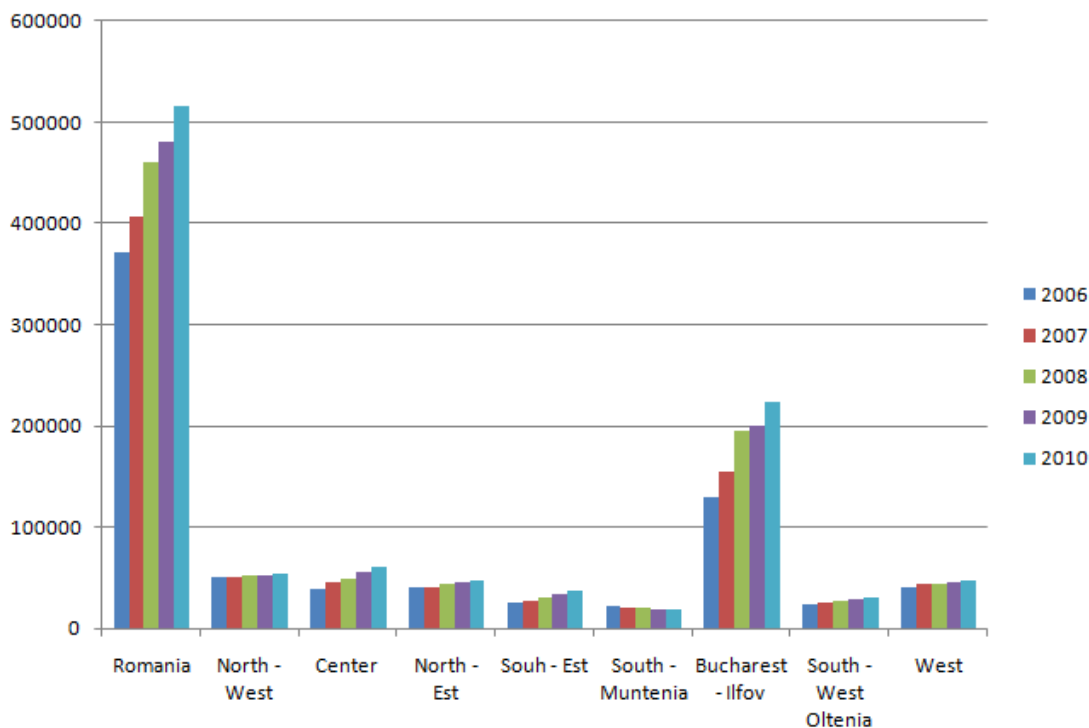
Fig. no. 2 The Number of Male Graduates in Romania and by the Romanian Development Regions in the 2006-2010 Period
Source: Eurostat

As revealed by Table no. 2 and Fig. No. 2, the number of male graduates:

- continuosly 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 no. 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
Souh - 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
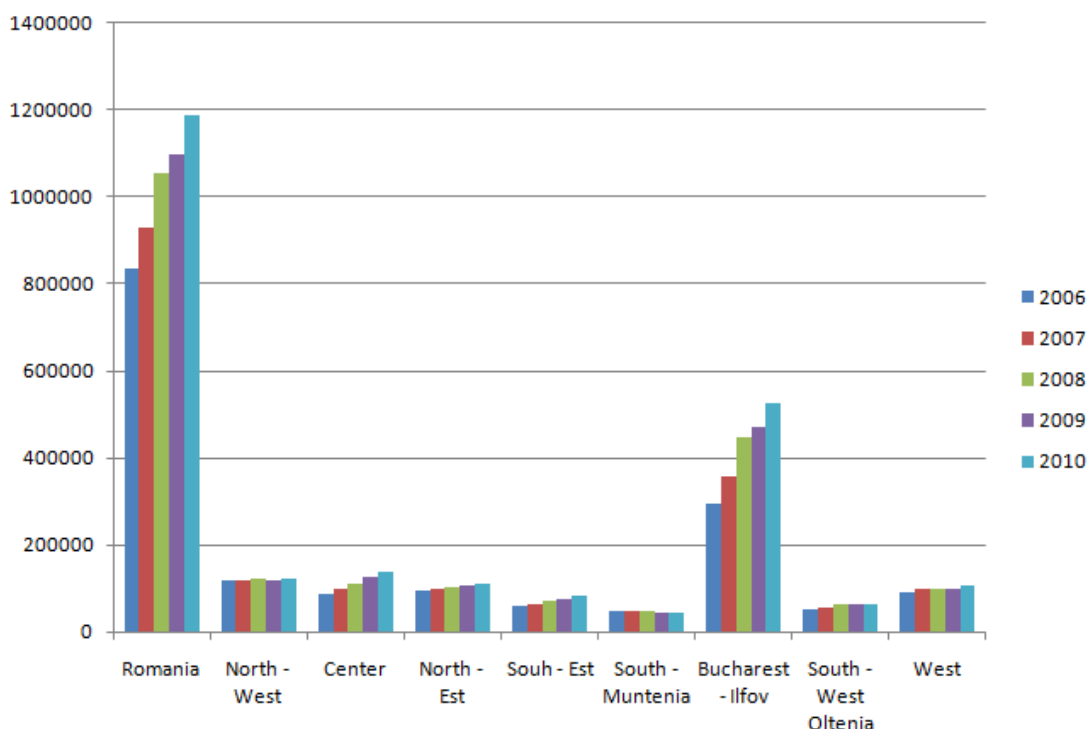
Fig. No. 3 The Total Number of Graduates in Romania and by the Romanian Development Regions in the 2006-2010 Period in Romania

Source: Eurostat

As Table no. 3 and Fig. No. 3 highlight, the total number of graduates:

- continuosly 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, continuosly 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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CRITERIA AND FACTORS USED BY MANAGERS IMPLEMENTING THE KNOWLEDGE-BASED MANAGEMENT IN TOURISM SMES

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Knowledge-based economy requires both in Romania and internationally, the presence of intelligent organizations, with advanced management capabilities of their collective skills, as sources of performance. As a result, worldwide, more than ever, knowledge is accepted as one of the main sources of competitive advantage.
Small and medium sized enterprises (SMEs) are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, employment opportunity provider for most of population, major contributor to the national budget, and engine to improve the living standard of the population.
SMEs represent 99% from all enterprises, drawing up the main human resource agglomeration. In this context, knowledge-based management approaches are inevitable, arising from systemic complexity that goes beyond the rigid hierarchies and traditional practices and entails the emergence of non-hierarchical organizational structures.

Keywords: knowledge-based management, small and medium enterprises, managers, tourism

The article's JEL code: M3, M31, L81

Introduction

Research shows that learning activities, carried out individually, are not transferred, with ease, at the organizational level (Garratt B. 1999, pp.202-207). On the other hand, new technologies available inside the organizations allow their employees to work, think and act globally (Massey C., Walker R. 1999, pp.38-47), but also to innovate, at a scale and pace out of reach until now (Carroll J.S. 2008, p.57). Today, worldwide, all great managers recognize that in order to collaborate and to lead effectively, we need a completely different type of management (Bar-On R., Elias M.J. 2007, p.64), different from the one based on the authority that comes from the hierarchical scheme of the company (Torbert W. 1994, pp.57-70).

To develop tools, techniques and systems capable of allowing organizations to overcome these limits and to fully benefit from a performing management (Reuchlin M. 1989, p.19-32), adapted to the global knowledge economy era (Pemberton J., Stonehouse G. 2000, pp.184-193), all these organizations need complex research, adapted to the cultural and economic reality (Osborn A.-F. 1999, pp. 113-129), research integrated with a solid theoretical basis (Simonin B. 1997, pp.1150-1174).

As a result, worldwide, more than ever, knowledge is accepted as one of the main sources of competitive advantage (Harvey, Denton J. 1999, p.897-918). In this context, the ICT spectacular development influenced decisively the capacity of organizations (Daft R., Weick K. 1994, pp.284-295) - regardless of their size - to acquire, store, use and disseminate knowledge (Palmer J. 1999, pp.34-56).

Like the knowledge-based economy, the knowledge-based management is a relatively recent concept in the vocabulary and mental models of practitioners (Swieringa J., Wierdsma A.F.M. 1992, p.45-68); it appeared in response to the many challenges of the organizational change (Pedler M. 1999, pp.537-540).

Since the 90s, the learning organization has become synonymous with performance and sustainable success (Vygotski L. S. 1998, pp.41-43), being a model for an organization continuously concerned about knowledge-based management and adapting to the environmental changes and shaping its internal structure depending on this external environment (Hedberg B. 1999, p.3-27).

The Romanian organizational environment has not taken exception from the global trend of orientation towards knowledge but due to the lack of strategic options (Addicott R., Mcgivern G., Ferlie E. 2006, p.87-94), the tendency manifested unsystematically (Elkjaer B. 2001, pp. 437-452), and especially in the informal plan.

To ensure feasibility of organizational learning projects in the Romanian context requires joint efforts of the information technology (Landau S., Everitt B.S. 2004, pp.234-256) together with an adequate managerial and educational support (Ferry G. 2005, p.59-73). In this context, at national level, the following are very important:

(1) Form and train the human resources with skills in the knowledge-based management and related fields (Uit Beijerse R.-P. 2000, pp.94-109);

(2) Official recognition of new professions and occupations related with the knowledge-based management and organizations (Dibella A., Nevis E. 1997, pp.178-257).

Knowledge-based management requires both in Romania and internationally, the presence of intelligent organizations, with advanced management capabilities of their collective skills, as sources of performance (Chivu et al. 2009, p.36-78).

SMEs represent the most numerous and important category of enterprises, with multiple economic, technical and social functions (Popa et al.2009). SMEs are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, major contributor to the national budget, and engine to improve the living standard of the population. Representing 99% from all enterprises, SMEs are drawing up the main human resources agglomeration. Furthermore, SMEs generate the most of Gross Domestic Product (GDP) in every country - usually 55%-95%, provide employment for most of population (Popescu et al. 2010, pp.46-50).

In the context of The European Union forming a group of countries with the most intense concerns and performance in supporting and encouraging SMEs (Bancroft N.H. 1996, pp.41-57), knowledge-based management involves an uniformity of managerial practices and organizational behaviours (Smith-Easterby M., Lyles M. A. 2006, pp.145-153).

Investigating the correlation between managers approach to motivating the human resources and organizational activity performances, represents the start-up of a research that could lead us to results to be developed afterwards (Moilanen R. 2005, pp.71-89). For instance, the influence of superior-trained and well-motivated human resources on the SMEs outcomes (Leleu P. 1995, pp.178-235), can be extended to the influence upon the economy service sector.

Main objective of the paper:

The present paper aims to analyze, as a consequence of managers opinion regarding the knowledge-based management concerning the compatibility between positively motivated employees and superior performances of the SMEs they belong to.

Research Methodology

The methodology used is a logical consequence of the research questions applied within the survey, representing a first step in choosing the qualitative/quantitative approach. For our research, the key question is: In what measure managers from the SMEs that activate in the field

of tourism consider that positively motivated employees determine highly organizational performances (as a result of knowledge-based management practices)?

We have chosen the qualitative path as it refers to managers opinion upon employees motivation-employees performance connection.

Acknowledging the importance of knowledge-based management and SMEs performances, we realized a study on a sample of 117 respondents that belong to SMEs from tourism domain, both in Romania and Spain: Accommodation, Restaurants, Passenger Transports, Travel Agencies and Cultural Tourism Organizations, from different regions of the two countries taken into consideration, measuring 19 variables. The results are based on a study performed in September and October 2010 in different regions of two European Union's Country members (Romania and Spain) and confirm the research hypothesis regarding the knowledge management and its contribution to SMEs performances.

Research design: in fundament the research, we have taken into consideration the numerous answers received from the 117 respondents. Each question was formulated in order to answer, directly or indirectly to the research hypothesis. The questionnaire includes general, easy-to-answer, closed questions, in order to make the tasks easier for the respondent. A second part is reserved to issues regarding the SMEs profitability and economic performances and the third part refers to human resources performances. The main purpose of the research is strongly connected to the answers received from the second and third part of the questionnaire.

The first set of questions (1-6) is indirect ones, related to the purpose of the research. They refer to organization size, tradition and other factors that may influence the basic features of the organization dimension and activity. Their purpose is to fix the analyzed entities into a specific, determinate area of investigation. In this context, we appreciate those basic factors as market experience, number of employees or field of activity, may influence, in different ways, the quality and the work results of the employees.

The second part (questions 7-14) aims to get indirect answers in order to establish human resources work outcomes within the organization (expressed by the productivity evolution).

Third part of the questionnaire (questions 15-20) is directly related to human resources practices (which is the managers opinion about the motivation alternatives) and to material and non-material stimulants and facilities given to employees.

First, the authors obtained the validity of the questionnaire on core values employed in this study. The initial version of the questionnaire was sent as a pilot survey to Spain SMEs in order to ensure the accuracy of questions relative to the core values. After completing the questionnaire, feedback was asked to managers for improving questions precision. Afterwards, a revised version of the survey was sent to Spain and Romanian SMEs.

The data was analyzed using Statistical Packages for Social Scientists (SPSS) 16.0 and yielded multiple results that are presented synthetically in the present paper. Therefore, the most significant results are highlighted, with a focus on the profile characteristics, and the detailed secondary correlations.

Work method: Primary data, through structured questionnaire, were collected from a sample of 117 respondents (response rate of survey: 56,80%), randomly selected from among the SMEs engaged in tourism types of activity. The survey elaborated by the researchers group consisted of 20 items. The research adopted a survey method to collect data on the SMEs general characteristics (field of activity, form of property, market experience, geographical position, legal form of organization), organization performance (turnover and profit evolution, tangible assets contribution, average number of services, organization's turnover structure, first three clients and suppliers importance), human resources performance (employees level of motivation, education, average number of training days, average wage, facilities for employees).

Results obtained

Some of the significant findings of the study tested under the Pearson chi-square assumptions are given below.

The importance given by managers to employees' social activities tends to decrease as the size of the organization becomes larger.

The importance given by managers to Social Processes is not distributed similarly across different Size of the organizations and small size enterprises are more likely to give importance to employees' social activities than bigger ones (Table 1).

The number of employees	Importance given to employees' social activities			
of the organization	Low	Average	High	Total
1-9	14.5%	61.3%	24.2%	100.0%
10-49	26.0%	64.4%	9.6%	100.0%
50-249	66.2%	21.5%	12.3%	100.0%
Total	35.5%	49.5%	15.0%	100.0%

Table 1: Importance given by managers to Social Processes

The use of planning techniques and knowledge-based management approaches in the organization is not correlated with the level of educational background (Business and Social Sciences – Other types of study). This dependent variable proved to be associated with the independent variable Specific Managerial Studies. The chi-square significance test measures the likelihood that the observed association between the independent variable Specific Managerial Studies Undertaken and the dependent variable Use of Planning Techniques is caused by chance and yielded a result of 0.001.

The information is provided in Table 2.

			Use of planning techniques		
			Yes	No	Total
Specific Managerial Studies	yes	Count	28	18	46
		% of Total	23,5%	16,0%	39,5%
	no	Count	28	43	71
		% of Total	22,0%	38,5%	60,5%
	Total	Count	54	63	117
		% of Total	45,5%	54,5%	100,0%

Table 2: Specific Managerial Studies and Use of planning techniques

A similar result was obtained for the dependent variable Use of career plan for employees, which has a chi-square significance test result 0.011 indicates in correlation with the independent variable Specific Managerial Studies. As in the previous case, the use of a career plan in the firm is significantly higher in the case of the entrepreneurs who benefited from some sort of managerial studies and trainings, beside their academic background (Table 3).

			Use of career plan for employees		
			Yes	No	Total
Specific Managerial Studies	yes	Count	12	34	46
		% of Total	10,5%	29,0%	39,5%
	no	Count	9	62	71
		% of Total	7,5%	53,0%	60,5%
	Total	Count	21	96	**117**
		% of Total	18,0%	82,0%	100,0%

Table 3: Specific Managerial Studies and Use of Career Plan

It was tested also the correlation of this dependent variable with the level of Academic Education of the managers and with the Field of the Educational Background, but the results were also not significant, which indicates that the use of knowledge-based management approaches linked to organizational strategy is influenced by another variable which can not be captured by a qualitative research and requires an individualized quantitative approach.

According to these definitions of the concept the main characteristics of *knowledge-based management* and their compatibility with the result of our study are the following:

- Provides continuous knowledge opportunities for its employees in the form of training or other employee development activities. 45% of the interviewed entrepreneurs said they offer some kind of internal or external training to their employees and there is an increasing trend in this direction, sustained by the entrance on the Romanian market of several international consultancy and recruitment organizations.

- Is continuously aware of and interacts with its environment, feature that can be translated into the acknowledgement of the importance to collect data from the environment and the interest for innovative information technologies. Although 56% of the organizations do not collect external data on a regular basis, 95% of the entrepreneurs are aware of the importance of the new communication and information technologies to the development of the firm.

- Links individual performance with organizational performance. In terms of Planning and Strategy, SMEs from Romania are still in an incipient stage. Planning is used to a higher extent in 45.5% of the cases, but a career plan for employees exists in only 18% of the firms and there is a small declared linkage of the human resources recruiting strategy to

organizational objectives. The management of the organization is in these conditions mainly intuitive and does not apply the rules and rigors found in large companies. By their nature, SMEs nurture with their reduced dimensions and small number of employees, the existence of a less rigid business work frame.

- Develops collective as well as individual knowledge approaches. This characteristic is also sustained by the fact that 75% of the entrepreneurs encourage the employee's involvement in other areas than those specified in their job description. A less favourable characteristic revealed by the study is that in SMEs the predominant way of working is still very individualist, the majority of the respondents (45%) neglecting the benefits of team work for the organization.

Conclusions

The international work experience provides the scientists with the opportunity of expanding their know-how and know-who, which in turn could bring important benefits for their organization and country of origin. Such benefits may consists in enhancing research productivity and quality, better connecting the internal research activity to the international scientific circuit and, ultimately, stimulating the national economic development, in general.

Considering the current problems in Romania's knowledge-based management approaches, any action plan directed towards scientists' repatriation may have limited impact. Therefore, in the short term, we recommend to stimulate and facilitate temporary, short-term collaborations between researchers and academic personnel in the country and their peers abroad. This can be done by: creating part-time jobs in universities / research laboratories for scientists residing abroad; organizing international conferences, symposia and workshops in the country concerned; inviting highly skilled migrants (and their foreign colleagues) to collaborate in projects in that country and so on.

In the medium to long term, a more radical approach should be adopted, for a better integration of the national academic and research system in the international scientific circuit. For a maximum efficacy, this approach should have both a financial dimension (adequate investment in research) and a "cultural" dimension (changes in mentalities, attitudes, criteria used for performance assessment, promotions, compensation etc.). Based on the participants' input, this is extremely important for enhancing the research sector and attracting scientists (both national and foreign scientists) towards Romania (and other countries faced with similar challenges).

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Acknowledgements

INFLUENCE OF THE INVESTMENT DECISIONS ON THE RETURN OF THE COMPANY

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We propose in this study, to make an analysis of the influence of the investment decision on the return of the company. The goal of our research is the quantification of the influence of investment activity on profitability. Fulfilling such a goal has forced us to research the existing literature in this field, both in our country and abroad, ascertaining the existence of a unitary meaning of the criteria for investment projects' evaluation.
Of course, the realization of such research was possible only after close consideration of the opinions expressed in the relevant literature on this area.
Our research aims to be a theoretical-applied one. It is based on comparisons we make between the two criteria for assessing investment projects namely: that of net present value (VAN) and internal rate of return (RIR). By creating a suite of phase calculations, based on information from economic and financial documentation of corporate investments, we separated the influence of the policy investment decisions on profitability. We are convinced that the most accurate determination of the influence of policy investment decisions on profitability helps the financial management, facilitating the process of adopting the most appropriate policy decisions that ultimately leads to the objectives formulated by the financial policy.
The result of our research is the quantification of the influence of investment policy decisions of the firm on profitability.

Key words: politics, investment decisions, evaluation criteria, updated net income, internal rate of return, influence.

JEL Code : G 31

1. Introduction

Investment activity always involves risk taking to achieve a certain gain in the future, called the expected gain. The gain is called expected gain for reasons of uncertainty, as we don't know for sure what the result of the investment will be tomorrow, or next year.

With respect to investments in real assets, productive, the gain recorded by these can appear as a gain rate (usually the internal rate of return) and as the absolute value of earnings such as the net present value of cash flows generated by investment project over its period of life.

Given the influence of time factor for the development of investment processes, we could not ignore the update on future value on quantifying the effects and effort of the investments.

Through the conducted research, we tried to answer the question: to what extent do the investments affect the company`s profitability and, ultimately, its fundamental purpose, which is the maximization of its market value.

The research results and the conclusions that we reached show that investments are the major route of modernization of business activities, to strengthen the position on the market in the specific field of activity, to increase investor's confidence in the company's activity.

2. Methods of evaluation of investment projects

Whether we face the situation to determine the rate of earnings or its absolute value for a specific investment to be made, the values we work with can only be expected or estimated, as we face uncertainty about the value of cash flows that the project will generate in the future. If we can

determine a set of states or possible events to occur in the future by attaching probabilities to each of them, estimating the obtaining of certain cash flows, we are in the position to determine the expected gain of an investment. In other words, we can move from a non-quantifiable situation, defined by uncertainty to a quantifiable one, defined by risk.

Reputable economists (Flouzat and Pondoven 2004: 313; Helfert 2006:251; Cistelecan 2002: 319; Binţinţan 2005: 105; Todea 2006: 52), both foreign and national authors argue that, theoretically and practically, the most well founded and robust criterion for the selection of effective investment projects is the one of net present value = VAN, respectively, the added value that new investment projects "promise" to bring to the existing value of the company. Selecting the best investment projects will be made in relation to maximizing the net present value.

The added return that the investment projects with maximum VAN bring in relation to the normal rate of return will help to maximize the enterprise value, the property of investors and therefore, the realization of the major objective of the company. Complementary to net present value, the most efficient investment projects have also internal returns (RIR) greater than the average money market return, chosen as reference.

The evaluation of selecting the most effective investment projects appeals to the following model for calculating the net present value (also known under the name of updated net income VNA (Binţinţan 2005: 105)):

$$VNA = \sum_{h=1}^{n}[V_h - (C_h' + I_h)] \times \frac{1}{(1+a)^h}$$

where: - VNA - updated net income;
          - V_h – income in year "h";
          - C_h - operating expenses (excluding depreciation) in year "h";
       - I_h - investment in year "h";

       - $\frac{1}{(1+a)^h}$ - the update factor.

The condition of efficiency provided by a project in terms of this indicator is to accept all project versions whose VNA> 0, at an appropriate update rate.

Internal Rate of Return (RIR) - is that update rate for which the updated value of revenues equals to the updated value of costs, so the ratio revenue / cost is equal to 1 and the updated net income is zero. RIR calculation is done by successive approximations in the sense that we determine the VNA at an appropriate update rate, considered as minimum rate for which, the VNA must be positive. Then, we determine VNA at an update rate higher than the minimum rate and high enough to obtain an updated negative net income. Finally, the exact calculation of RIR (Binţinţan 2005: 105) is achieved by interpolation, as follows:

$$RIR = R_{min} + (R_{max} - R_{min}) \times \frac{VNA_{(+)}}{VNA_{(+)} + |VNA_{(-)}|}$$

where: - R_{min} - the minimum update rate;
          - R_{max} - maximum update rate;
          - $VNA_{(+)}$ - positive updated net income obtained at the minimum rate;
          - $VNA_{(-)}$ - negative updated net income obtained at the maximum rate.

As the internal rate of return is higher, the project is stronger, more viable and the economic efficiency is higher.

The efficiency requirement of a project, seen in terms of RIR, is that it should be higher than the updated rate required by the efficiency level currently existing in the economy. If there are more project versions with different internal rates of return, we will choose that option which has the highest RIR.

3. Determination of the influence of investment policy decisions on the firm profitability

Given the reasons above and taking into account the fact that following the economic and financial analysis of investment projects, the company will retain in its portfolio only those elements that meet the used efficiency criteria, we intend to show how investment activity of SC Alfa SA has influenced its overall profitability.

A special place in the company's concerns is occupied by the development and implementation of a rigorous and structured investment program. Through the investments included in this program the company has tried to answer the most pressing and current needs of production and marketing of their domestic and export products. Throughout the period under review, in the investment program, there can be performed a number of shaped upgrading works to buildings with directly productive and administrative spaces. A special place is occupied by the purchases of machinery and technological equipment of high technical level, aimed at the upgrading of the production flow, at raising the quality of products, at the absorption in manufacturing of new products and upgrading existing products.

Such an investment program of the company had as purpose the increase of the physical volume of production and of the quality level of products in terms of relative stability in sales prices (even if in the analyzed period the cost of utilities increased).

Our research intends to highlight how this program of investment influenced the increase of the overall economic efficiency of the firm and in a direct manner, the positive influence on financial profitability.

For this purpose, we used the model of computation based on the VNA and RIR on which we made some previous considerations.

To determine the internal rate of return on investments made by SC Alfa SA, we used the information taken from the technical-economic documentation of investment projects, carried out within the analyzed period.

After we watched on each investment project the net present values and internal rates of return, sizes calculated with the occasion of the decision to implement those projects, we proceeded to the calculation of average size of VAN and RIR for all the investments included in the program for each year of analysis of activity.

We synthesized (Table. 1) the information on the ongoing of the investment process during the review period:

Table no. 1

Summary of information on accomplished investments

No.	Indicators	Symbol / Method of calculation	UM	The period of analysis				
				2007	2008	2009	2010	2011 preview
1.	Total Investments	It	Thousand lei	9.391	14.447	8.367	1.616	2.778
2.	Total expenditure	Cht	Thousand lei	67.064	88.969	80.955	92.046	101.251
3.	Net profit	Pn	Thousand lei	8.094	8.058	5.849	5.170	5.816
4.	**General Return Rate**	**Rrg = Pn/Cht**	**%**	**12,07**	**9,06**	**7,23**	**5,62**	**5,74**
5.	**Internal rate of return on investment**		**%**	**32,51**	**35,83**	**19,83**	**20,69**	**23,16**

Source: own calculations made, based on technical-economic documentation

We included in the above table the information on calculating the rate of overall profitability for possible future comparisons between total expenditure and investment expenditure, which have the same economic content. We note that in the company's total costs there are included the investment spending each year of the analysis period. Consequently, in the total income, there are included the incomes generated by the operation of realized investment.

Separating the two figures of sizes, and attaching them the appropriate returns, we obtain the following data (table no. 2):

Table no. 2

Information derived from the decomposition of indicators

No.	Indicators	Symbol / Method of calculation	UM	The period of analysis				
				2007	2008	2009	2010	2011 preview
1.	Total expenses exclusively the investment expenses	Ct'	thousand lei	57.673	74.522	72.588	81.195	99.063
2.	Total revenue exclusively investment generated	Vt'	thousand lei	-	81.452	78.055	85.636	105.836
3.	Gross profit	Pb'	thousand lei	-	6.930	5.467	4.441	6.773
4.	Taxes on profit	Chi'	thousand lei	-	1.122	1.155	1.035	1.578
5.	Net profit	Pn'	thousand lei	-	5.808	4.312	3.406	5.195
6.	**General Return Rate (exclusively investments)**	**Rrg' = Pn'/Cht'**	**%**	**-**	**7,79**	**5,94**	**4,30**	**5,24**
7.	Operating expenses associated with investments placed in service	Cexpl.i	thousand lei	-	13.241	8.000	11.235	2410
8.	Revenues generated from investments placed in service	Vi	thousand lei	-	17.373	10.315	13.152	3000
9.	Gross profit from investments	Pbi	thousand lei	-	4.132	2.315	1.917	590
10.	Taxes on profit for investments	Chiinv.	thousand lei	-	550	430	408	101
11.	Net profit of investments	Pni = Pbi – Chiinv	thousand lei	-	3.582	1.885	3.509	489
12.	**Return rate on investment activity**	**Rri = Pni/Cexpl.i**	**%**	**-**	**27,05**	**23,56**	**31,23**	**20,29**

Source: own calculations based on information from economic and technical documentation

Analyzing the data in the table above we can conclude that without achieving the ambitious investment program to which we referred earlier, the company had achieved a much lower return. The fact that the performance indicators calculated by us on the basis of technical and economic documentation of investment projects have been implemented in practice, almost to the pre-calculated level, have led to increasing the overall efficiency of the company and have generated returns in years when, without the investment, the return would be lower.

Comparing the return on investment activity (row 12 in Table no. 2) with the internal rate of return on investment (row 5 in Table no. 1), we see a consistent size difference in favor of the

latter. This is explained by the fact that while the overall return on the investment activity is calculated annually, by taking into account the operating expenses generated by investment, the internal rate of return is calculated once in the implementation year of investment projects and it considers the entire economic life time of new capacity into operation. In the size of the internal rate of return on investment there can be felt the influence of the fact that during the years of economic life, the functioning capacities touching in a relatively short time the designed techno-economic parameters, the effects arising from the investment are greater than the effort involved in the productive exploitation of a completed investment.

The pieces of information taken from Table no. 2 strengthen our conviction that aside from the beneficial effect on profitability, induced by the accomplishment of investments, the quantitative, qualitative and other factors influenced their action on the evolution of company`s profitability. Sometimes, the action of these factors is so intense that it can diminish the positive effects of investment on company`s profitability.

In order to try to quantify the positive influence of investment on firm`s profitability, we proposed the following data analysis (Table no. 3):

Table no. 3

Evolution of return expressed in coefficient

No.	Indicators	Symbol / Method of calculation	UM	The period of analysis				
				2007	2008	2009	2010	2011 preview
1.	Return rate of investment activity	Rri = Pni/Cexpl.i	%	-	27,05	23,56	31,23	20,29
2.	General Return Rate	**Rrg = Pn/Cht**	%	12,07	9,06	7,23	5,62	5,74
3.	General Return Rate (exclusively investments)	**Rrg' = Pn'/Cht'**	%	-	7,79	5,94	4,30	5,24
4.	Coefficient of evolution of overall profitability rate	**KRrc**	nr.	-	0,75	0,80	0,78	1,02
5.	Coefficient of overall return rate (exclusively investments)	**KRrc'**	nr.	-	-	0,76	0,72	1,22

Source: own calculations based on data from previous tables
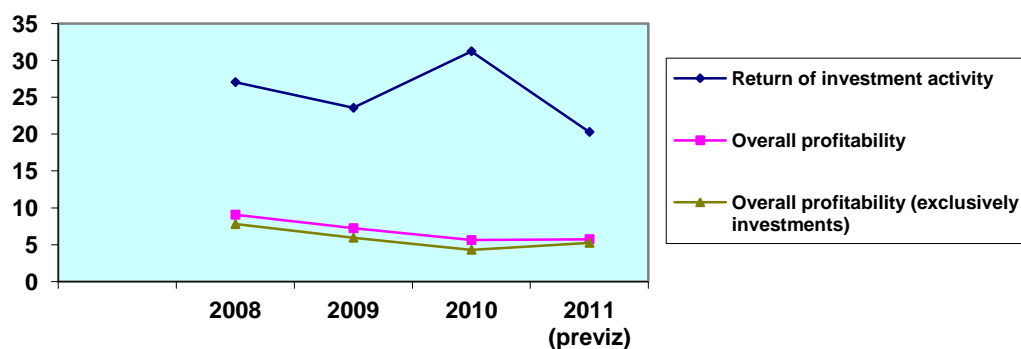
Chart no. 1. Evolution of overall profitability, of overall profitability rate (exclusively investment-related) and the profitability in investment activity

Analyzing the data presented in Table no. 3 and following the Chart no.1 of the evolution of indicators throughout the analyzed period, we can highlight two phenomena, namely:

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- the high rate of return on investment activity (row 1 of table no. 3.) can be argued through the fact that the company agreed to achieve and to fund only the projects that have gone through the "mesh" of financial analysis;
- by comparing the rate of the overall profitability of business activity, excluding the effort and the related effect of investments (row 3 of table no. 3) with the overall profitability rate (row 2 of table no. 3), which includes the coordinates of the investment activity (effect and effort), we find a higher level of the latter. By considering the differences between the two levels of profitability in each of the examined years, we accredit on the positive impact of the performance of the company's investment program.

4. Conclusions

As we previously stated, on the overall profitability of the firm (and hence on the financial return) aside from the investment program, there are other incidental factors, which may exercise a positive influence, such as: fluctuation of exchange rates, fluctuation of interest rate, fluctuations of rates of stocks and bonds on the stock exchange market etc., whose direct influence on the financial profitability of the company is very difficult to quantify through econometric models. Therefore, as required by the economic and financial analysis methodology, which provides the positive influence on the interaction of factors on quality factor, we also affirm that this part of the positive influence can be attributed to the company's investment program implementation.

The positive influence of investment programs conducted by the firm is also due to the fact that the decision to invest was substantiated thorough market studies and based on the consumer trend in relation to the products of the company.

We can draw the same conclusions if we analyze the evolution of positive cash flows emanating from the investing activity. It is argued once again that investments are the main way of boosting the activity of firms and to improve all indicators which reflect the efficiency of the company.

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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, Adochiţei & 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	1 3,48
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:
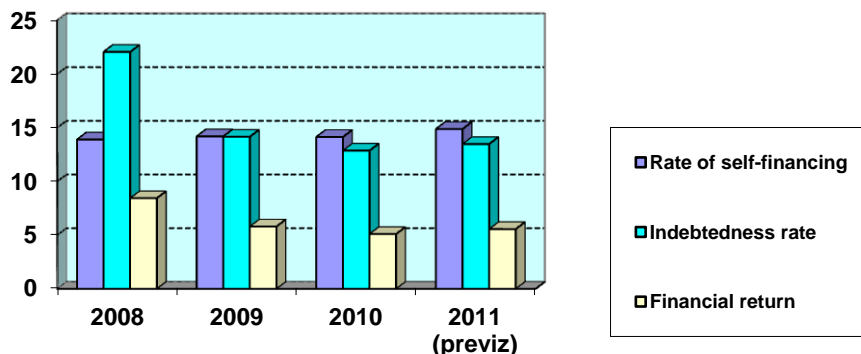
Chart no. 1. The evolution of self-financing, debt and financial return

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

No.		UM	2008	2009	2010	2011
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: - for fixed assets - for ongoing assets	thousand lei thousand lei thousand lei	46.955 35.319 11.636	35.238 26.505 8.733	31.790 22.074 9.716	38.712 26.654 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: -for fixed assets -for ongoing assets	thousand lei thousand lei thousand lei	83.620 62.898 20.722	89.058 66.987 22.071	86.908 59.652 27.256	97.791 67.331 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	Cperm = Cp + 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 needs)	thousand lei	NFR = Cperm - Ai	9.692	18.568	21.698	24.953
6.	Resources of coverage, from which: - own (working capital fond) - DTS	thousand lei thousand lei thousand lei	- FRP = NFR - DTS 	9.692 -12.974 22.666	18.568 6.332 12.236	21.698 6.424 15.274	24.953 7.388 17.565

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; Matiş 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.
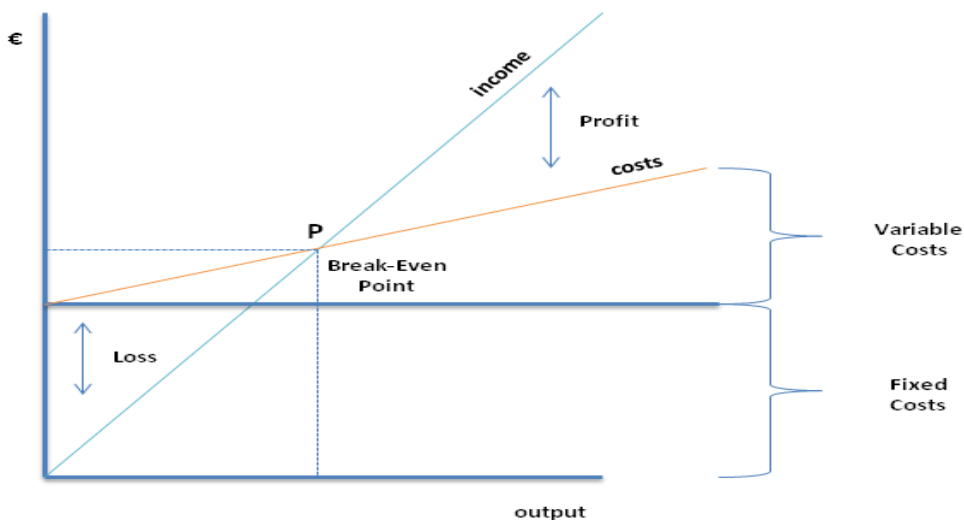
The *break-even* point indicates the covering of the costs incurred at the beginning of the investment and, consequently, the initial point from which the investment begins to generate profit.

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 financers 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_i 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

Return on Investment

ROI: $\dfrac{\text{Net Income}}{\text{Invested Capital}}$

Return on Assets

ROA: $\dfrac{\text{Net Income}}{\text{Average of Total Assets}}$

Return Index

Return on Sales

ROS: $\dfrac{\text{Net Income}}{\text{Sales}}$

Earning Before Interests and Taxes

EBIT:

Revenue
−
Operating Expenses
+
Non Operating Income

Return on Equity

ROE: $\dfrac{\text{Net Profit}}{\text{Average Stockholders' Equity}}$
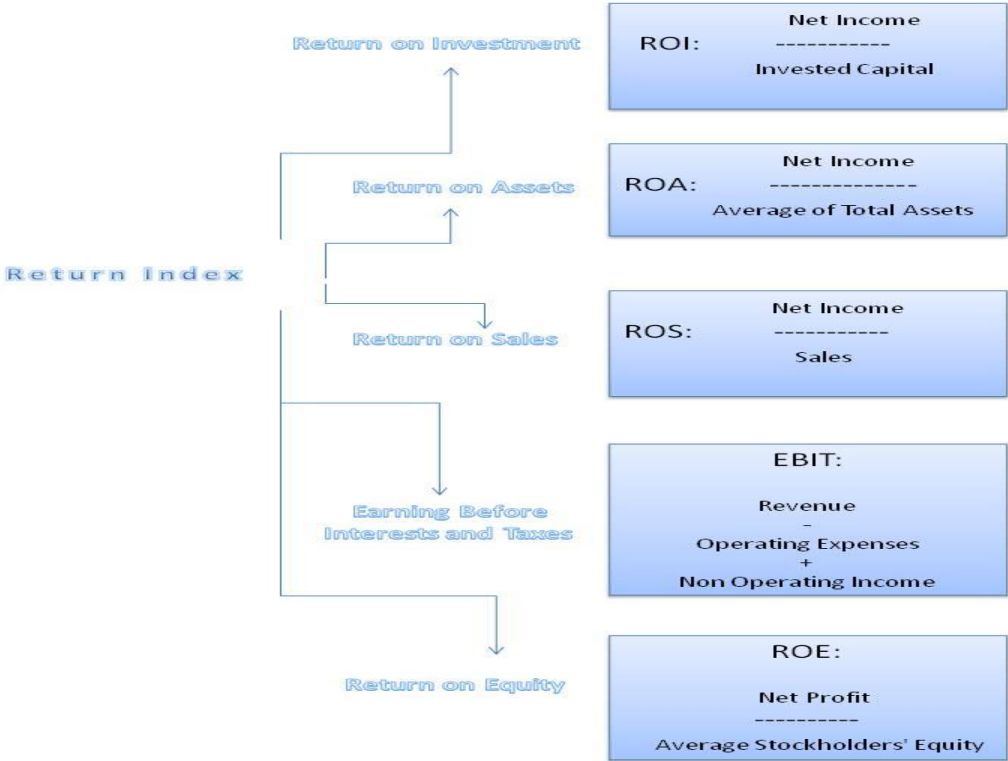
We can summarize the indicators represented schematically in the table above:

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 ration 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.
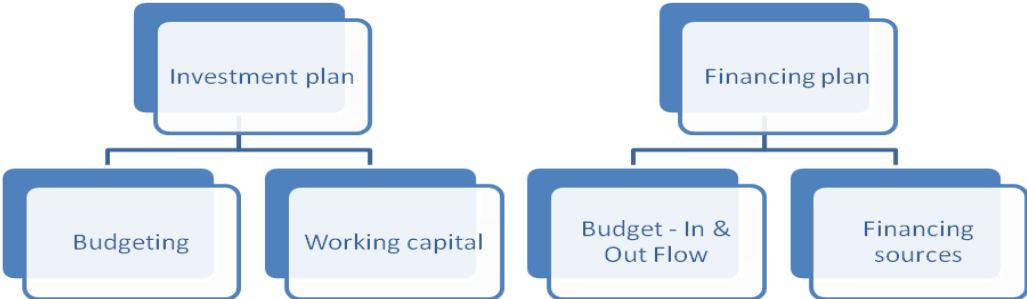
Through the investment plan the firm manages to develop a scheme that identifies all investments to be made both in durable goods or fixed assets (Capital Budgeting) and in goods of the circulating assets (working capital).

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:

$$\frac{L_{i/b}}{D_b} \quad <=> 1$$

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:

$$\frac{L_{i/b}}{C_{mi}} \quad \leq 1$$

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:

$$\frac{PN}{A_i} \quad < = > 1$$

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:
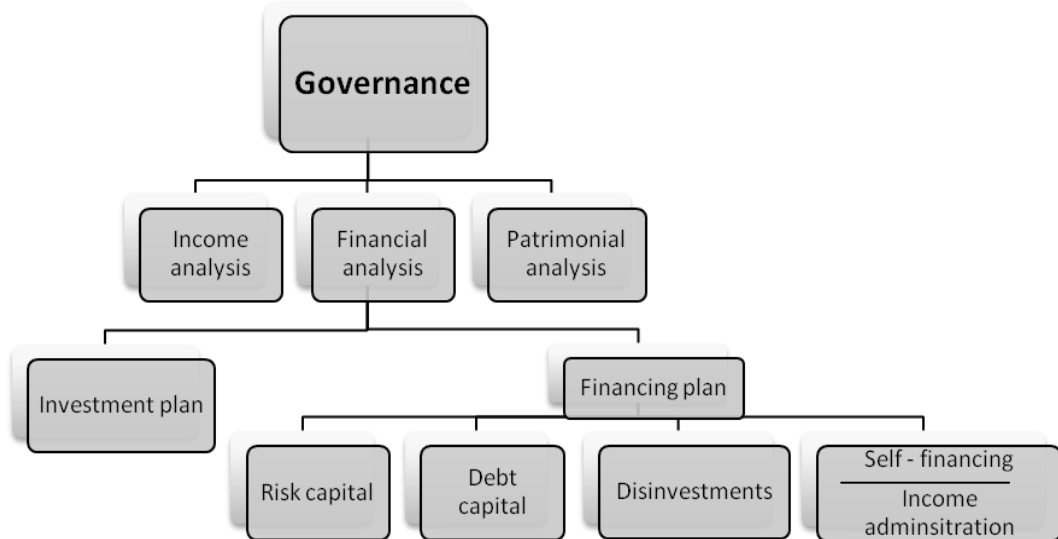
The diversity of the analytical techniques allows a support, not infallible, certainly, but at least effective, against the possible *default* (omissions) that a careless or unconscious management can encounter during its own investment. Obviously, we would like to illustrate the techniques without claims 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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THE CORPORATE GOVERNANCE AND THE OPTIONS BETWEEN EQUITY AND DEBT CAPITAL. CONSIDERATIONS ON ACCESS TO CREDIT IN ITALIAN REALITY (PART II)

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1. Company needs and market offer

To make a careful and thorough research on future investments is certainly one of the most complex phases for the *governance* of the enterprise. Even the choice of the most appropriate financing has its importance for the success of the investment. The interaction company - credit institution can now benefit from its long history. Today the economic crisis of international proportions caused that relationship to be more labile and difficult, even if it remains always topical and important both for the local and international development. It is precisely therefore that we undertake to further identify, in addition to the requirements of the company, the offers as well as the market conditions which must be taken into account.

For the companies insufficiently prepared to make by themselves the investment chosen, the financial market offers a series of possibilities, so that these choices shall be identified based on the company's stability and balance.

The responses of the market and of the banking system - in particular - are linked to a number of factors that, without any pretence of completeness, we can summarize as follows:
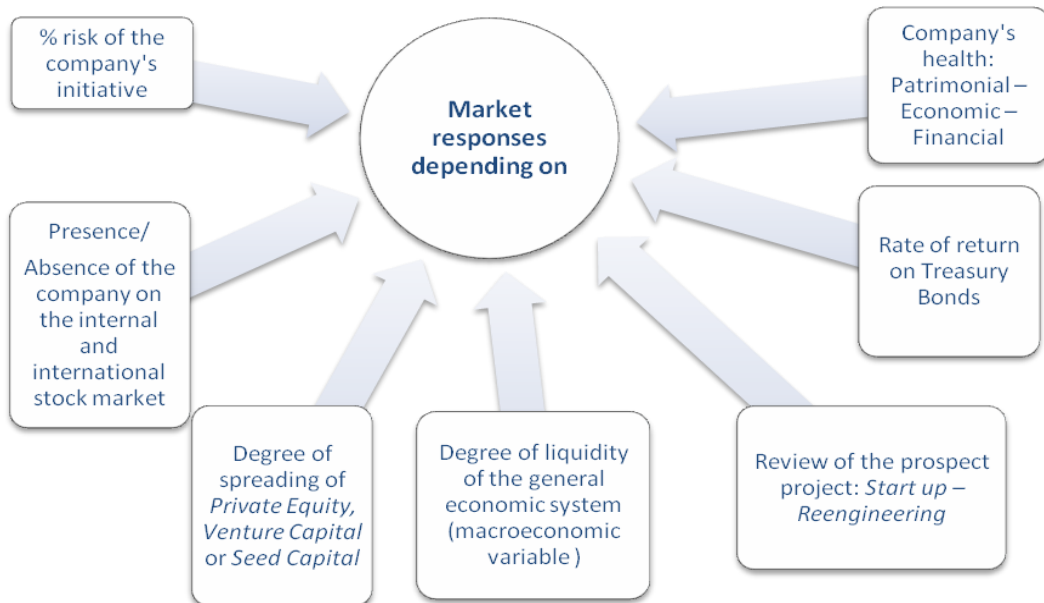
- Different solutions are proposed, according to the degree of risk given by the enterprise's initiative.

The lowest percentage of return on an investment can make it less exciting on the market, thus less funded.

- The presence or absence of an enterprise on the stock market may have a greater impact in order to attract certain investments of a financial nature *(Back Up Facilities, Merchant Banking)* or to become attractive to prospective foreign investors.

■　　One should neither rule out the level of development on the market of certain financial solutions. The investment programs in support of the companies in the *start up* phase, such as *Seed Capital* or *Venture Capital* - are highly developed in the United States and less common on the European financial market.

■　　On the financial availability present on the market we will speak in due time, when we analyze data issued by Banca d'Italia.

■　　The state of health of a company is strictly related to the ability to receive funding or to be able to allocate new shares on the market. As we stated in the first part of this work, the historical development and the current situation of an enterprise, whether defined in patrimonial, income or financial terms, cannot be separated from the future investment - hence the choice of certain companies to improve their attractiveness, ROE, by "technical" changes brought to the analytical plans.

■　　The rate of return on money market (government securities market) is of considerable importance. The investments and the savings are clearly conditioned by the evolution of this rate. It is not appropriate here to emphasize the debate, still high, on the competition, sometimes sharp, between financing the debt and the public deficit and financing private companies.

■　　Last listed here, but not in terms of importance, is exactly the type of investment required by company, whether it is in the *start up* phase or it needs a *reengineering* plan.

This latter option is, more than the others, one that belongs mostly to the problems of *governance.*

First, the sector has to be restricted in accordance to the requirements of the company:
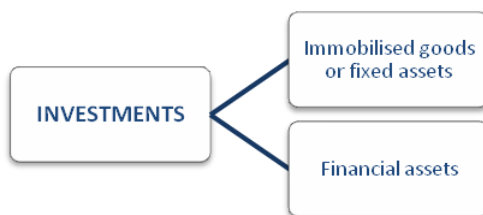
■　　*Investments in Real Estate or Fixed Assets or development of projects*

If at the basis of the investment is the need to purchase real estate, equipment or fixed assets useful for the operation of *reengineering* of business and also for starting the business, the company may use debt capital by Loan (predominantly Loan for Industrial Financing), Leasing (both Financial and Operational) or *Project Financing* (with the two expressions: *Project Financing* and *Project Management* where support extends to the very project - this last option is used mainly for investment in large projects).

■　　*Financial Investments*

If the needs are primarily financial in nature, the range of opportunities available is more diversified and more widely.

In turn, the financial investments must be classified according to whether they refer to companies listed or unlisted.

If the governance of the company has to accede to credit, they can choose between the traditional bank credit line by the formalities of *Stand By* and *Evergreen Financing* and the warranties provided by the credit institutions (Fidejussion and Endorsement or Aval).

Financial investments oriented towards:

- **Access to Stock Exchange or Extraordinary Operations on Capital**
  - Leveraged buyout
  - Merchant Banking
  - Venture Capital
  - Seed Capital
- **Access to credit**
  - Fidejussion and Aval
  - Standby - Evergreen
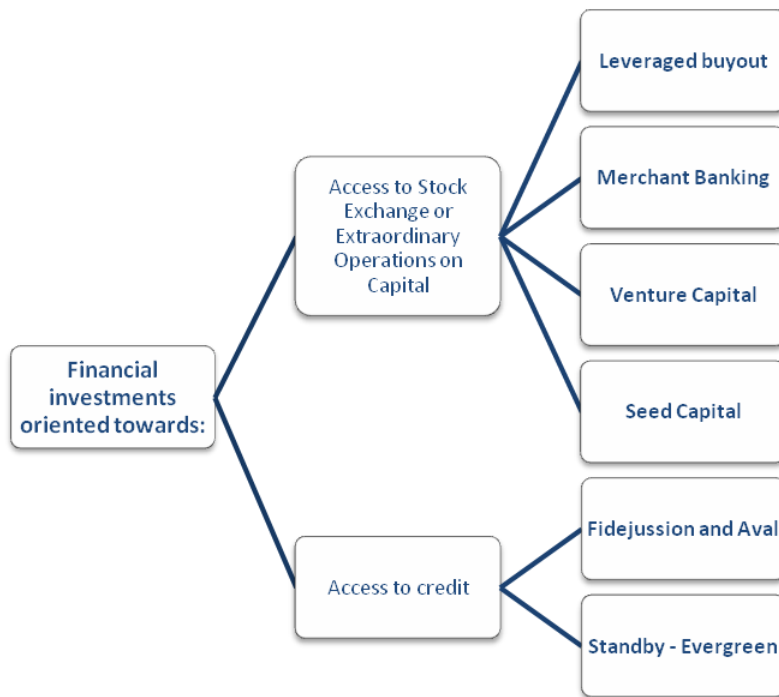
If, instead, we refer to enterprises with a certain asset and income stability wishing to have access to stock market or initiate investments of incorporation and fusion, the governance will have the chance to choose between different financial products such as: *Leveraged By Out, Back Up Facilities, Shareholder Leasing, Merchant Banking, Venture Capital*; for *NewCo* a further solution has appeared in recent years, one able to provide sufficient financial instruments to enter the market. We here refer to the *Seed Capital*; By this practice - mostly developed in the U.S.A. – the companies in *start up* phase can have access to high-risk capital with a minority participation of an allocating institution. The investment does not special deadlines and allows the immediate launch of the company's investment project.

Therefore, the economic coverage to support the companies' investments - either in fixed assets or purely financial - has reached the level of sensitive development and specialization. Any requirement the enterprise might have, the market provides financial products coloured with the most appropriate and innovative hues. Well, once completed the enumeration of interventions, that, of course, is far from exhaustive, we ask a rhetorical , but necessary, question: is it, though, so easy for the enterprise to access the debt capital, i.e. different and more appropriate solutions provided by the banking and financial system? There are categories of companies for which the access to credit is more available and other that, on the contrary, suffer because of an endemic hardship to gain such access?

Looking into some statistics issued by Banca d'Italia we may give an answer to these problems.

3. Companies & Banks. Estimates on present, opportunities for future

The economic crisis, now of international dimensions, is rooted mainly in the exacerbated financial difficulties of the typical financial system. The efficiency of assistance given to companies by the credit institutions has forth undergone a slow but persistent decline. Simultaneously, enterprises - especially SMEs - have shown a rapid increase in the financing demand.

If we consider the year 2010, i.e. an intermediate year between the beginnings of the crisis - which, in the general opinion, is 2008 - and nowadays, we can notice a considerable increase in

demand for bank debt, following a significant increase in gross fixed investment by 3.5% compared to 2009.

This process was the reflection of the modest growth in the industrial sector (0.7%, 0.4% only for manufacturing) and a faster increase in services (6.8%).

In the industrial sector this growth was stimulated by the acquisition of means of production, with firms achieving abroad more than two thirds of their turnover, thereby increasing investment by 6.3%, compared with a reduction of 0.4% with the remaining firms. Investment growth is perceived differently depending on the area: 3% in the North (over 4% in the Northeast) while a decrease of more than 3% is seen in the Centre and South. (1)

We must also note that 3.7% of them were related to the company's *re-engineering*.

This requirement for innovation and reorganization of the company increased consistently with that of the use of equity and with the growth of bank debt in a constant value of 7 percentage points. Considering the period between 2010 and 2011 we may see that there was a slight reduction in demand following a tightening of criteria for selecting the companies that should be financed.

b. 1 The companies' demand for credits
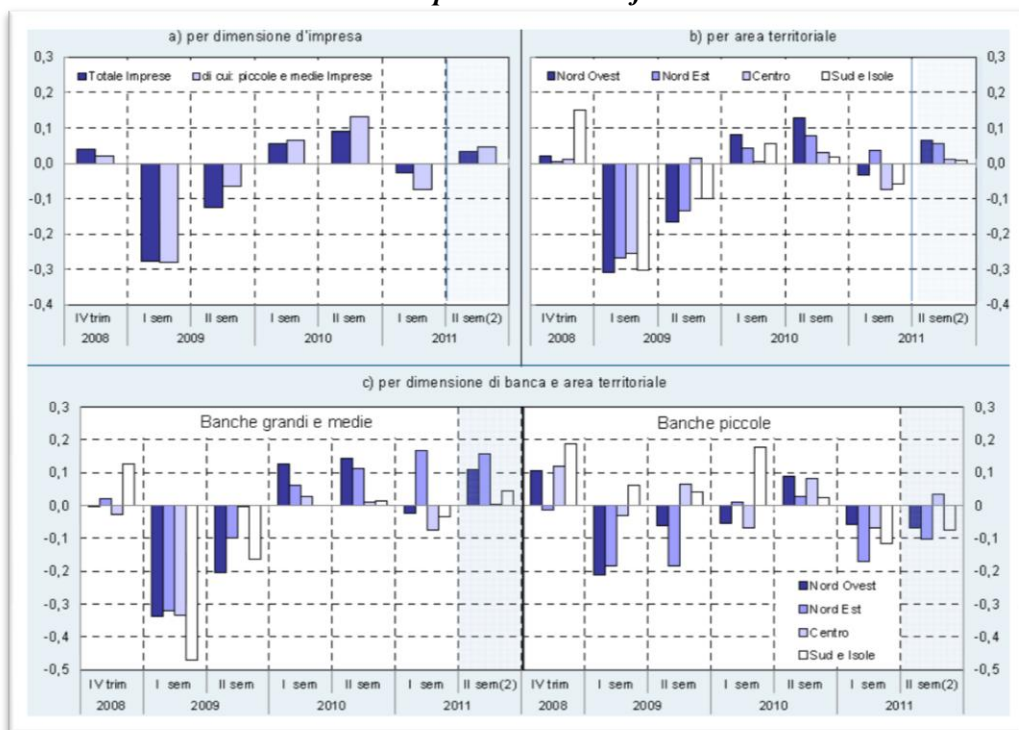
Source: Banca d'Italia, Regional economies. Credit supply and demand at the local level

The phenomenon was particularly felt by SMEs and even more in the areas of Centre - South.
The sector that was most marked by the recession was the construction sector, while services and manufacturing sectors remained mainly stable.

Tab. 2 Indicators of demand by sector

Therefore, it was noticed a more evident increase in the demand for circulating capital as well as a demand for restructuring the financing, with milder and simplified conditions, compared with the light decrease in investments both in the North and in Centre - South and also the limitation of mergers and acquisitions.

To make a comparison with the Italian companies' request, we can consider the proportion of offer promoted by the banking system. Banca d'Italia helps us in this analysis by examining a sample of 400 banks spread throughout Italy. In the first and second half of 2010 the offer of the banking system recorded normal percentage values. However, in the period between 2010 and 2011 there have been adopted several policies to raise the spread on the investments considered the most risky. Also, this principle of protection applied by banks has determined various types of companies, particularly in the *start-up* phase or with little risk capital in general, to use alternative funding sources. Indeed, a slight decrease has occurred mainly in the supply to small and medium sized enterprises. This may have depended on the growing competition of numerous credit and financial institutions that have developed throughout Italy to try to meet different needs of companies - even the smaller, so to say "risky".

It is observable that where it was seen a lower credit demand by firms in construction, the response in percentage of supply from the banking system was positive and growing. In contrast, the service and manufacturing sectors proved to receive a lower offer. However, it never exceeded the range between -1 and + 1 percentage points.

Tab. 3 Credit offer for enterprises

a) per dimensione d'impresa
b) per area territoriale
c) per dimensione di banca e area territoriale

Banche grandi e medie
Banche piccole
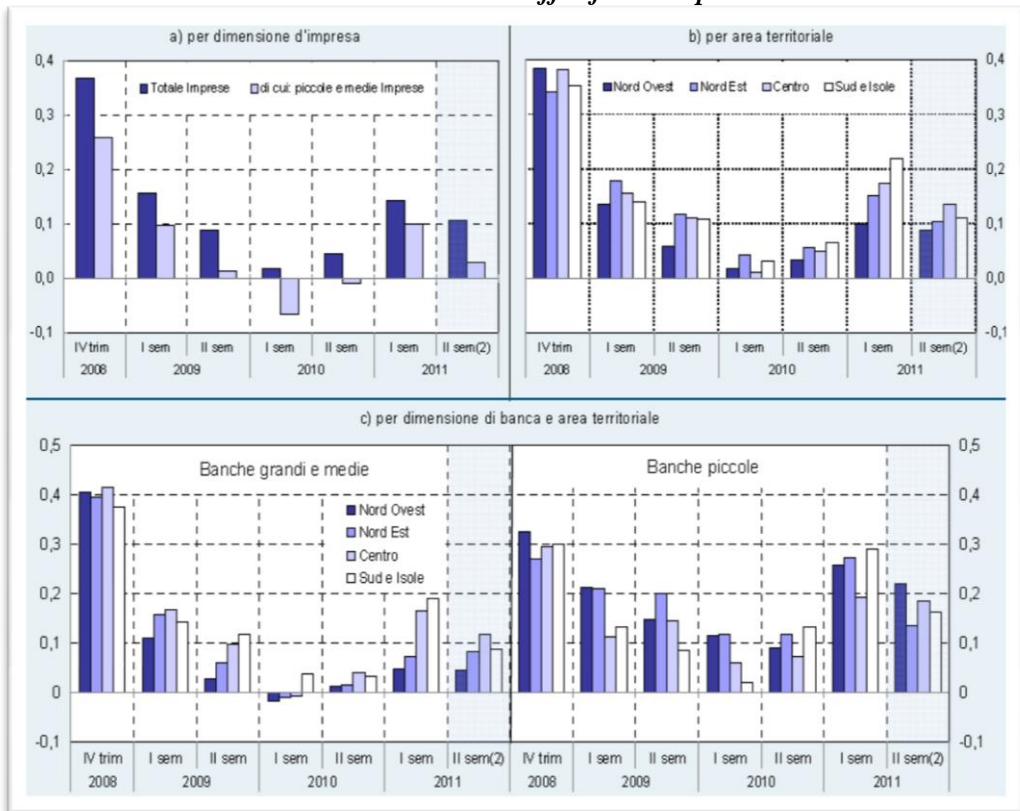
Source: Banca d'Italia, Regional economies. Credit supply and demand at local level

The crisis, from certain points of view announced and with systemic features (2) has become a global financial crisis and ultimately, as we are concerned, a crisis of the European debt, both of public nature and of the private sector, has involved businesses and banks as well. The graphs provide a better picture on the worsening of the situation of the credit demand from companies and of the banks' offer. Concerns and issues of the firms are confronted with and related to issues which show, more and more, macroeconomic features and dimensions.

Tab. 4 Percentage of recourse to credit in the Eurozone
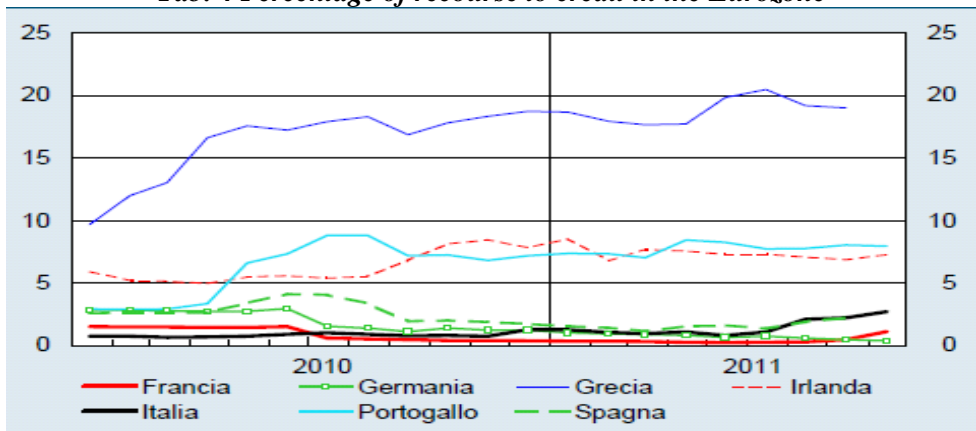
Source: ECB and national central banks: Financial Stability Report, 2011

Indeed, Italy is not alone in facing such critical conditions. Estimates of the use of credit in the European area show this clearly. Indecision of banks to provide credit to SMEs is parallel to the distrust of the firm to rely on the old *partners* - namely banks - to which it was always shown a deep respect and trust in order to receive economic support necessary to open the new activities, to improve existing ones, or simply to overcome times of shortage as the present one.

A European aid able to improve the company-bank relationship has come through improved and sustainable supply of liquidity both in euro and in dollars.

In conclusion, we can hear the echo of the famous warning, perhaps more than justified: *"save the banks!"*

The uncontrolled evolution of interest rates on bank loans in Italy and in the euro area is more than significant an indicator of the vertiginous bank collapse into the unknown.

Tab. 5 The evolution of credit and interest rates
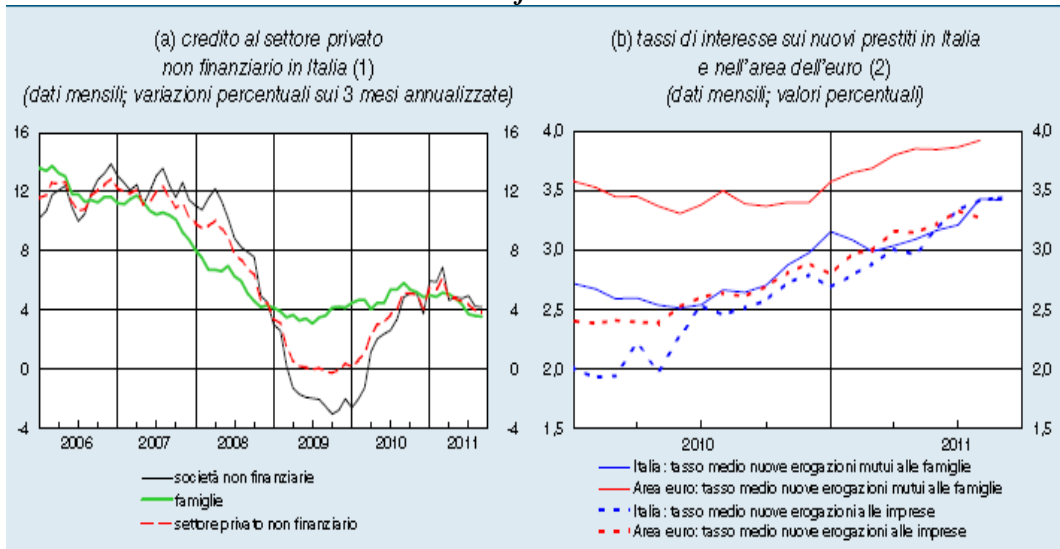
Source: ECB and the Banca d'Italia in: Financial Stability Report, 2011

How can banks subsidize companies while they have no cash themselves?

Hiding behind the cautious choice of providing financial coverage to the investments of the firm, investments becoming more and more risky, the banks can conceal another truth, far more serious.

"It is so, if you think so!" Luigi Pirandello claimed in one of his theatre plays.

In this brief and modest work we do not intend to support the objective impossibility of knowing reality, suggesting a completely economic relativism of forms, conventions, and exteriority and especially of the objective impossibility of knowing the truth in absolute terms or, if we like it more, to the end.

On the contrary, there is a doubtless truth and the very data and statistics published by the Bank of Italy and ECB support it.

As proof of this hypothesis, there are then the numerous European financial measures designed for rescuing banks from collapse. The ROE of 14 major banking groups would have remained at 4.5%, maintaining a worsening of the interest margins (2.8%). (3)

But, in some ways, it is hard to admit or confess openly the wrong choices, or at least the highly questionable ones, operated in the past by States and Governments, Banks, Corporate Management and Governance.

We can make serious observations and can find a likely truth about what happens, and along this research we could find merits and faults to all. Without exception.

Conclusions

After outlining a general framework of conditions in which companies and banks operate, we try without any pretence of completeness and very modestly, to make a conclusive analysis.

"The Agency Theory", which tends to involve managers and governance in the structure of society in order to raise their accountability to shareholders, ended by constituting one of the elements of the systemic crisis of today. While until the midst of the last century, a company had to grow, create jobs, put good products or efficient services on the market and only then make profits, in the mid 70s and throughout the 80s and 90s, the imperative was to make profit, *"tout court"* to increase shares' value, at any price. By doing so, there have been stimulated behaviours oriented towards short-term profit, the long term investments being penalized. With *stock options*, which ended by representing simple positions of the management and governance of the company, there were added paradoxical situations such as: the dismantling of companies, in order to sell their assets, with consequent dismissal of employees, the often unjustified fever *"Merger and Acquisition"* and so on, all these only to support the shares' price without actually producing and reproducing true wealth.

Could the financial and banking system stay off this philosophy of behaviour? Of course not. So one can easily deduce what happened. If there were claims difficult to achieve, instead of being removed from the balance sheets and entered to losses, which would have smoothened the image of that bank, with the result of shares' price depreciation, debts were sold to specialized companies, responsible for their collection, or, even worse - through the financial engineering of derivatives – the liabilities transferred have been the basis for their subsequent estrangement. We can legitimately ask whether in this case there was created real wealth or a privilege to speculation, covering at the same time the previous inefficiencies of banking and financial management. Or, moreover, might the internal and international banking and financial system have escaped from the underwriting of issuance or the purchasing of debt securities, even beyond its natural capacity? It can very easily be inferred that if the banking system is undecided between the need to strengthen their own heritage, the need to underwrite bonds or to make more innovative finance, the traditional activity that characterized the original banking function of crediting and financial assistance for companies was reduced gradually.

Disregarding the choices of economic policy that each country has pursued favouring either a policy of *deficit spending* or a very strict policy of the debt-GDP ratio and deficit-GDP, the explanation of which would lead us away from our current specific research field, the author of the present paper wishes to emphasize that there was found however a sensible move from what can generally be recognized as legitimate *profit* for the economic organization, towards the position of *rent,* so a gradual transition from a capitalism of a production nature par excellence to a capitalism of a financialized economy, or if we like that more, to a *rentier capitalism*, with all the consequences that derive from it: oligopolies emerged and developed in the shadow of the state's commands; mainly speculative activities and operations on real estate assets; speculative finance - oriented towards short and very short term profits; lack of interest in medium to long term economic views; public sector that often removed resources from the private sector to finance current expenditure and often unproductive ones to the expense of non-reimbursable public investments, consisting of medium to long term investment that would have created a virtuous flywheel of growth and development.

Today, Italian companies - and not only them - see that their economic success depends on two main factors: improving European economic pressure and return to more satisfactory credit conditions.

In our opinion, until we will get back to a better understanding of the needs of small and medium size enterprises, no reliable support can be provided to critical economic situation, at least in the

Italian context. A more stable situation can be reaches through the cooperation between companies and credit institutions. This binomial has been since the dawn of Western economic the engine of economic development. This applies to the whole majestic analysis performed in quieter times by Schumpeter. This development process may look to the future through the victory over numerous technical challenges, but cannot escape the memory of the historic journey that had originated it.

A journey in which the small and medium enterprise was in the centre of progress also due to the fact that it was sustained economically by the various forms that credit institutions have taken over time.

Also, unless sudden and drastic reversals occur in the socio-economic system, the enterprise governance - in its various forms and manifestations - if they want to see their projects funded, should take more into account the numerous factors that may make their interests coincide with those of the credit institutions.

Finally, a closer link, almost inseparably, but a link that - given the upheavals brought by the crisis - will make less and less stable the international economic balance, if the banking system does not resume its classic function of credit provider, will mitigate the bias toward exclusive financial speculation or will continue to accommodate making comfortable investments in bonds, undoubtedly profitable and safe, but which in times of crisis consume the vital air of the real economy.

Notes - Part II

[1] Banca d'Italia, 2011, „Supplementi al Bollettino Statistico. Indagine sulle imprese industriali e dei servizi.", Roma

[2] Rangone E.C. (under care), 2011, „Lo spirito dell'economia. La direzione di una grande orchestra", Pavia University Press, Pavia, p. 798 and following.

[3] Banca d'Italia, 2011, „Rapporto sulla stabilità finanziaria", Roma.

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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 passesd 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 compeling 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 teory. „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. Ronal 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 oeconomicus" 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 our 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 in 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 felt 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 he 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 felt 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 an 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 been avoided? The answer is yes in an ideal, neoclassical world, populated by rational maximizers people. Is such a world, proposed by mainstream economics, the disequilibrium's would be rapidly absorbed and neutralized. The people would analyzed the unhealthy increase of the assets prices and voluntarily restrained from making more credits. The policy makers would took 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 ore 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.

Dellors 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 1July 1990.

 • realignment of pairs to be less common and have been a closercoordination 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 Unionthat has provided the following:

 • Monetary policy, while still being national, were to be closelycoordinated.

 • Creating a central monetary institutions to become, later, the bankCentral Europe. This institution was established as the InstituteEuropean currency, based in Frankfurt. Central banks continued tooperating in the national banks.

  The third phase: 1 January 1999 (latest): Delors Report provides orientation and irrevocably fixed exchange rateseventually 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 inprevious examination, should not exceed more than 1.5 pointsaverage percentage rate of inflation in the first three countries that have registeredlowest rates of inflation;

2) long-term interest rates calculated in the previous examination notexceed by more than 2 percentage points the average interest ratesrecorded by the three European countries with the lowest interest rates;

3) public deficit ratio, defined as the ratio between state and overheadsgross domestic product (GDP) must not exceed 3%.

4) gross national debt (external), defined as the ratio between the nominal value ofexternal debt to gross domestic product later this year and should notexceed 60%;

5) is required at least two years active participation and compliance withinmargins 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 lawon 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-Gru‹nwald, 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 <u>Jeremy Warner</u>- 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 debauch 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 procces 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 en 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.

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 trening 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 wirh 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 trening courses, where all participants belong to a single organization, or open events where the institution that coordinates trening 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 travalers 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 importans 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 know 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 mantain 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 reuniouns	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

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 lasy 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 trening 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 Timişoara, Cluj-Napoca, Sibiu, Iaşi and Constanţa, 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 requring reservation with two to three months before. The 110 hotels in Bucharest comprise a total of approximately 8.000 beds which meets the requirments for making a proper business travel.

Business tourism performed for the governamental, 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 thier 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 (%)
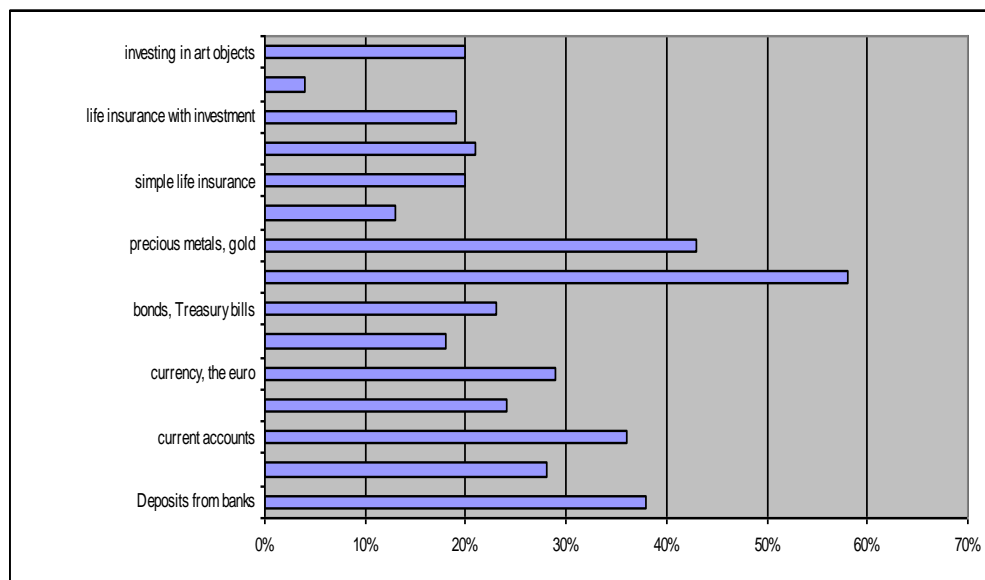
Source: data processed from National Bank statistics

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 investition 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 (%)
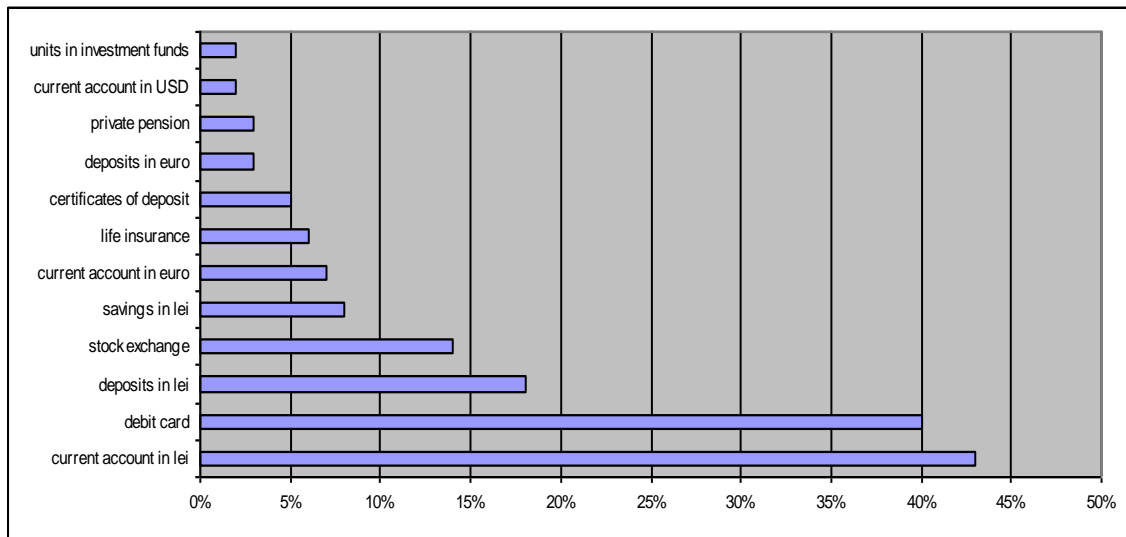
Source: data processed from National Bank statistics

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 Statistics[30], 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	%	Mil. Euro	%	Mil. Euro	%	Mil. Euro	%	Mil. Euro	%	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.

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[30] 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

Evoluţia investiţiei exprimată în echivalent valută (milioane $ SUA) în perioada 1991-2011
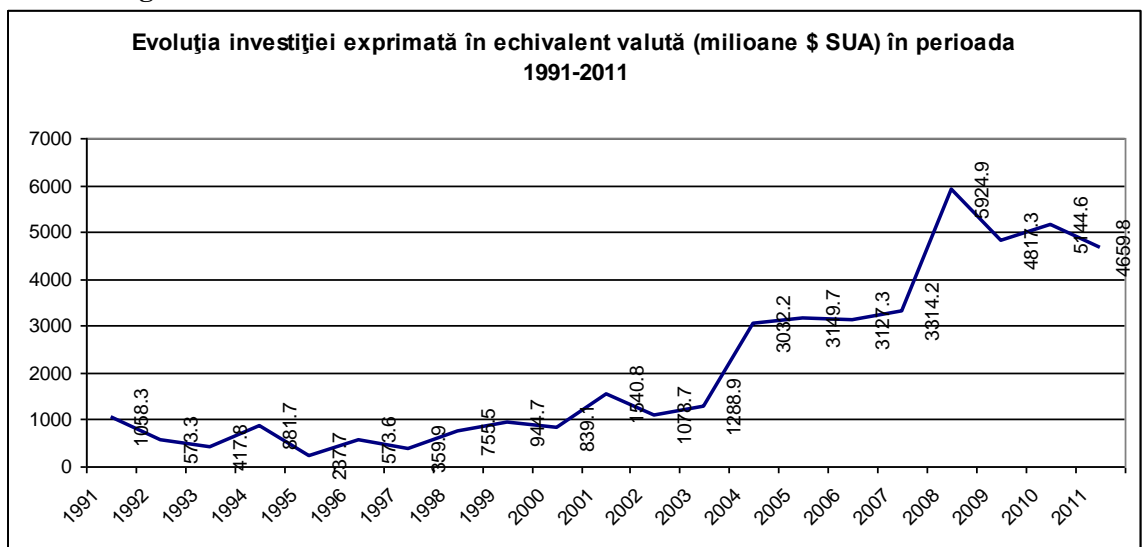
In the period of Romania's **EU association,** the annual volume of FDI fluctuated between 729.9 million euro in 1999 and 278 million euro in 1997, with slightly higher rates than the former period, marked however by the heavy economic decline of Romania in the period 1995 – 1999.

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 million 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 o 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 country[31] 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

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[31] 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.

Operational Programmes 2007-2013 and the Sectoral Operational Programme in particular have 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)[32], 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-

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[32] The low technological level includes the following NACE divisions and groups: 15, 16, 17, 18, 19, 20, 21, 22, 36 and 37.

tech33): 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 were 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

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[33] 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 FDI[34] 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.

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[34] 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)[35] 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 íncrease of exports

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[35] 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).[36] 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.

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[36] 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)		
	FDI Companies	% of FDI companies of total economy *	FDI Companies	% of FDI companies of total economy *	Stock of Trade balance (+/-)
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 competitiveness[37], 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.

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[37] We have seen that FDI are not concentrated in high technological industries, having high added value and competitiveness.

Another major strategic challenge for the sustainable development of the national economy, involving FDI as growth factor concerns the increasingly chronic character and the 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 IMF[38] 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).

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[38] Vezi: *International Monetary Fund,* 2011, January 2011, IMF, Country Report No. 11/20
(http://www.imf.org/external/pubs/ft).

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 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 period2003-20n07 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 RIRF[39] (Financial Internal Rate of Return) and RIRE[40] (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

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[39] RIRF – Financial Internal Rate of Return
[40] RIRE – Economic Internal Rate of Return

and horizontal FDI benefits , parallel loans from companies, etc. remain to be further investigated.

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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 STUCTURE

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 profile 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*

```
┌─────────────────────┐
│ Manager/Shop Foreman │
└─────────────────────┘
```

```
┌──────────────┐      ┌──────────────┐
│  Estimator   │      │  Technician  │
└──────────────┘      └──────────────┘
                      ┌──────────────┐
                      │  Technician  │
                      └──────────────┘
                      ┌──────────────┐
                      │  Technician  │
                      └──────────────┘
                      ┌──────────────┐
                      │  Technician  │
                      └──────────────┘
                      ┌──────────────┐
                      │  Technician  │
                      └──────────────┘
                      ┌──────────────┐
                      │  Technician  │
                      └──────────────┘
```

```
┌───────────────────┐
│ Manager/Estimator │
└───────────────────┘
┌───────────────────┐
│   Shop Foreman    │
└───────────────────┘
┌───────────────────┐
│    Technician     │
└───────────────────┘
┌───────────────────┐
│    Technician     │
└───────────────────┘
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│    Technician     │
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┌───────────────────┐
│    Technician     │
└───────────────────┘
```
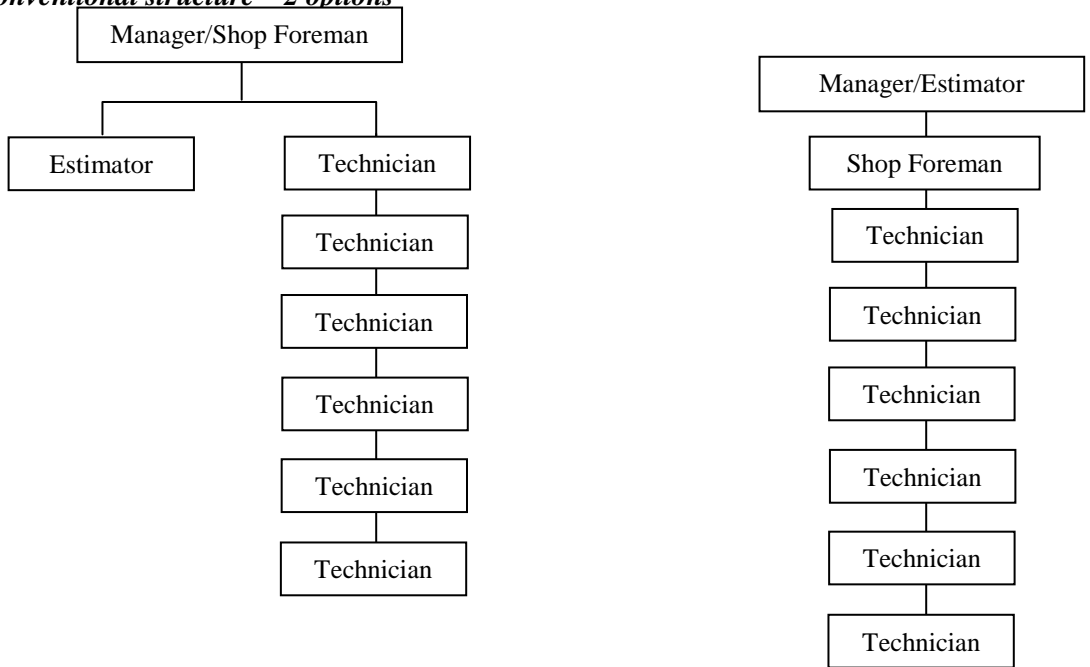
- Best applied in a 5 to 7 Technician shop
- Two person support staff
- Manager performs Estimator or Shop Foreman tasks
- Multiple options for Technician pay plans

3.2. Lateral support group structure

```
                        ┌──────────┐
                        │ Manager  │
                        └──────────┘
```

```
┌──────────────────────────┐   ┌──────────┐   ┌──────────────────────────┐
│ Assistant Manager/Estimator │   │ Clerical │   │ Assistant Manager/Estimator │
└──────────────────────────┘   └──────────┘   └──────────────────────────┘
┌──────────────────┐                           ┌──────────────────┐
│  Lead Technician │                           │  Lead Technician │
└──────────────────┘                           └──────────────────┘
┌──────────────────┐                           ┌──────────────────┐
│    Technician    │                           │    Technician    │
└──────────────────┘                           └──────────────────┘
┌──────────────────┐                           ┌──────────────────┐
│    Technician    │                           │    Technician    │
└──────────────────┘                           └──────────────────┘
┌──────────────────┐                           ┌──────────────────┐
│    Technician    │                           │    Technician    │
└──────────────────┘                           └──────────────────┘
┌──────────────────┐                           ┌──────────────────┐
│    Technician    │                           │    Technician    │
└──────────────────┘                           └──────────────────┘
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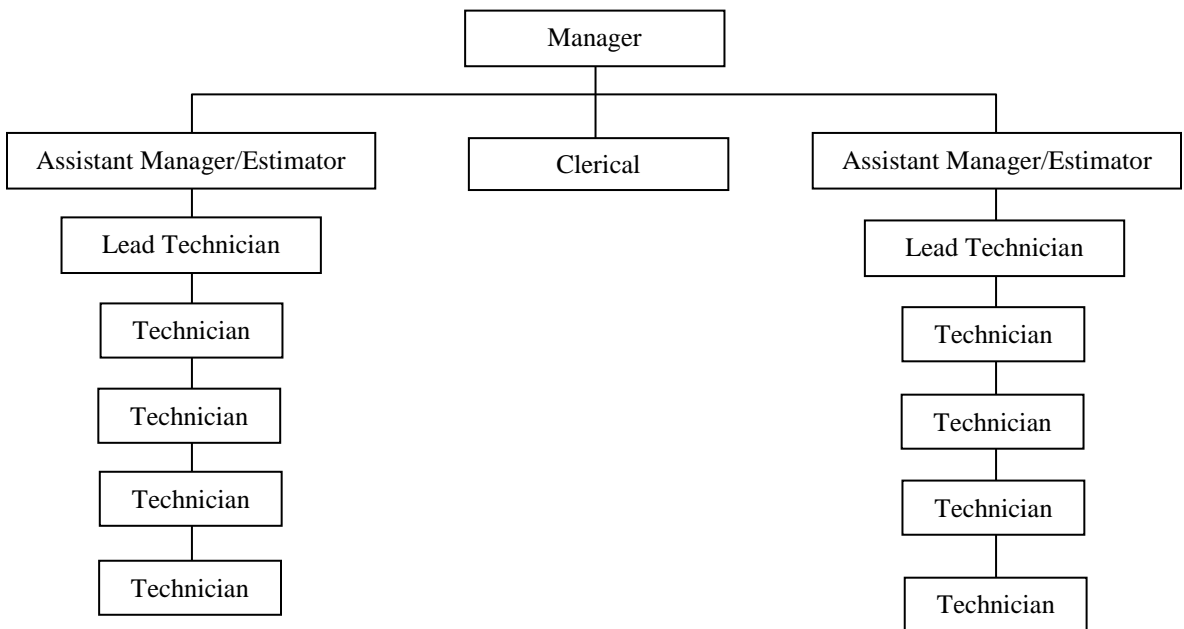
- Technician pay based on individual performance
- Assistant Manager perform Estimator and Dispatcher tasks
- Clerical support both groups

3.3. Team structure – Smaller shop

```
┌──────────────┐                              ┌──────────────────┐
│   Manager    │                              │ Assistant Manager│
└──────┬───────┘        ┌──────────┐          └─────────┬────────┘
       │────────────────│ Clerical │────────────────────│
┌──────┴───────┐        └──────────┘          ┌─────────┴────────┐
│ Team Leader  │                              │   Team Leader    │
└──────┬───────┘                              └─────────┬────────┘
   ┌───┴────┐                                      ┌────┴────┐
   │Technician│                                    │Technician│
   └───┬────┘                                      └────┬────┘
   ┌───┴────┐                                      ┌────┴────┐
   │Technician│                                    │Technician│
   └───┬────┘                                      └────┬────┘
   ┌───┴────┐                                      ┌────┴────┐
   │Technician│                                    │Technician│
   └───┬────┘                                      └────┬────┘
   ┌───┴────┐                                      ┌────┴────┐
   │Technician│                                    │Technician│
   └────────┘                                      └─────────┘
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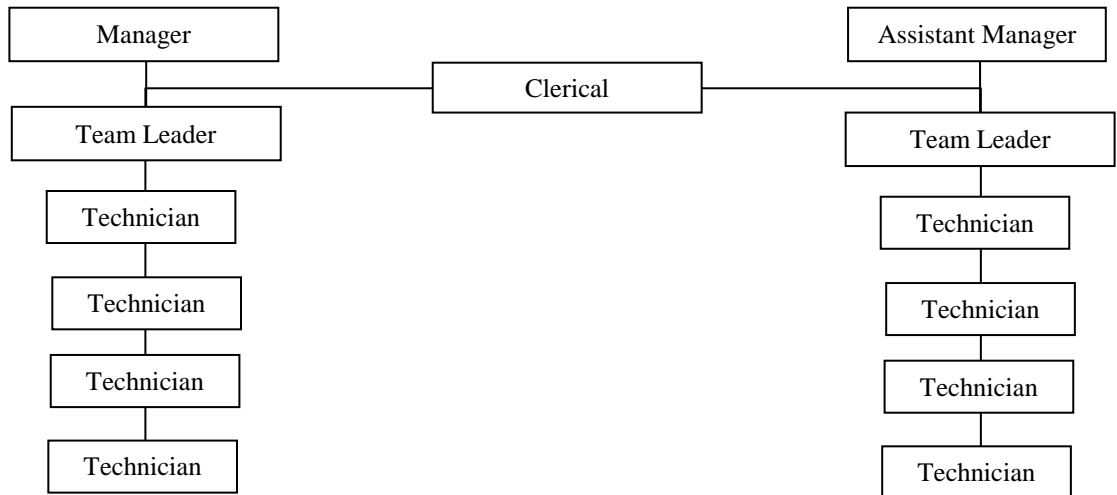
- Best applied to a 8 to 10 Technician shop
- Manager and Assistant Manager each perform the Estimator and Dispatch tasks for their teams
- Clerical support both teams
- Technician pay plans are based on overall team production

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.

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, l., 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 competitivity 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.
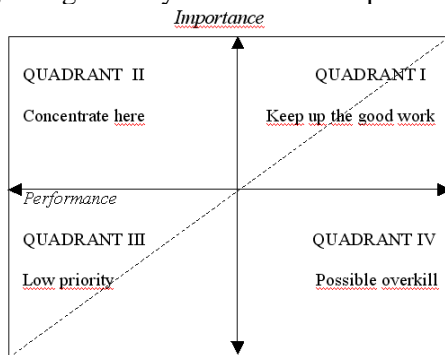
Figure 1 Importance-Performance grid by Martilla & James
(Martilla & James, 1977, p. 78)
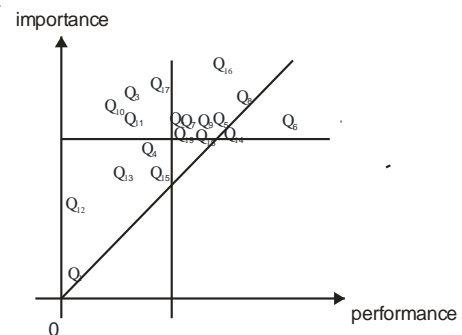
Figure 2 Importance-Performance grid obtained through direct research

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 $(x10^{-2})$	Attributes according to their importance determined through entropy calculus $(x10^{-2})$	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).
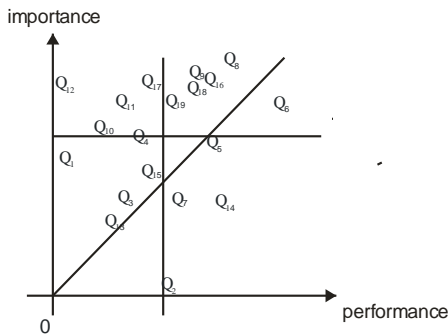
Figure 3 Importance-Performance grid   Figure 4 Importance-Performance grid
obtained by determining the importance   obtained by determining the importance
of attributes through the Spearman coefficient   of attributes through the entropy calculus

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 grides 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 satistaction.

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 Timişoara			Hotels in Arad		
Category	Frequency	%	Category	Frecuency	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.

Managers' opinions on improving the conditions of disabled people in tourism

Opinions		1	2	3	4	5	$\overline{X}$
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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WOMEN IN BUSINESS. THE NEED FOR POLICIES TO FOSTERING WOMEN ENTREPRENEURSHIP IN ROMANIA

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In developing economies, the issue of overcoming the gaps in public policies regarding gender is closely linked to the ability of governments to identify policies that have worked successfully in regions with similar economic circumstances. Equally, there is a need for innovative data solutions that have the capacity to determine a real change of socio-economic relations. For now, as far as the Romanian context is concerned, female entrepreneurs do not enjoy as much government support as it is really needed. What literature refers to as the "glass ceiling" seems to be doubled in Romania by collective suspicion towards the discrepancy between the ambition and the skills of women who find themselves in the position of decision makers at top management level. This crisis of confidence faced by women makes their management tasks even more difficult. Not incidentally, literature mentions opinions according to which a woman must work twice as hard as a man to reach a certain position. The crisis brought about by the lack of models is confirmed by numerous studies and researches, all highlighting the urgent need for mentoring. Given such gender related constraints, it is only natural to expect that decision makers at government level would show a special interest for policies designed to encourage female entrepreneurship, and, in general, to support increase of employment of women in economic activities.

Key words: gender policies, women entrepreneurship, women in business

JEL Code: M13

1. The context: facts and figures

In the academic environment in Romania, the issue of female entrepreneurship has seen in recent years a lot of different approaches. The technical and statistical perspective dominates the research and the collective preference for the noticed issues can be explained by methodological reasons. It was desirable that, based on factual material and a rigorous field documentation, to produce models of policies or provide a basis for practical solutions. However, it turned out that, besides rigorous methodologies, statistics do not ensure a priori efficiency, and thus it become usual considerations with general appearance and which had not the expected utility with respect to real need for policies and measures to correct the regulations in the domain.

We cannot say that the simple overview of statistical items is not welcome. But we have good reasons to believe that, by itself, they do not represent a real contribution in the concrete process of elaborating public policy to encourage and support female entrepreneurship. As stated, 'in the Romanian context, supporting female entrepreneurship appears, in a distorted way, as a minor, frivolous and irrelevant issue to the priorities and imperatives of crisis" (Dodescu et al., 2011, p 24)

It can be assumed that these biases have partially contributed to a certain lack of government concern, so that "the potential of female entrepreneurship as an engine for exiting the economic crisis and poverty reduction for families and communities (...), is no doubt, not only undervalued,

but even neglected in the public strategies and policies at national and regional level in Romania, with the exception of the support provided by the European Union" (Dodescu et al., 2011: 24).

It was stated that "In recent years the overall situation of female representation in politics or management structures of organizations did not recorded any significant changes. Relations were maintained, at least in the distribution of powers in the political, legislative and executive."(On, 2009). But the arguments only partly justify the thesis under discussion: "Consider only the composition of the Parliament and the Government of Romania: the proportion of women deputies in our country remains the last three legislatures at 11% of the total members of the lower house of Parliament, and in the Senate, when after the 2000 elections were chosen 11 women (8% of senators) and after 2004 13 women (9%), at the last elections in 2008 the proportion of women declined to 6%, i.e. only 8 women senators. In the composition of the Romanian Government, the current legislation recorded only 3 female ministries in a total of 22 portfolios (14%)."(On 2009). It is unlikely that the analogy business environment -political environment to function as bi-univocal relation and even if things would be so, a brief analysis of the public visibility of business woman registered in recent years is sufficient to raise serious questions on the matter. It is clear that, in the situation of women entrepreneurs, there are enough things that already have changed.

It is to mention that, in the same time, women – who represent 51% of the total population and 44.8% in the labour force, have a economic activity rate of 56% (against 70.1% for men), with considerably lower proportion in some sectors, but surprisingly high in other (such is the 71.7% of female judges in total number of judges):

Table 1. Some figures on the female participation in selected professions, Romania, 2007

Women Researchers, Percent of corresponding total for both sexes	44.7
Female legislators, senior officials and managers, percent of total	28.2
Female professionals, percent of total for both sexes	51.2
Female clerks, percent of total for both sexes	25.0
Female craft and related workers, percent of total for both sexes	25.0
Female plant and machine operators and assemblers, percent of total for both sexes	29.2
Female government ministers, percent of total	..
Female members of parliament, percent of total	11.2
Female ambassadors, percent of total	16.0
Female judges, percent of total	71.7

Source: UNECE database

A real problem remains the difficulty for the business woman to identify credible models of success. What in the literature is the so-called "glass ceiling" (Singh &Winnicombe 2004, quoted in: Avram and Cooper 2008, p. 127) would be doubled in Romania by the collective suspicion on the difference between the ambitions and skills of women who had reached in the position of taking decisions by top management. This crisis of confidence facing women makes their management task even more difficult. Not incidentally, there are opinions in literature that, in order to reach a certain position, a woman must work twice more than a man. Crisis models are confirmed by numerous studies and researches, all highlighting the urgent need of mentoring: The percentage of women who recognize the lack of mentors as a major weakness. "In the case of women, due to their under-representation in management and business environment, the problem gets worse accents. It is considered that women who are successful in business or management and not assume the role of mentors for other women who want to turn to build a similar career, merely close the vicious circle which results in lower and lower female representation. "(On, 2009)

Just in considering this need, in the academic environment in Romania there were developed several substantial projects. Taking into consideration the impact demonstrated on the women entrepreneurship of the models, of learning from the others' experience, success, or mistakes, by using the Action Learning method, mainly, characterised by Learning with and from the others, The AntrES Entrepreneurial School set up – and it succeeded, we believe – to help the women managers to better understand their business, to develop it and to become real entrepreneurs, to infuse to the women wishing to start up their own business the necessary courage to pool and mobilize resources in order to become entrepreneurs, and to transform the young trainers in the field of entrepreneurship into promoters of entrepreneurship from conviction, not from necessity (Dodescu and Bădulescu, 2010, pp. 470-476, Dodescu et al., 2011, pp. 23-46). In recent years, the private sector get the idea (confirmed by the results) that native women have qualities that recommend them for a performant management. Increased empathic abilities, willingness to efficiently mitigate conflicts offer to women entrepreneurs, in certain circumstances, a real advantage over autocratic management style with emphasis specifically men. "I appreciate that companies operating on a profit base need, at this point, just the typical female values: availability of mind, intuition, compassion and sympathy to the values of others. These are values that, considered together, began to turn slowly all organizational structures. Changes in the scale of values, in "corporate culture", the technology work, the structure of available jobs and labour, the classic pattern of lifestyles, social attitudes and the distribution of roles in the family, globalization, new requirements of the legislative framework, reorganization of companies, the emphasis on teamwork and the involvement of every employee - all these changes are factors that stimulate the emergence of new opportunities for women to withstand and compete successfully in an economic environment increasingly harder" (Pastor 2011)

Keep clearly enough traditional prejudices about gender differences. At the public opinion it takes time and factual evidence on women's capacity to perform tasks that are associated in the collective mental reflex typically male skills. A concerted civic action does help overcoming this inertia in mentalities. "Based on these issues, often raised by various bodies set up to promote woman and have outlined a series of possible measures necessary adjustment balance participation, including by changing attitudes about power and rights in society. He noted the need for real networks, functional, business women to exchange information, mentoring, partnerships, promotion, and models. (...) Finally, promoting women in decision-making bodies that can contribute to better represent and support women, may be crucial for better gender balance in society. "(On 2011). Given the specific nature of managerial work in the public and private nature of conditionality, the access of women in administrative top management positions is limited not only by prejudices, but also the total commitment involvement required by the administrative work. There are rare the cases of women with career objectives put ahead of all family aspirations. Research has shown that female managers increased the significance attributed to family and moral support expected from relatives and family.

2. Woman entrepreneur – an active factor of business development in Romania

In Romania, no study has challenged the existence of issues related to gender disparities in entrepreneurship - the so-called gender gap in entrepreneurship. European statistics show that in Romania the difference in wages between women and men (functions equal) in recent years is lower than in some countries with strong democratic tradition. Also, for now, in Europe, relevant gender differences remain and the number of entrepreneurs than men rather than that of women.

The same picture is also true for the Central and Eastern Europe countries, where female entrepreneurs are less numerous than men. Some facts are as follows:

 men start their own businesses twice as often as women;

 only 9% of employed women were entrepreneurs in the Czech Republic as compared to 18.8% of men (in 2000);

in Hungary, 9.6% of the women, against 18.7% of the men are entrepreneurs;

in Romania, due to the larger share of self-employed in agriculture, the share of self-employed women is 17.4%, compared to 32.6% for men;

in Slovakia, 4.1% of the women, against 10.9% of the men are entrepreneurs;

in Slovenia, 6.5% of the women, against 15.3% of the men are entrepreneurs (UNECE 2004).

Next charts reveal another aspect of the entrepreneurial gap between women and men, e.g. the proportion of firms with female participation in ownership:
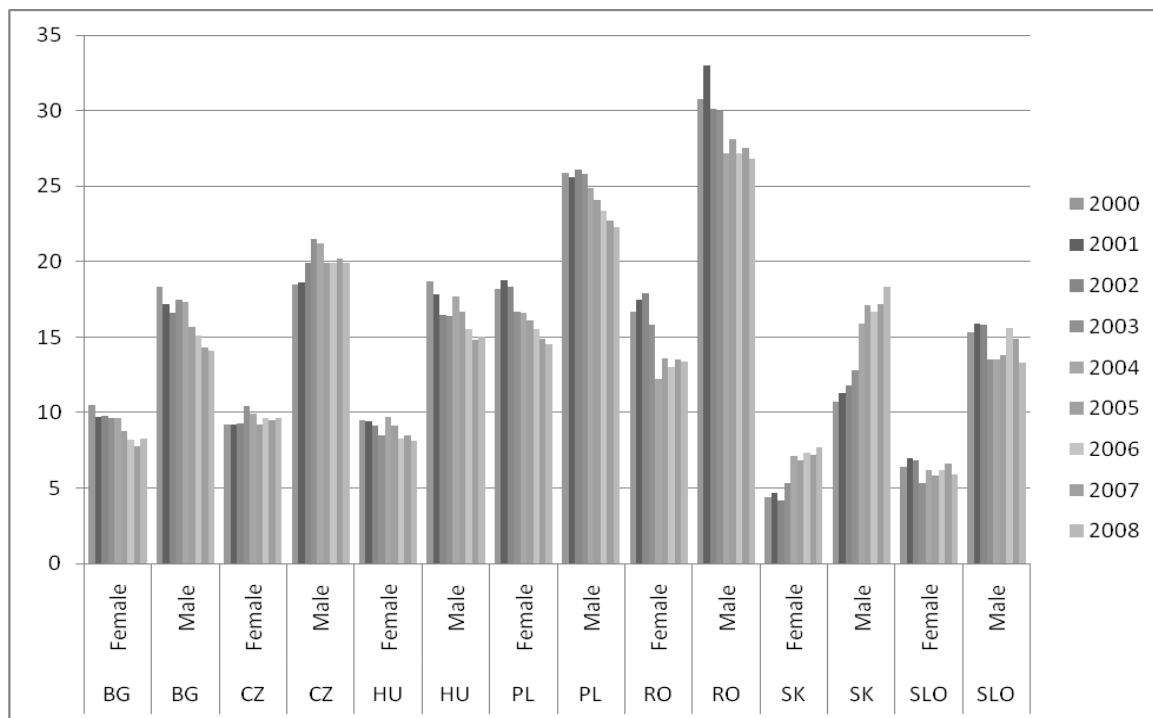
Chart 1. Employers and own-account workers, percentage of all employed
Source: UNECE gender database

Consequently, it is not accidental that in most cases women entrepreneurs believe that the main quality that a successful business involves remains perseverance (Dodescu et al., 2011, p.36). Statistical results confirm a specific type of resistance that women entrepreneurs face when they compete in the business market.

Taken into consideration the gender constraints already mentioned, it is expectable that government shows a special interest in the policies fostering women entrepreneurship and supporting the economic involvement of women. Among the programmes related to that objective we can mention as follows:

    1. Funding from the national budget:

    - Multi-annual National Program during 2005-2012 to develop an entrepreneurial culture among women managers of small and medium sized enterprises sector.

    - In 2010, 600,000 lei were allocated for this program, for which 826 women applied online and 232 women followed the business training course. Absorption rate is 100%.

    2. European funding

    - National Rural Development Program (PNDR). Although PNDR does not include a scheme for female entrepreneurship, it is supported under Priority Axis 3, the measures 312 "Support for the creation and development of microfirms," and 313" Encouragement

of tourism activities", with priority (extra points) to projects undertaken by women / young people.

- A.I.P.P.I.M.M.- National Network of Female Entrepreneurship Ambassadors, funded by EC, aiming to achieve the first network of 10 ambassadors of female entrepreneurship in Romania in order to determine and motivate women to start their own business (project launched in March 2011). Budget: 100,086.15 euros, from which grants of 48,840 euros (Paul-Vass, 2011).

National measures were designed to further existing EU regulations. One of the declared objectives of EU social policy is equality between women and men. This objective is supported practically by a series of documents such as the directive on the undifferentiated treatment and undifferentiated payment for equal positions. To ensure equal opportunities for women and men, the opportunity to make a career, at European level it was decided to adopt measures to ensure that more women can be employed and have access to industries and professions previously dominated by men. In this context, an important role has got the Directive on providing evidence within discrimination. This regulation introduces a new principle: the defendant must prove that he did not violate the principle of undifferentiated treatment.

In Romania, these principles are implemented through EU funded programs. In this framework, an initiative with immediate effect is the National Network of Female Entrepreneurship Ambassadors funded by the European Commission. "It aims to achieve the first network of 10 female entrepreneurs ambassadors of Romania and determine and motivate women to start their own business (project launched in March 2011). Awarded this new project budget is EUR 100,086.15, of which euro 48,840 grant. "At European level, it was created in 2000 the European Network to promote female entrepreneurship, which currently has 30 countries as members. Through annual reports, the organization highlights the major programs initiated in the individual countries on the promotion of female entrepreneurship (...) In Austria, the percentage of women who have founded a start-up in 2008 compared to 1997 increased by 13%. In 2008, out of 24,788 people setting up new enterprises, 33.9% were women, compared with only 27.1% in 2007. Out of all enterprises in Austria, about 32% were held by women, and their average age was 45 years" (Stefanescu 2011)

The situation of female entrepreneurship in Romania can be realistically assessed only by taking into account the impact of global crisis on local businesses. It is significant that since 2008 such entrepreneurial activities were seen as an alternative and not as an opportunity. "Early-stage entrepreneurial activity rate for women fell from 3.1% to 2.1%, and the early stage entrepreneurial activity motivated by the opportunity fell 2.7% to 2.12% in 2008 compared to 2007, while motivated by necessity entrepreneurship rate increased to 0.56% (2007) to 1.37% (2008). "(cf. GEM). These figures are confirmed by reports from the GEM 2009 and 2010. AntrES (see more on www.antres.ro) researches undertaken in 2010 led to conclusions that reinforce the hypothesis that in most cases women are willing to start a new business in the desire of self-realization (which also involve financial success) and secondly the need to earn more. These findings confirm similar results reported in various studies and national reports. According to GEM Romania in 2008, "In Romania the number of early-stage entrepreneurs motivated by opportunity and mainly aiming increasing revenue is greater than the number of entrepreneurs motivated by independence. Men in early-stage entrepreneurs are predominantly motivated by opportunity and women by necessity" (GEM, 2008, p.22).

In the case of AntrES database, we have found that, among female entrepreneurs from urban level, 52% indicated the desire for self-realisation, 33% the need for making more money, 10% the desire for a superior social and professional status.

According to the major stage of economic development (Porter, ME & Schwab, K., 2008), Romania is placed in the group of countries with 'efficiency-based economies". The entrepreneurship among women is mainly motivated by the severe impact of the crisis symptoms.

Lack of safe alternatives for earning money and more and more complicated situation of labour market result in a growing number of women interested in starting their own business. Also, over time, successful entrepreneur woman model serves as a model of success and personal achievement. In this context, efforts to support female entrepreneurship highlight an immense potential that Romania can benefit.

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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.

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" (Grigoruţă-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 şi 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 responsibles 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, is important to understand what are the most important bank features, which optimize the bank-SME relation. In other word, what are the better type of bank for SME lending, analyzing ownership, dimension, structure, the origin of owner, technique and internal organization use in lending process, etc.

The analysis of SME financing, various theoretical studies or empirical evidence provides a considerable quantity of information regarding relation between structures of the financial institution, technologies, management. Moreover, recent researches (Berger and Udell 2004, Beck et. al. 2010) try to show some distinction between lending 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, "transactions 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, credit officer is the holder of such information, proprietary in nature, and these information can be hardly standardized and sent through official channels within 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 SME 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 following reasons:

-Foreign-owned institutions are part of large organizations, have advantages in transactions 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 easy transforms into a weakness point. Often SMEs acting on local markets are little impressed by the cosmopolite image of the large banks.

-Domestic banks are more suitable to finance SMEs because they are better engage 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 all. 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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ARE SMES MORE CONFORTABLE WITH SMALL DOMESTIC LENDERS? (II –EVIDENCE FOR ROMANIAN SMES)

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Based on a consistent literature presented in the previous part of our paper, and analysing our research results, carried out on a significant number of SMEs from Romania in 2011, the purpose of this paper is to examine 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. We have found that, despite of the recent development of the crisis and the decision of the most of important European banks to reduce theirs involvement in Central and Eastern Europe, the mostly of the Romanian SMEs considered they are not ignored or under-privileged by large, international banks operating in Romania.

Introduction

In the first part of our work we theoretically analyzed the way that different types of financial institution could influence the availability for SME lending. Based on various studies showing that the issue of financing is vital for SME and the bank loan will be the preferred way for SMEs in order to fulfill their objectives, we have identified the main guidelines and characteristics of the lenders in relation with borrowers. On the first step we presented that the transactional lending use mainly by foreign or large banks seems more appropriate for the large firms than for SMEs, but the small, niche banks, local, domestic, are focused on a greater proximity to the client, processing "soft" data, recover the close relationship with the customer. However, their small power cannot support the whole need for funding and expansion of the SMEs sector. Complementary, we admit some recent opinions who stated that large banks use both transactional and relational lending, and SMEs are not an exclusive area of local/domestic niche banks. Large or foreign banks have not proved, at least until the onset of the crisis, and even later, as acting pro-cyclic for their subsidiaries countries; on the contrary, in terms of opportunities and good yields, these banks have increased their involvement in the financing of the economies concerned, including the SMEs sectors.

Using the results of theoretical research presented in the first part of our work, this paper is organized as follows: I Introduction, II. Our research. Methodology, dataset and assumptions, III. Discussion and results, IV. Conclusion

1.Our research. Methodology, dataset and assumptions

Our research is part of a larger project regarding of some aspects of the relationship between SME and banks, the role of the main determinants of the banking relationship, utilization of credit products, which type of bank (domestic, foreign, large, small, local, etc.) serves the best interests of the SMEs, etc. Data was collected mainly from Bihor county and Oradea main city, during the period March-May 2011, observing the following rules and objectives:

-potential portfolio was checked in advance using the site of the Ministry of Public Finance (Ministry of Public Finance 2011), in order to:

a. Removing, *ex ante*, the firms without financial statement, closed, suspended, etc.

b. checking if potential respondents belong to SMEs category (turnover less than 50 million EUROS and up to 250 employees)

c. Removing the firms working in financial intermediation (mutual funds and other financial entities, financial leasing, other lending activities, insurance and reinsurance of pension funds, insurance agents and brokers, credit, pawn houses), and, as far as possible, the group of firms, which, after consolidation, may exceed SMEs threshold (e.g. employees, turnover, etc.).

- the Ministry of Public Finance website also served to obtain various data such as age of the company, the turnover and the profit (for 2010), the average number of employees, etc.

- the questionnaires were addressed to the executive manager; regardless if he/she was accompanied by the financial manager of the company.

As a result of the survey, the primary database covered 611 questionnaires. Removing ineligible or wrong questionnaire, have resulted a sample of 595 firms (statistical error of 2.62%, confidence level of 95%).

Although the data are collected the majority of the Bihor County (95%) and, in small extend, from the neighboring counties of Arad and Satu Mare (Western and North-Western Regions of Romania), there are no special features on different economic laws and regulations for this area, or special behaviors of banks and government agencies relating to SMEs, comparing with other regions of Romania, in order to influence the results of our research.

Moreover, based on data issued by the National Bank of Romania and the main commercial banks, we found a regular position of the region to the national average for a series of banks indicators, such as the number of bank units, the number of inhabitants/bank unit etc., loans (in national currency RON and foreign currency) granted to companies, the volume of deposits, current accounts and so on. Thus, in terms of number of branches, the data of the National Bank of Romania and commercial banks for 2010 show an approx. number of 5,700 bank units, i.e. a banking density of 25.5 units per 100,000 inhabitants (National Bank of Romania 2011 a, b). For Bihor county, at the end of 2010, there are 143 bank units (2,49% of total bank units in Romania), a banking density of 22,52 units per 100,000 inhabitants (based on websites of the main commercial banks in Romania), that is a position close to the national average.

For the main bank indicators (loans, deposits) we can notice a position close to the country average (excluding the capital- Bucharest), only exception being the loans granted in foreign currency, where the figures for Bihor County is over 2.5 times higher than the national average (excluding Bucharest).

Objectives of the research, transposed in the content of the questionnaire were inspired, in part, by the Hernandez-Canovas and Martınez-Solano paper referred to some basic elements that define the banking relationship and its effects in perception among SME (use of banking relationship, determinants, concentration, confidence, reciprocity), collateral issue (Hernandez-Canovas and Martınez-Solano 2010), but our questionnaire contained additional research elements related to the lenders specific and the ownership natures – local banks vs. foreign banks, small/niche banks vs. large banks etc., obviously viewed through relationship banking and availability for SMEs financing.

In this paper we analyses a set of three questions focused to the perception SMEs regarding the most suitable type of bank (in terms of ownership, dimension, structure) for SME financing, and if the SMEs from peripheral area (e.g. rural vs. urban, small town vs. main cities) feel being deprived or discriminated by lenders (banks).

Herein questions were:
1. On a scale from 1 (strongly disagree) to 5 (strongly agree), evaluate the following statement: "Have domestic banks a greater availability to SMEs finance?"
2. On a scale from 1 (strongly disagree) to 5 (strongly agree), evaluate the following statement: "Have small/niche banks a greater availability to SMEs finance?"
3. On a scale from 1 (strongly disagree) to 5 (strongly agree), evaluate the following statement: "Are SMEs from peripheral backgrounds deprived of bank's funding?"

2.Discussion and results

To the question concerning if the domestic banks (comparing with foreign banks) are more involved in SMEs financing, we have the following responses (Chart 1): approximately 22% of the total (i.e. 132 respondents) are strongly against and 29% (i.e. 174 respondents) disagree with this idea. Neutral respondents have 30% (180 responses) and those we sustained this idea are: 11% (i.e. 67 respondents) agree and 7% (42 respondents) strongly agree. The weighted average shows a score of 2.52, that, in the announced scale 1 (strongly disagree) to 5 (strongly agree), indicates a solid opinion not to place/establish domestic banks as the main lenders for SME sector, as being more attached by local market or better understanding the local or national realities.

Our findings confirm the above mentioned theoretical position, but remarkable are the period and the events happened between the literature conclusion and our finding, thus:
- the literature conclusions were made (was drawn) in a more optimistic background, mostly in 1996-2007 interval, dominated by dereglementation, liberalization and privatization of financial market in the entire world, including Central and Eastern Europe, before the crisis, when international banks had an impressive expansion in CEE, reporting yearly exceptional results, in terms of turnover, profit, market share or customers number;
- our survey was carried out in March-May (2011), in the middle of the crisis, when the main international banks represented in Romania already announced significant decrease of their involvement in Romanian economy.

No of responses	strongly disagree	disagree	neutral	agree	strongly agree
No of responses	132	174	180	67	42
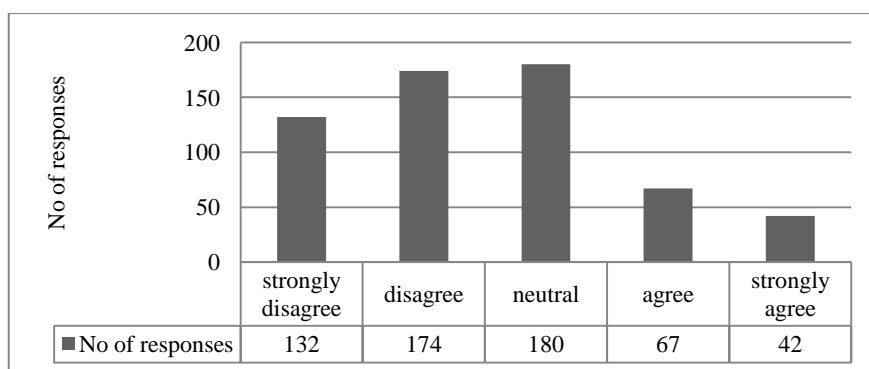
Chart1. Have domestic banks a greater availability to SMEs finance?
Source: own calculations, based on the dataset

The next question, if small/niche banks have a greater availability to SMEs finance has generated the following responses (Chart 2): approximately 16% of the totals (i.e. 97 respondents) are strongly against and 27% (i.e. 174 respondents) disagree with this idea. Neutral respondents have 31% (186 respondents) and 25% (i.e. cumulated 151 respondents) are those we sustained this idea. The weighted average shows a score of 2.76 that, in the announced scale 1 (strongly disagree) to 5 (strongly agree), indicates rather a neutral poisons (neither disagree, nor agree).
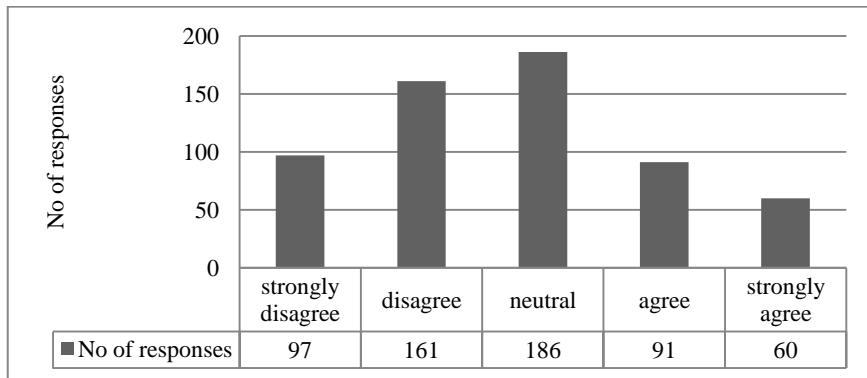
Chart 2. Have small/niche banks a greater availability to SMEs finance?
Source: own calculations, based on the dataset

Thereby, the small/niche banks doesn't remark thorough special feature, as relationship lending (see literature review presented part I of this work) suitable for a SMEs strong relationship. In this respect, it seems to be valid the opinion that both small banks - using relationship lending, or large, international bank - using transactional lending, modern structures, or sophisticated techniques (see de Hass, Lelyveld) have an approximately the same chances to reach the SME confidence and business.

Finally, the third question, if SMEs from peripheral backgrounds are deprived of banks funding, we have the following responses (Chart 3): approximately an equal percentage 24% (i.e. 141 respondents) and 23% (i.e. 136 respondents) strongly or mostly disagree with this assertion, while the neutral responses register the higher score of 29% (171 respondents). Those who agree with this question has 14% (86 respondents) and 10% (strongly agree). The weighted average shows a score of 2.13 that, in the announced scale 1 (strongly disagree) to 5 (strongly agree), indicates mostly a kind of disagree position regarding this questions. As the bank's networks are an acceptable territorial presence, active searches for opportunities in all economic environments, the answer may explain why the SMEs from peripheral backgrounds (small towns, rural areas, niche sectors, etc.) do not perceive, obviously, a careless of lenders for their own condition.
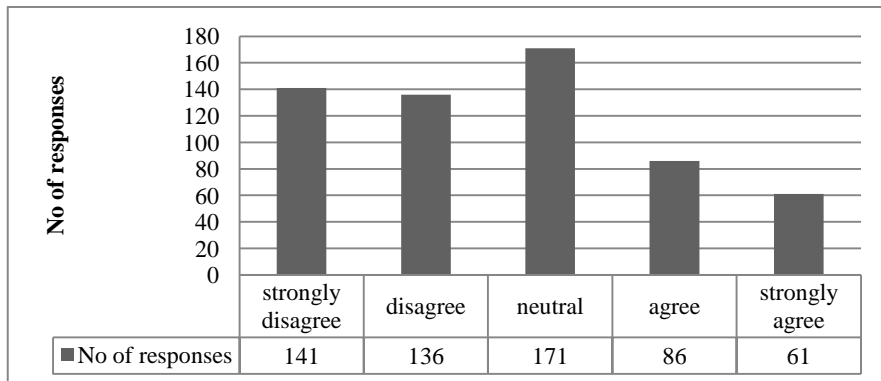
Chart 3. Are SMEs located in peripheral backgrounds deprived of bank's fundings?
Source: own calculations, based on the dataset

With all this positive confidence of SMEs in foreign banks, the reality are not so simple, and the crisis remembers to emerging economies that, however, the capital has a nationality, and the interests of origin countries are making towards the interest of the economies they have implanted.

In the first half of 2009, the possibility of a run from Eastern Europe of most Western European banks determined Central banks and Government officials to unite in the Vienna Initiative, requesting multinational banks operating in Eastern Europe to commit to maintain exposure and for injecting new capital into local branches. At the end of 2011 and first months of 2012, tensions have recurred much stronger. Central Bank of Austria urged subsidiaries of commercial banks in Central and Eastern Europe countries to limit the exposure of the respective markets to 110% of the resources collected from these markets, which is equivalent to halt or even to decrease the lending activities in those countries.

In these conditions, a new Vienna initiative took place in January 2012, in order to enhance the coordination of national policies that could impact the economies of emerging Europe (World Bank 2012). Even the European Central Bank saw a remarkable consensus (Reuters 2012), many analysts doubt that such a solution will have the same results as in 2009, due to that many of these multinational banks have huge problems on internal market (Capital, 2011).

Conclusions

The present paper has sought to put into question, theoretically and practically, how different types of financial institution could influence the availability for SME lending. The issue of financing is of prime importance for SME and banking lending (in the variety of its forms) is, and will be, the preferred way by SMEs in order to fulfill their objectives. Based on various studies, we 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 (analyzing "hard" data, scorings, national databases, information are sent through internal channels within institution, the center of decision and risk assessment are separate from the customer, a definite requirement for a certain types of collaterals etc.) and this approach seems more appropriate for the large firms than for SMEs.

On the other hand, there are small, niche banks, local, domestic, that offsetting the effectiveness of the large banks techniques by a of greater proximity to the client, processing "soft" data, recover the close relationship with the customer adding to the financial analysis, asker fewer or various collaterals, etc., but their small power cannot support the whole need for funding and expansion of the SMEs sector.

Alongside these views we found recent opinions who stated that large banks use both transactional and relational lending, and SMEs are not an exclusive area of local/domestic niche banks, but an interesting area, where large and foreign banks began to rapidly expand. .

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, do not find uninteresting or inappropriate the SMEs sector. Foreign banks have not proved, at least until the onset of the crisis, and even later, as acting pro-cyclic for their subsidiaries countries; on the contrary, in terms of opportunities and good yields, these banks have increased their involvement in the financing of the economies concerned, including the SMEs sectors.

The second part of the work draws on our research, a survey carried out in 2011, on a considerable number of SME in the Western and Nord Western regions of Romania's, aimed to understanding how the SMEs perceive the involvement of banks in lending relation, issues of trust, loyalty etc. For this paper, we tried to notice the extent to which SME consider that certain types of banks (e.g. domestic banks vs. foreign banks, large banks vs. small, niche banks) could better serve SMEs interests. We were, also, interested if SMEs from peripheral areas (urban vs. rural, small towns vs. main cities, niche sectors, etc.) perceive a certain discrimination when try to access bank loans. The results confirmed the theoretical the assessments stated in the first part this paper: there is a considerable need for financing, but also a need for distinctive, authentic, relations between the SMEs and banks. Regarding the nature of the banks involved, most

responses show the small or local banks are not, by default, the most suitable for financing SMEs. The large banks or foreign banks could also do that, to an extent comparable with local banks, sometimes more efficient. It also appears that banks do not ignore or neglect SMEs from less attractive area (rural, small towns, new or less known sectors). The explanation could stand to the banks effort to identify new business opportunities, increased competition, or the need to make profitable an extensive network. We consider, however, that the theoretical views supporting a strong and constant involvement of foreign banks in the emerging economies should be reviewed, at least in the light of the recent decisions of the parent banks of the main European countries regarding a reduction of their support for the subsidiaries existing in emerging economies from Central and Eastern Europe (including Romania). Of course, that requires a period of time, while the results of those decisions have to settle by the superficial phenomena, in order to obtain valuable theoretical and practical analysis.

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 on the economies, 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 Disney-fication 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.

Introduction

Since the second half of the twentieth century, tourism has been gaining momentum and in 2011 total revenues from tourism activities have reaches 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. Peppelenblosh 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).
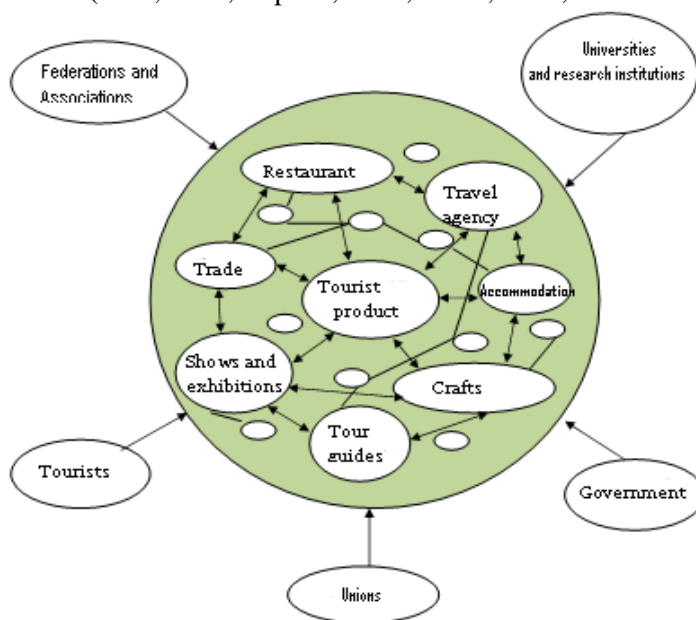
Figure no. 1. The representation of a tourism cluster
Source: adapted from the model developed by Da Cunha Sieglinde Kindl and Joao Carlos Da Cunha (2005:52).

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 all, 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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TOURISM - AS A DEVELOPMENT STRATEGY

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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 development. Having as research topic "Tourism and development in the Euro regional context" I dedicated a subchapter of this thesis in presenting tourism as a development strategy.

Thus we have analysed a series of specialised papers encountered at national and international level in order to achieve a synthesis about the addressed topic. Authors like Sharpley and Telfer (2002) found that the specialised literature in the tourism domain contains few articles on the relationship between tourism and development despite the fact that tourism remains an important area of the economic policy regarding development in most regions of the world.

Writings on tourism, that debate development, are often written in terms of the impact of tourism on the environment in which it unfolds.

Following statistical data collected on Faits saillants OMT du tourisme, 2011 Edition I found that indeed tourism is an important element in the development strategies.

The research methodology that was used consisted in documentation from the specialised literature and the site http://mkt.unwto.org/sites/all/files/docpdf/unwtohighlights11frhr.pdf in order to gather representative data on the evolution of international tourism for the 1950-2010 period, also highlighting the potential success of tourism in the economic development.

For this study to be more representative I presented the evolution of international tourist arrivals in the main tourist regions of the world. The graphical representation shows that Europe is the main destination for tourists from around the world.

Projections made by UNWTO (2011), confirm the fact that international tourism is continuously expanding, in 2020, the number of international tourists arrivals is approaching 1.6 billion.

1. Introduction

The articles on tourism can be traced to the 1930s and even before that, but the most part of the tourism literature appeared after 1960 (Sharpley and Telfer 2002:50 after Pearce, 1993). The development and tourism theory evolved almost in the same manner since the Second World War, however, there have been few efforts to connect the two fields of study (Sharpley and Telfer 2002:35 after Telfer 1996a). Tourism research initially functioned as an instrument for development having the most of researches done by planners and economists who worked for organizations such as UN, World Bank, and OECD (Graburn & Jafari, 1991). During the 1960s, tourism has been considered development and there also existed the belief that tourism creates increases in the currency exchanges and level of employment and the tourists' spending generate a multiplier effect that stimulates the local economy (Sharma 2004:201 after Davis 1968, Graburn & Jafari, 1991).

Regarding the specialised literature in the tourism domain, it was written much about the relationship between tourism and development, despite the increasing social and economic

significance and the use of tourism as a development strategy in developing countries. Writings on tourism, which refer to development, they are most times written from the perspective of the impact of tourism (Sharpley and Telfer 2002:51 after Pearce, 1989b) on the environment in which it unfolds. This is surprising, given the fact that tourism remains an important area of economic policy for development in many regions and in many nations (Sharpley and Telfer 2002:35 after Maleki 1997).

2. Tourism - an effective means to ensure development

Due to its rapid and continuous growth and the related contribution of economic potential it is not surprising the fact that the tourism is generally considered both in practice and in academic circles, as an effective means to ensure development. In other words, both in industrialized countries as well as in the less developed world, tourism has become an important and integral element in the development strategies (Jenkins 1991:61).

Countries from all around the world turn to tourism as a strategy for development, thus, in a fierce competition for the revenues obtained from the international tourism, (the foreign tourist arrivals are estimated at a peak of 1.6 billion; source UNWTO 2011:11). The locations that can develop even on the market of a tourist product, (a natural attraction, historic or cultural, an urban or rural destination), can take advantages of this market by attracting revenues from visitors (Sharpley and Telfer 2002:35 after Maleki, 1997). Tourism is used to generate foreign currency exchanges, the increase of the volume of employment, attracting capital for the development and promotion of economic independence (Sharma 2004: 180 after Britton, 1982). However, tourism literature has given low attention to the notion of development and to the link between tourism and development.

The specialists in the tourism domain recognize the importance of tourism as a development strategy, but only a small number of studies make any reference to the theoretical construction based on the development theory (Sharma 2004: 202 after Pearce 1989b, Britton 1991, Oppermann, 1993, Harrison 1994, Dieke 1993 and 2000, etc..).

As a result, the alleged contribution of tourism to development was accepted quietly, while a number of fundamental questions remain unanswered. For example: What is "development"? Which are the development's goals and objectives? How is development made? Does tourism represent an effective or realistic means of achieving development? Who benefits from development? Which forces/influences will contribute to tourism's development or militates against it? (Sharpley and Telfer 2002:12; and Sharma 2004:149)

Therefore, it is important to understand what the term "development" refers to and how its meaning can vary in different contexts. However, first of all, it is necessary to reconsider the reasons for which tourism, as opposed to economic industries or sectors, is seen as being an attractive vehicle for development (Sharpley and Telfer 2002:13; and Sharma 2004:150).

3. Tourism - an industry in a continuing evolution

The most compelling reason to consider tourism as a development strategy has to do with the alleged positive contribution that it has in the local or national economy. Internationally, tourism represents an important source of income derived from currency exchanges; indeed, it has been suggested that the main reason why governments support the development of tourism is its contribution to the balance of payments (Opperman & Chon 1997:109). In developing countries tourism has become one of the main sources of income from the currency exchanges while even in developed countries revenues obtained from international tourism can have a significant contribution in general to the balance of payments and especially to the travel accounts. Tourism is considered to be also an important source of creating jobs. In Cyprus, for example, about 25% of the labour force is directly or indirectly employed in tourism. It is also one of the reasons for

which tourism is often considered to be a new activity or a replacement activity for the areas in which traditional industries have been in decline (Sharpley and Telfer 2002:14; and Sharma 2004:151-152).

For many developing countries, with a limited industrial sector, with few natural resources and dependent on international aid (for example Gambia - one of the poorest and smallest countries in Africa), tourism represents the only realistic mean to win the much desired foreign income, creating jobs and attracting more foreign investments (Sharpley and Telfer 2002:15; and Sharma 2004:152).

Table no 1. International tourist arrivals and international tourism revenue (1950-2010)

Year	Arrivals (million)	Receipts (bilion US $)	Year	Arrivals (million)	Receipts (bilion US $)
1950	25	2	1990	435	262
1960	69	7	1995	528	403
1965	113	12	2000	675	475
1970	166	18	2005	798	679
1975	222	41	2008	917	939
1980	286	105	2009	882	851
1985	327	118	2010	940	919

Source: from 1950 to 1985 and adapted by Sharpley and Telfer (2002: 16) and Sharma (2004: 154), and from 1990-2010 completed by the author after *Faits saillants OMT du tourism,* 2011: 4 Edition, available on: http://mkt.unwto.org/sites/all/files/docpdf/unwtohighlights11frhr.pdf

Since 1950 (Table no 1), when there were recorded around 25 million of international tourists arrivals, international tourism has shown a constant and remarkable growth (issue confirmed the UNWTO data of June 2011). Thus, in the second half of the 20th century, it is shaped the importance of tourism in the economic and social activity under the name of tourism industry.

Interesting is the fact that the growth rate in arrivals is constantly decreasing (Table no 2). For example, during the years 1980 - 1990, the average increase rate in international tourist arrivals was of 4.8%, the lowest value recorded since 1950 to the present day (Sharma 2004:154).

Table no 2. Tourism arrivals and receipts growth rates, 1950-2010

Decade	Arrivals (average annual increase %)	Receipts (average annual increase %)
1950-1960	10,6	12,6
1960-1970	9,1	19,4
1970-1980	5,6	10,1
1980-1990	4,8	12,6
1990-2000	4,5	6,1
2000-2010	3,4	6,8

Source: from 1950 until 1990 adapted by Sharpley and Telfer (02: 16) Sharma (2004: 155), and from 1990-2010 conducted by the author based on the formula: $\sqrt[years]{\frac{ending\ value}{beginning\ value}} - 1$. The source regarding the method of calculation of the average rate can be found on this site: http://www.investopedia.com/terms/c/cagr.asp%20#%20axzz1YOwbrZj2

However, predictions made by UNWTO suggest that international tourism will continue to grow in the new century, in 2020, the number of international tourists arrivals approaching 1.6 billion (WTO 2011:11). So, at first sight, tourism as an economic sector showed a healthy growth and, therefore, is considered an attractive and safe option for development.

However, the general overall data mask important factors (Sharpley and Telfer 2002:16-17; and Sharma 2004:154-155):

-First, although international tourism can claim to be a growth sector, certain periods showed decreases or even negative growth. OPEC crisis of the mid-1970s, the global recession of the early 1980s and the 1991 Gulf conflict, have led for some countries, a decline in arrivals. Thus, tourism is very susceptible to external influences that, certainly in the short term, can have a significant impact to a tourist destination, regarding tourism's contribution to economic development.

-Second, Shaw and Williams (1994:23) show that global tourism growth does not imply the fact that "mass tourism materialized at global level, and that populations in most countries are caught in a whirlwind of international passenger traffic."Despite the increase in international tourism in some regions, especially in Eastern Asia and the Pacific, the flow of international tourism remains highly polarized and regionalized. That is, international tourism is still dominated in most of developed countries and, in a lesser extent, in developing countries and less developed. Indeed, despite the emergence of new destinations and more popular, such as China, Thailand, etc., the economic benefits of tourism still remain highly polarized (Vellas and Becherel, 1995:21). The largest international movements of tourists take place between well-defined regions, especially in Europe.

Graphic No. 1. The evolution of international tourists' arrivals (expressed in millions of persons) on regions during 1990-2010
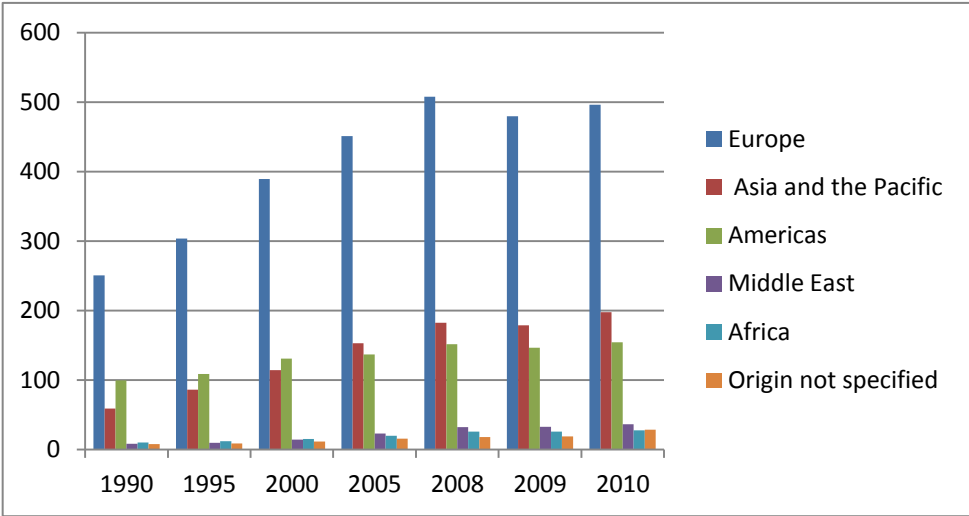
Source: made by author on the basis of the statistical data obtained from the work *Faits saillants OMT du tourisme*, 2011:10 Edition, available on:
http://mkt.unwto.org/sites/all/files/docpdf/unwtohighlights11frhr.pdf

The above figure clearly highlights the fact that the number of arrivals on "the old continent", has increased continuously from 250.7 million in 1990 to 507,5 million in 2008 and in 2009 - 2010 compared to 2008 (the year with the largest number of arrivals) were recorded slight decreases of

1.10% (2009) respective 0.97% (2010). Compared with other continents, we see that despite recorded declines in 2009-2010 Europe remains the main destinations of tourists from around the world.

4. Conclusions

The attraction of many countries and regions lies in the natural resources – the sea, the beaches, the climate, the mountains, and so on. This aspect suggests the fact that tourism's development is based on natural resources that are free or "of the country", as far as these don't have to be constructed or created, and "the economic value can be derived from limited resources that may or may not have alternative uses."(Jenkins 1981:86) Similarly, historical sites and attractions, (whether natural or artificial), which have been passed on from generation to generation, can be considered free, although the costs are obviously included in their care, maintenance and management of tourist attractions and resources (Sharpley and Telfer 2002:19; and Sharma 2004:155)

Due to the fact that tourists need a variety of goods and services in the destinations in which they are, including accommodation, drinks and food, entertainment, local transport services, souvenirs and so on; tourism mainly offers more opportunities than other industries, in establishing connections with the entire local economy. Such opportunities include direct links, such as the expansion of the farm industry of the area in order to provide food for local hotels and restaurants (Telfer 1996b) and indirect links, for example, the construction industry.

A variety of other reasons, secondary, can be suggested for tourism's popularity as a development option. These include the idea that tourism development can lead to improvements in infrastructure and in providing facilities that are useful to both local communities as well as to tourists; the fact that tourism often provides justification for the protection of the environment and that tourism can encourage the revitalization of traditional crafts and cultural practices. These secondary reasons along with the primary ones, explain why all the countries of the world have developed, in greater or lesser extent, the tourism industry (Sharma 2004:159).

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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 trasfer", 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.

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 insfrastructure

-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 Bihor - 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 to 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 Bihor 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 Bihor

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 trasfer" -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, Bihar 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 trasfer 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 adressed mainly to citizens, especially printing of a neccesary 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. Hencethere is a the 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 Bihor 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 Bihor - 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 Bihor county, able to collect the operative, with the possibility of processing the hub (Oradea, Bihor 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 Bihor, 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 Bihor 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 Capitainhood 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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HUMAN CAPITAL'S IMPACT ON THE PERFORMANCE OF ROMANIAN KNOWLEDGE BASED COMPANIES

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To meet the desiderata expressed by the implementation of knowledge-based economy, companies must reconsider development strategies and must facilitate the shift from a management largely based on resource consumption to knowledge-based management. In this view, the importance of the human factor increases, becoming a precious resource that creates value and competitiveness. This paper shows the interaction between company performance and human capital, exemplifying this aspect through a case study based on a regression model in Romanian software companies. The obtained results show the strong connection between company performance, expressed by net income, and the quality of the human capital, synthesized by labour productivity.

1. Introduction

Knowledge based economy requires companies to rethink the role of production factors in creating value and increasing performance. Human resources represent the active and determining factor in the activity of companies. Human capital has a decisive role on the results obtained by companies through the substitution of ideas for physical matter in the process of creating value (Sheehan, 2010). A study conducted by Ernst&Young for 98 listed European companies concluded that human capital contributes an average of 30% to the market capitalisation of a company (Binvel et al., 2010).

Since 1996, Handy has identified that a key element for boosting organisational changes in companies is the good management of employees' knowledge and skills. Thus, human capital opens up new opportunities for economic growth by exploiting the potential of knowledge, creation and innovation of the company. It creates the most important segment of intangible assets and, to the extent that it is used efficiently, it contributes decisively to company performance. Currently, the management strategies applied by companies take into account expanding the techniques of knowledge based management and adopting an integrated vision where the intellectual capital management is promoted in direct connection with organisational learning management and organisational knowledge management. As the implementation of these strategies takes place, the conditions for improving performance through productivity and higher quality arise, which happens through a continuous process of innovation (Minnone and Turner, 2009).

Being in an ongoing process of reorganization of the productive, organizational and legal structures, especially after joining the European Union (2007), Romania has experienced a strong dynamism in the economic sectors, including the software industry. According to Eurostat, between 2006 and 2010, the information technology expenditure recorded an increase of 30.4%.

This study aims to highlight the interaction between performance and human capital within Romanian software companies.

In analyzing the correlations between the performance recorded at microeconomic level and human capital, an important issue is choosing the indicators so that their specific content will better serve the pursued goal. Of the many indicators used to study performance, we chose Net income, which synthetically expresses the efficiency of companies.

Another reason to choose the indicator is that companies don't recognize the intellectual capital used in their practice as an element of asset. Although it is generally accepted that creating value is closely linked to the presence and quality of the intellectual capital, the current financial reports don't provide information regarding the value of these important intangible assets. Therefore, the performance calculated as return on assets (Profit/total assets) is distorted, it excludes intellectual capital and it forms only on the basis of physical and financial assets (Westphalen, 1999).

To show the contribution of human capital to the process of creating value and financial results, the analysis used the labour productivity indicator. This indicator is expressed as a ratio between turnover and number of employees and it reflects the quality of human capital, which has a crucial role in the activity of companies because of its know-how and skills.

To achieve the main objective of this paper, we used an econometric analysis method, namely the multifactor analysis. The analyzed data regards 138 software companies in 2008 and 2009.

The obtained results show that in the Romanian software industry, human capital is a factor that leverages the firm, providing a competitiveness advantage. Directing decision-making factors to better monitor and manage these assets is an important way to increase performance and competitiveness in knowledge-based companies.

Measuring the performance obtained by a company on the basis of its intellectual capital is a difficult problem. First, it is necessary to define the company's knowledge assets, the intellectual capital and its components for a better management and, of course, it is necessary to use appropriate methods for assessing the impact on financial results.

Most frequently, the concept of human capital refers to a combination of skills, experience and competencies that gives staff a productive potential (Foong and Yorston, 2003).

Traditionally, the contribution of human capital to the economic performance of a company may be assessed by studying aspects regarding employment of personnel and the influences exercised by employees on performance indicators (Burja, 2003). It is believed that currently there is no comprehensive system for the financial expression of human capital, which can also be an instrument used by companies to monitor and control the conversion of knowledge assets, and therefore of human capital, into value, which makes it necessary to introduce a new performance measurement and accounting system (Daum, 2003).

In practice, there have been a series of researches conducted to quantify the connection between human capital and the performance measured through shareholder value. An example is the study conducted for companies from Europe and Asia by Watson Wyatt (2001). With the score provided by Human Capital Index, the study highlighted the existence of a cause and effect relationship between human capital management and the future share price of a company.

Another way to measure the value created by knowledge assets is the one based on the production function concept, according to which economic performance is a function of various production factors synthesized in physical assets, financial assets and intangible assets (Gu and Lev, 2001).

For Romania, a study conducted by a group of American researchers through panel data techniques on 297 small enterprises showed that human capital has a low impact on growth (Brown et al., 2004).

2. Data and methodology

The exploratory research presented in this paper aims to determine the relationship between human capital and economic performance in Romanian knowledge-based companies, contributing to widening the perspective on ways to increase the competitiveness of companies.

The information about software companies was gathered from the database "Total Firme Romania", which is the biggest electronic catalogue of companies in Romania. It includes identification data and financial data going back to the year 2006.

The data sample taken into account for this research includes companies involved in manufacturing software on commission, CAEN 6201 (CAEN means Romanian National Classification for Economic Activities - NACE). The reason for choosing software companies consists in the fact they are active in the area of knowledge management.

When we consulted the database (November 29, 2011) there were 161 companies enlisted under CAEN 6201. We conducted a selection according to the criterion "more than 10 employees" and the existence of complete information about financial indicators. We chose a number of 138 companies with information available for the period 2008-2009, companies that manufactured software on commission. At the end of this selection, we had a balanced panel data of 276 firm-year observations.

Our study used the multifactor regression analysis, which allowed taking into account the factors relevant for analyzing company performance.

In this study, company performance was measured by Net income, having information provided by the financial statements of the studied companies. The indicator Earnings before interest and taxes was used in the analysis of performance and of the value created by human capital in several German companies (Scholz and Muller, 2010).

To quantify the influence of the determining factors, we used the approach suggested by F. Gu and B. Lev (2001), according to which, at microeconomic level, economic performance is a function of physical capital, financial capital and human capital used in production. The lack of explicit information in the database, particularly for the various forms of financial capital, has led to the use of the indicator Total capital, which largely includes the stable funding sources used to finance the business.

According to data presented by Foong and Yorston (2003), companies from Great Britain use various indicators to measure human capital: Employee Turnover, Absentee Statistics, indicators regarding: Competencies/Training (Performance reviews, appraisal completion, Training per employee, Staff with professional qualifications, Competency ratings, Mistakes, Exam passes, Quality of leadership based, Average educational level), Employee productivity (Profit per Employee, Revenue per Employee, Wealth Created per Employee, Cost per Employee, Productivity measures), Workforce profile, Employee attitude/Engagement, Employee Compensation, Recruitment, Health and Safety etc.

Of these indicators, our paper used Employee productivity calculated as the ratio between sales revenue and number of employees. Due to its content, this indicator connects human capital management to company performance, which corresponds with opinions formulated in various studies that analyzed labour resources and performance (Gratton, 2000), (Foong and Yorston, 2003). Sales revenue per employee ratio expresses the contribution of the personnel to revenues and profit from the sale of production and provides information about the efficiency and financial health of the company (Vause, 2009). This indicator is particularly useful for studying the impact of human capital in the same company during a period of time or for the analyses conducted by operators in the same industry.

The dependent variable used to assess performance is Net income (NI). The explanatory variables are Total capitals (TC) and Sales revenue per employee ratio (SRER), which valuates the contribution of human capital to value creation. The descriptive statistics of the variables used in the analysis are presented in table 1.

Table 1. Descriptive statistics of variables

Variables	Mean	Maximum	Minimum	St. Deviation
Net income, lei	395820.7	12711734.0	-1042753.0	1408500.0
Total capitals, lei	1067135.0	43242701.0	-2010270.0	4072814.0
Sale revenue per employee ratio, lei/pers	129235.2	1186248.0	3000.0	150325.8

Source: realized by the author based on data available on www.totalfirme.com

The average net income achieved between 2008 and 2009 by the analyzed software companies was 395,8 thousand lei, recording a maximum of 12711,7 thousand lei and a minimum of -1042,7 lei. The average capital used by software companies was 1067,1 thousand lei, and the largest capital was 43242,7 thousand lei; however, there are companies that use sources other than their own to finance their business. The average productivity of an employee was 129,2 thousand lei, with a maximum of 1182,2 thousand lei/person and a minimum of 3000 lei/person.

3. Human capital's impact on performance- Empirical analysis

To investigate the behaviour of the performance indicator, one can use two models. The first model expresses the interdependency between net income and total invested capitals. The second model reflects the interaction between net income and the variables Total capitals (TC) and Sales revenue per employee ratio (SRER):

$$NI = \beta_0 + \beta_1 \cdot TC_{it} + \varepsilon_{it} \qquad (1)$$

$$NI = \beta_0 + \beta_1 \cdot TC_{it} + \beta_2 \cdot SRER_{it} + \varepsilon_{it} \qquad (2)$$

where: ε is the residual variable;

β_0- intercept;

β_1, β_2 - regression coefficients that indicate independent variables' effect on the dependent variable;

i - firms (cross-section dimension)

t - years (time-series dimension)

Estimating the impact of human capital on performance in the selected software companies was achieved with the help of the cross-section SUR PCSE methodology, which is appropriate for the analysis of data with many cross-sectional units and relatively short time-series (Beck and Katz, 1995). Assessing the accuracy of the models and their trust level for future predictions was based on the results of statistical tests regarding the violation of basic hypothesis of linear regression, namely: non-normality of variables, non-stationarity of time series data, multicollinearity of variables, autocorrelation and heteroscedasticity. The predictions for the two models and the results of the regression analysis are presented in table 2.

Table 2. Regression analysis - Performance determinants for software companies – 138 Romanian software companies, 2008-2009

Dependent variable - Net income				
Model	Explanatory variables	Regression coefficient	t-Statistic	VIF
M1 R² ajust 0.812 F-prob 0.0000	Intercept	63031.3	-	-
	Total capitals	0.312	7.30 (0.0000)	1.00
M2 R² ajust 0.817 F-prob 0.0000	Intercept	-17762.5	-	-
	Total capitals	0.307	6.92 (0.0000)	1.04
	Sales revenue per employee ratio	0.667	2.31 (0.0214)	1.04

Source: realized by the author

Note: in parentheses are p-values robust for heteroskedasticity and contemporaneous correlation resulted by cross-section SUR (PCSE) using Panel Correlated Standard Error methodology standard errors & covariance correction

Model 1. The regression results obtained by model 1 indicate that the financial results of the selected software companies were positively influenced by the size of the capitals used in their activity. The increase of the capitals by one value unit led to a profit increase of 0.312 lei.

The calculated value of statistic t for Total capitals exceeds the table value, $|t_{TC}| > t_{0.05;274} = 1.96$, which indicates that the prediction is statistically significant, having a 95% probability to guarantee the results. In these conditions, it can be said that the corresponding explanatory variable influences the dependent phenomenon. At the same time, the low value of Variation Inflation Factor suggests that the prediction can be slightly modified by the presence of multicollinearity.

Using the OLS technique with panel-correlated standard errors (PCSE) treated the potential problems related to group-wise heteroskedasticity and contemporaneous correlation.

The coefficient of multiple determinants (R^2 adjusted) shows that the performance of software companies is largely determined by the managed assets, so that the variation of profitability may be explained in proportion of 81.2% by the indicator Total capitals.

Model 2. The second model is run by using the dependent variable Net income and the explanatory variables are Total capitals and Sales revenues per employee ratio.

The coefficient of multiple determinations is 81.7%, being higher that the one of model 1, which shows that the second model is better at explaining the factors that determine the profitability variation of companies.

By monitoring the obtained coefficients, one can notice that there is a positive relationship between the two influence factors and the profitability of the studied companies. The coefficient for Total capitals is 0.307 (p value is 0.0000), and for sales revenue per employee ratio is 0.667 (p value is 0.0000). The low values of VIF indicate the absence of multicollinearity between estimators, which are significant for the studied phenomenon.

The obtained results suggest that increasing or decreasing capitals and human capital influences significantly the performance of software companies. The size of the estimators for the two explanatory variable shows that the change in company performance was mainly due to the influence of human capital, whose impact was two times higher than the impact resulted from the use of other capital forms.

4. Conclusions

The analysis performed on a representative sample of 138 Romanian software companies for the years 2008-2009 highlighted the existence of a positive connection between performance and the elements of the capitals managed by these companies.

The regression coefficients obtained for Total capitals (model 1 and model 2) suggest that the profitability variation was due in proportion of approximately 31% to the influence exercised by the management of the assets. However, the influence of the human capital identified by using the second model was decisive, the impact of quality and of the efficiency of the human factor causing a change in performance of 66.7%.

The coefficient of multiple determinations (model 2) shows that approximately 81.7% of the manifestation law of profitability may be explained by the identified factors.

The results back-up the conclusions of studies regarding knowledge-based economy, where it is considered that in addition to technology and connectivity, human capital plays an increasingly dominant role, which reflects in the financial results of a firm (Low, 2000), (Seetharaman, Sooria, & Saravanan, 2002), (Gratton, 2000),).

This study shows in the Romanian software industry, the close dependence between performance and the human factor is obvious, the human capital being the main element in creating value. Making better use of the creative and innovation potential and of the potential of the labour force, especially of the high-skilled staff, is an important way to increase company performance and

competitiveness, aspects that give them a qualitative economic development and helps them to survive in a competitive environment.

The findings of the study show that at least in Romanian software companies, managers can create more value for their shareholders by increasing the knowledge of labour force. At the same time, the findings can be useful for decision makers from other enterprises and institutions that play a role in the education and training of the labour force, in identifying real strategies to create, use and improve human assets, thus stimulating performance growth and the development of elements specific for Knowledge economy.

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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.

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?

III. 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 Worlwide, 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,

Timpul petrecut la TV

Minute pe zi

Regiuni

Series1

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

Among all 8- to 18-year-olds, change in average amount of time spent with each medium in a typical day:

[†] 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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SECTORAL RISK AND RETURN FOR COMPANIES IN ROMANIA

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Risk is an important factor in explaining capital structure choices of companies.Risk is the probability that cash flows or return will vary from expectations. Standard corporate finance theory supposes that a company chooses a capital structure that maximizes company value. A fundamental idea in finance is the relationship between risk and return. The greater the amount of risk that an investor is willing to take on, the greater the potential return. The reason for this is that investors need to be compensated for taking on additional risk. Why put capital at significant risk for a return that is no higher than the return on government bonds? Or expect higher than averages returns from low-risk activities? It is impossible to separate measuring the performance of a company from the risks that the management takes to achieve it.In most aspects of company operations, risk assessment plays a different but equally important, role. It is an integral part of informed decision taking in achieving performance. Risk assessment is involved from the highest level in strategic choices about what activities to undertake, what assets to buy or what markets to serve all the way to detailed operational decisions about whether to accept payment in foreign currencies and the adequacy of safety measures in the workplace. It plays a part whether or not an organization is aware of managing risk and many managers feel that their instinct and judgment are enough – a behavior risk. The danger is that this leaves company risk unplanned and unmanaged. This paper proposes a framework where we realized a study cases: we test if return on assets and return on equity has influence on the risk, both on long and short term. For this purposes, we conduct an empirical research that covers 59 selected companies traded at the Bucharest Stock Exchange within the time period 1999-2010. For this study our results reveal that dynamic global risk can be associated to a low intensity with total assets performance of the company's. Investments efficiency and the adoption of certain financial positions appear to be key factors in the dynamics of risk.

1. Introduction

To illustrate the connection between the rates that reflect the companies' financial performance, namely the return on assets and the return on equity and a measure of the existing overall risk in the companies, measured by changes in net profit, we considered 59 companies in category I and II listed on the Bucharest Stock Exchange, cases synthesized by the following indicators:
- net profit;
- return on assets – ROA (Net income/Total Assets);
- return on equity – ROE (Net income/Shareholders equity) .

The data are grouped into two sectors conventionally defined to allow noticing the features that the branch / industry sector induce in the "optimal" levels of the rates. The two sectors are grouped as follows:

- Sector 1 - light industry - includes: Chemical Industry, Drugs and Medical Products, Telecommunications, Plastics, Tourism and Hotel Services;

- Sector 2 - heavy industry - includes: Oil Industry - including services related to extraction and processing, Mechanical Engineering, Metallurgical / Steel Industry, Civil and Industrial Constructions, Materials Processing Industry.

2. Methodological framework

The System GMM methodology proposed by Arellano and Bover (1995), Blundell and Bond (1998, 2000) and Windmeijer (2005) is concerned because estimators such as fixed and random effects, IV or the standard GMM could lead to biased results. Also, since a small sample of panel data can produce a "downward inclination of the estimated asymptotic standard errors" in the two-step procedure(Baltagi, 2008: 154), we will use the "Windmeijer correction" for the estimated standard errors.

There are several advantages of GMM - System compared with other static or dynamic methods of estimation of panel data. In the database we have 59 companies (N) divided into two sectors analyzed over a period of 12 years :1999 – 2010 (T). The literature establishes several reasons for using dynamic panel model because it is designed for a situation where "T" is less than "N" in order to control the dynamic panel (Bond, 2002; Baltagi, 2008); the potential endogeneity problem can be easily addressed in the dynamic panel models than in the static and in the LSM(Least-Squares Method) models because all the regression variables that are not correlated with the error term (including the lag and differential variables) can potentially be used as valid instrumental variables; the dynamic panel model is able to identify the implied short- and long-term effects (Baltagi, 2008); the GMM system exploits the stationarity restrictions, while the first differencing GMM estimator can behave poorly when the time series are persistent; if the panel data are unbalanced, then the first-difference GMM methodology may amplify the differences between them (Roodman, 2007) and so on.

Consequently, we will use the system GMM estimator trying to compensate for these specific problems in a small sample of data.

The purpose of this study is to test the following meta-hypothesis:

H: the return on assets and return on equity influences the company risk change for both long and short periods of time.

The implicit formal model of H can be formulated as follows:

$$R_{i,t} = \propto_i + \omega_t + \rho * R_{i,t-1} + \beta * Re_{i,t} + \theta * Rf_{i,t} + \varphi * Z_{i,t} + \varepsilon_{i,t}$$

Where $R_{i,t}$ is the risk level of a sector calculated in our study by the net profit, $Re_{i,t}$ is the return on assets, $Rf_{i,t}$ is the return on equity, $\propto_i$ represents the specific time invariant

unobserved effects, ω_tI captures a common deterministic trend, Z is a set of tools for R and Re and $\varepsilon_{i,t}$ is a random disturbance considered to be normal and identically distributed (IID) with $E(\varepsilon_{i,t})$=0; $Var(\varepsilon_{i,t}) = \sigma^2 > 0$.

3. Risk - Return Correlation estimated by applying the GMM System

To illustrate the connection between the rates that reflect the companies' financial performance, namely the return on assets and the return on equity, and a measure of the existing overall risk in the companies, measured by changes in profit, we considered the 59 companies in category I and II listed on the Bucharest Stock Exchange, divided in two sectors conventionally defined. Data processing was carried out in DPD (Dynamic Panel Data), a program that facilitates the estimation of the dynamic panel data models.

The estimation strategy carries the running of a separate regression for highlighting the existing connections between each of the estimation ways of the overall risk and rates of return for each sector. An additional step in the advanced analysis is the development of regressions in panel data in order to estimate the intensity of the connections that can be outlined between the various forms of estimation of the dynamic in the outcome indicator changes (as a measure of the overall risk as shown in the company) and economic and financial rates of return.

The data are grouped as follows:
- at the level of the entire set of observations by grouping all the companies within each sector in a single set;
- at the level of each sector, considered separately.

The implementation of the estimation strategy involves:
- obtaining of the regression parameters;
- the estimation of the intensity of the links between endogenous and exogenous variables in terms of Student t-test (an empirical value of this test greater than 2 reflects a significant connection; the higher this value is so can be presumed the fact that the bond strength is more pronounced);
- the estimation of the instrumental variables accuracy in terms of SARGAN test (an empirical value of this test as close to 1 percentage point reflects a correct estimation of the residual variables).

a1. The connection between the net profit and ROA and ROE -sector 1
Dependent variable: net profit
Method: Dynamic Panel Generalized Method of Moments (GMM – System)
Transformation: first-order difference (orthogonal deviations)
Total comments included (balanced panel): 384

Variable	Coefficient	Standard Error	t-statistic	Probability
Return on assets	0.83	0.09	8.65	0.299
Return on equity	0.009	0.009	1.04	0,428
Sargan Test	31.59 [1.000]			

According to these results, return on assets has an explanatory power in forecasting the net margin rate at the level of sector 1. Based on the value of the Sargan test, one can assess the model relevance chosen through the correctness of the chosen instrumental variables.

In order to avoid some multicollinearity problems that can be induced by the structural connections between financial indicators considered, we will conduct separate regressions for each explanatory variable.

a2. The connection between the net profit and ROA - sector 1
Dependent variable: net profit
Method: Dynamic Panel Generalized Method of Moments (GMM - System)
Transformation: first-order difference (orthogonal deviations)
Total comments included (balanced panel): 384

Variable	Coefficient	Standard Error	t-statistic	Probability
Return on assets	0.71	0.07	9.11	0.000
Sargan Test	31.08 [0.912]			

According to the results obtained within this regression with a single independent variable, namely return on assets, we can state that, based on this change we can forecast the net profit as a measure of the overall risk at the level of sector 1. The value of the t-statistic indicates a strong intensity of the link between the two variables, the net profit and return on assets, and the value of the Sargan test involves a high relevance of the model chosen in terms of accuracy of the chosen instrumental variable.

a3. The connection between the net profit and ROE - sector 1
Dependent variable: net profit
Method: Dynamic Panel Generalized Method of Moments (GMM - System)
Transformation: first-order difference (orthogonal deviations)
Total comments included (balanced panel): 384

Variable	Coefficient	Standard Error	t-statistic	Probability
Return on equity	0.05	0.02	2.37	0.018
Sargan Test	31.63 [0.900]			

The regression obtained with return on equity as the single independent variable indicates a direct proportional link between the net profit and return on equity, the first one having a weaker power of prediction for this sector than the return on assets.

a4. The connection between the net profit and ROA and ROE -sector 2
Dependent Variable: Net Profit
Method: Dynamic Panel Generalized Method of Moments (GMM - System)
Transformation: first-order difference (orthogonal deviations)
Total comments included (balanced panel): 372

Variable	Coefficient	Standard Error	t-statistic	Probability
Return on assets	0.96	0.15	6.26	0.000
Return on equity	0.0008	0.001	0.56	0.57
Sargan Test	26.69 [1.000]			

Similar to sector 1, considering the net profit as an independent variable and a measure of the risk and return on assets and return on equity as dependent variables, only the economic one has the ability to forecast changes in the estimated risk based on the net profit.

In order to avoid some multicollinearity problems that can be induced by the structural connections between the financial indicators considered, we will conduct separate regressions for each explanatory variable.

a5. The connection between the net profit and ROA - sector 2
Dependent Variable: Net Profit
Method: Dynamic Panel Generalized Method of Moments (GMM - System)
Transformation: first-order difference (orthogonal deviations)
Total comments included (balanced panel): 372

Variable	Coefficient	Standard Error	t-statistic	Probability
Return on assets	0.85	0.1	7.76	0.000
Sargan Test	29.56 [1.000]			

This regression being obtained confirms the previous estimates, namely that there is a strong direct proportional link between return on assets as an instrumental variable and net profit. The Sargan test indicates a high level of model relevance from the considered instrumental variable perspective.

a6. The connection between the net profit and the ROE - sector 2

Dependent Variable: Net Profit
Method: Dynamic Panel Generalized Method of Moments (GMM - System)
Transformation: first-order difference (orthogonal deviations)
Total comments included (balanced panel): 372

Variable	Coefficient	Standard Error	t-statistic	Probability
Return on equity	0.008	0.003	2.27	0.024
Sargan Test	30.99[1.000]			

Considering the return on equity as a unique instrumental variable within the regression formed which has the net profit as a dependent variable, one may though identify even here a direct proportional link between the two variables, which confirms the possibility of errors emergence because of the multicollinearity induced by the structural connections between the financial indicators considered.

4. Conclusions

Analyzing the econometric model built, having the net profit as the risk measure and return on assets and return on equity as independent variables, it is advisable, using this measure to estimate the risk, to take into account return on assets both for Light Industry and Heavy Industry. Within this model, the return on equity is not the most appropriate risk calculator, imposing either the use of the model having the return on assets as a single independent variable or reconsidering the model by introducing other financial or non-financial performance indicators as independent variables.

It can also be noted that between the two sectors, even in the conventional manner in which they were defined, there are important differences in the intensity and in the relative importance of the links established between the risk dynamics and the economic and financial rates of return.

These differences can be explained by both environmental uneven factors characteristics to companies activities and the distinct perception that the companies have regarding sector specific risks.

The objective of this study is to demonstrate a series of empirical issues that support the thesis according to which, even on a short term, in order to identify the changes in risk at sector level shows the relevant companies performance, measured within the study based on the economic and financial rates of return.

Of course there are clear limitations of the analysis, namely: limited number of financial ratios considered, analyzed data heterogeneous structure and possible errors induced by the non-linear interactions between the variables considered.

Despite these limitations of the proposed analysis, the existence of some mechanisms can be reveal based on this analysis, through which the instrumental variables described by the economic and financial rates of return may affect the manifestation of the risk at sector level.

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ACHIEVING SUSTAINABLE TOURISM THROUGH CUSTOMER SATISFACTION

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In tourism, hotels play an important role and contribute to the economic growth in cities and other places endowed with attractions which are universally recognized.
Two elements are essential in the tourism industry system: product quality and human resources.
In terms of quality of the hotel services, that is the one that allows to the tourist enterprise to own a competitive advantage, gain competitive differentiation and reputation among customers by achieving a high degree of customer satisfaction.
Hotel customer satisfaction would be impossible if the hotel management does not perform periodic evaluations on customer satisfaction and quality, which are the focus of this paper. Therefore, this paper focuses on customer satisfaction measured by the SERVQUAL model.

1.Introduction

Tourism is a growing market, especially in Romania, where it started to take increasingly bold wings. This makes room for everyone, but to seek the best from all of them. The difference is not made nor by the hotel offered to the tourist, or program. The tourists are becoming more and more educated. The tourists know what to ask for and appreciate what is offered. Therefore, the difference lies in attitude, awareness, ability to listen and to know how to solve the most relevant wishes of the guests that step into the hotel. Only if you know how to provide an additional shade to the paid services, you will ensure that the tourists will confer again their (or others) holidays again to you, being known the fact that a satisfied tourist brings another 10! Two elements are essential in the tourism industry system: the product quality and human resource.

In the economic life, the most successful organization is the one that is able to satisfy the needs of its customers and strives to maintain its customers satisfied.

Customer satisfaction is achieved when the client believes that the specifications meet his expectations of a service.

Consequently, measuring the customer satisfaction, including a service company's internal research, can lead to higher quality of its services.

In the '80s, the researchers Parasuraman, Berry and Zeithaml, following an extensive research on service quality, have concluded that, compared to the quality of goods offered to the customers, the evaluation of the service quality is a much harder task. According to the three researchers, the five main dimensions that customers use in evaluating the service quality are explained as follows:

- Material assets (tangible): appearance of equipment, personnel and communication materials.
- Reliability: the ability to perform the promised service safely and accurately.
- Responsiveness: willingness to help the customers and provide prompt services.

- Safety: the knowledge and courtesy of the employees and their ability to instil a sense of trust and safety.
- Empathy: the care, individualized attention that the service organization provides to its customers.

To assess these five aspects of service quality, Parasuraman and all. have designed the "Servqual" model which includes a questionnaire with 22 questions. Half of the questionnaire is related to expectations of the customer concerning the services and the other half is related to the customer perception of the consumed services. Hence, it appears that the service quality is given by the relationship: perceptions - expectations = quality.

The Servqual model has many applications (it can be used both in marketing studies, and in comparison among similar services offered by competitors, as Parasuraman and all. said in 1988). The most important use of it, however, is keeping track of the changes happened in the service quality provided by an organization, fact that is done through a regular survey of the customers.

In tourism, the hotels are very important due to their crucial role played in improving the tourism sector and developing a certain region (Hessamaldin M.S.2008).

2. Problem Formulation

Although it is known the important role the hotel plays in satisfying the tourists requests, it is however, very difficult for the hotel to meet the infinite variety of hotel guests' expectations.

In order to obtain an advantage compared to the competing hotels, the hotel managers must provide their customers with quality services and meet their expectations properly by performing periodic evaluations on customer satisfaction and quality improvement using the Servqual model (figure 1).
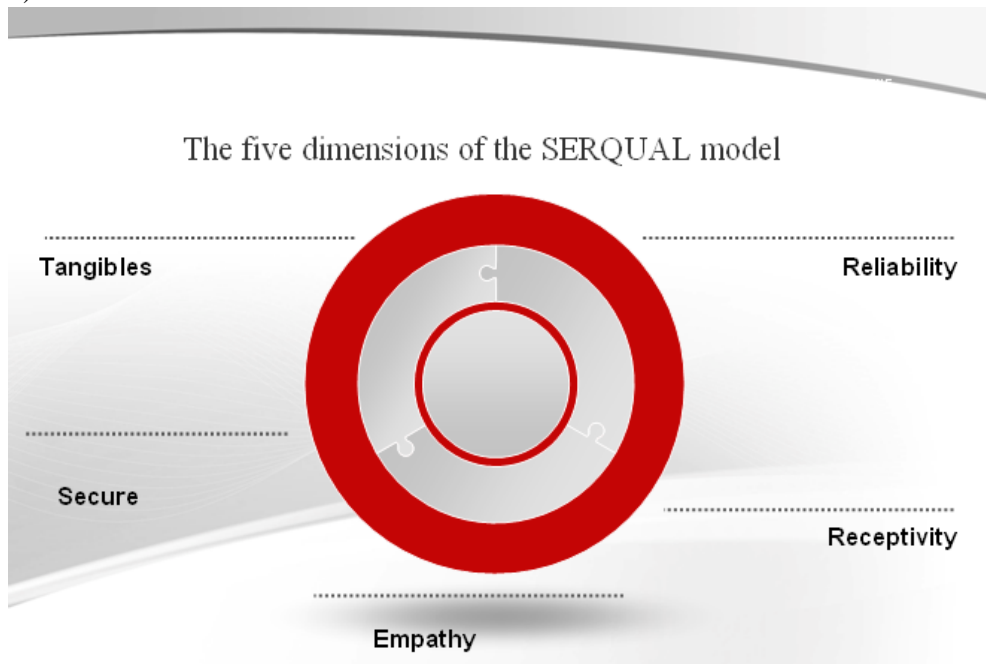
Figure 1. The dimensions of the Servqual model (source: made by the author)

The elements of the Servqual model are: material goods (tangible), reliability, responsiveness, security and courtesy, which are considered to be the five criteria in considering the quality of the services provided for guests, aiming to:

- Indicate the difference between the customer perceptions and expectations in the tangible dimension;

- Indicate the difference between the customer perceptions and expectations in the reliability dimension (ability to perform the promised service safely and accurately);

- Indicate the difference between the customer perceptions and expectations in the receptivity dimension (desire to help the customers and provide prompt services);

- Indicate the difference between the customer perceptions and expectations in the secure dimension (knowledge and courtesy of employees and their ability to instil a sense of trust and safety);

- Indicate the difference between the customer perceptions and expectations in the empathy dimension (care, individualized attention that the hotel offers to its customers).

3 Problem Solution

For each of the 5 dimensions of quality (tangibles, reliability, receptivity, secure, empathy) there are determined the customers expectations before using the services, and, after the service consumption, there are determine the customers perceptions.

In the questionnaire, customers respond on:

1. tangibles, referring to:
   - Attractiveness of the exterior structure
   - New and modern hotel facilities
   - Staff discipline and cleanliness
   - Attractiveness of the hotel interior decorating

2. reliability, referring to:
   - Room service
   - Adjust the room to customer expectations
   - Adequacy of the available room facilities
   - Speed in answering to customer orders

3. receptivity, comprising:
   - Hello and welcome
   - Response to the guests requirements
   - The rate of customer information by the hotel staff
   - The operational speed of the staff serving the clients

4. secure, referring to:
   - The skills and experience of the staff
   - Politeness of the staff
   - The rate between services and their price
   - Providing a calm place
   - The efforts of the staff in providing and maintaining a secure environment

5. empathy, referring to:
   - Access to the hotel
   - The attention of the staff in establishing effective relations with the tourists
   - The flexibility of staff
   - The predictions and perceptions of the top management regarding the customer needs

Each dimension (tangibles, reliability, receptivity, secure, empathy), which was evaluated by the tourists, receives points from one to five, the highest score representing the maximum degree in customer satisfaction.

The difference between customer expectations and perceptions regarding the material assets, reliability, receptivity, secure and empathy, ultimately reflect these items' quality which was felt by the guests.

For example, a hotel that presents the data from the table 1, is a hotel that was not able to provide quality services in order to satisfy its customers, the poor quality being reflected in all the five dimensions.

The gap between customer expectations and perceptions on service quality judged on the five dimensions of the Servqual model

Quality dimensions	Expectations (E)	Perceptions (P)
Tangibles	3,96	2,90
Reliability	3,90	2,63
Receptivity	4,78	3,20
Safety	5,19	3,93
Empathy	3,87	2,88
TOTAL	**4,34**	**3,11**

In the present case-study, the value between the total perceptions and total expectations is negative. In conclusion, the overall quality is not reaching the customers expectations (figure 2).

By using the Servqual model, the hotel management has now the necessary information regarding the weak points of the services the hotel provides and can take the necessary actions to improve hotel's service quality.

The Servqual model has been used successfully over time in the tourism sector, with results showing that in different parts of the world, quality is perceived differently by the tourists, and so, the model can be completed with more elements to meet the costumers expectations (Juwaheer and Ross (Juwaheer T.D., Ross, D.L. 2003: 15(2) have identified nine dimensions of the quality, "responsiveness", "reliability" and "assurance" being considered as main determinants of the service quality).

Quality dimensions	Expectations (E)	Perceptions (P)	P - E
Tangibles	3,96	2,90	- 1,06
Reliability	3,90	2,63	- 1,27
Receptivity	4,78	3,20	- 1,58
Safety	5,19	3,93	- 1,26
Empathy	3,87	2,88	- 0,99
Service Quality	**4,34**	**3,11**	**- 1,23**

The gap between customer expectations and perceptions of service quality on the five dimensions of the SERVQUAL model

- 1,23
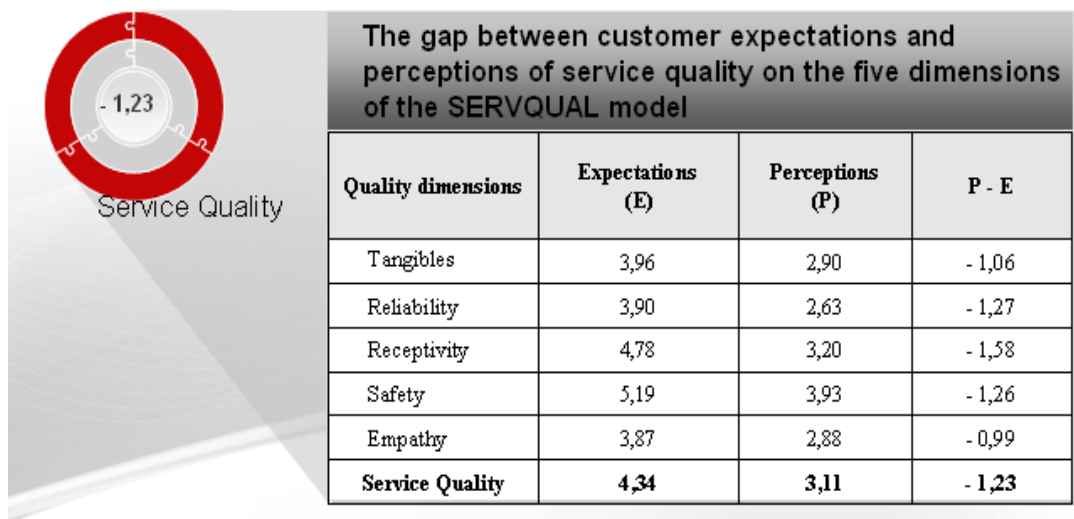
Service Quality

Figure 2. The Service quality in the studied hotel using the Servqual model (source: made by the author)

Over time, the Servqual model had and still has supporters, but also opponents. Thus, some authors reproach that the scale of the model is not sufficiently comprehensive, as other reproaches refer to how relevant the model is for the quality in situations involving multiple stakeholders due to the fact that the model ignores several stakeholders (Sararoudi M.B. 2008).
By grouping the difficulties regarding the use of the Servqual model, we can speak of the following five main categories:

- the gaps issue and their use;
- reliability of the gaps
- little predictive and convergent validity;
- ambiguity in shaping the expectations;
- the unstable dimension of the model.

Although the Servqual model has been criticized on theoretical and operational criteria, Ausbonteng et al. concludes that "until there will appear a better model, but as simple, the Servqual model will prevail itself as a measure of the service quality" (Sararoudi M.B. 2008).

4 Conclusion
The Servqual model provides, due to its five key factors (tangibles, reliability, receptivity, secure, empathy), a detailed description of the customer needs, perceptions and expectations, the information provided by Servqual being used in order to adapt the services to the customers' priorities. However, there is possible to arise problems linked to the uniform application of this measurement tool across multiple service sectors because the five dimensions are not universal.
For many organizations in the hospitality industry, the Servqual model implementation involves many difficulties. It involves such a profound transformation of the organization that there is inevitable the emergence of a strong resistance. For this reason it is necessary to take into account the huge effort that is required to resolve the difficulties in this process.

The conclusion is: *quality is a goal, an objective which must mobilize all the units of the service organization. Quality shows the direction towards which the action must be oriented*.

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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 Herberto 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" (Matuana 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.
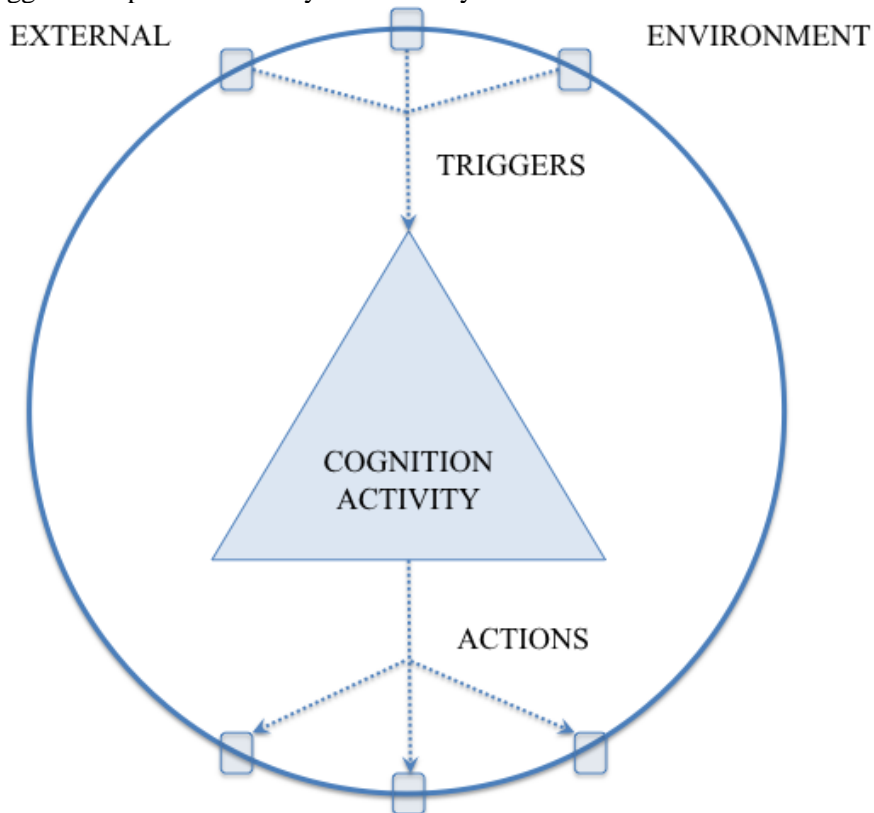
Fig. no 1 – Cognitive system (author elaboration)

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:
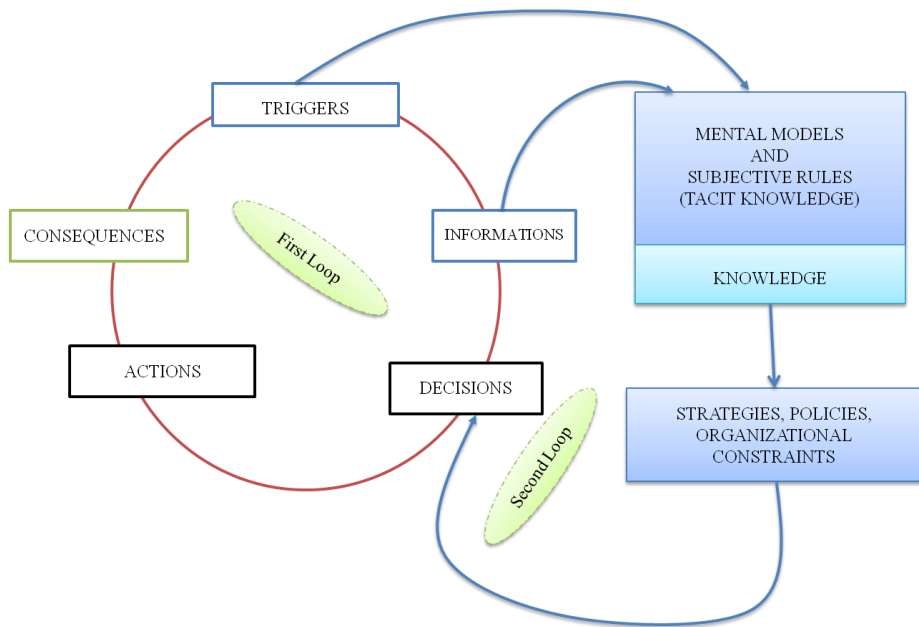
Fig. no 2 – Cognitive system: our adaptation from Argyris (1993).

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.
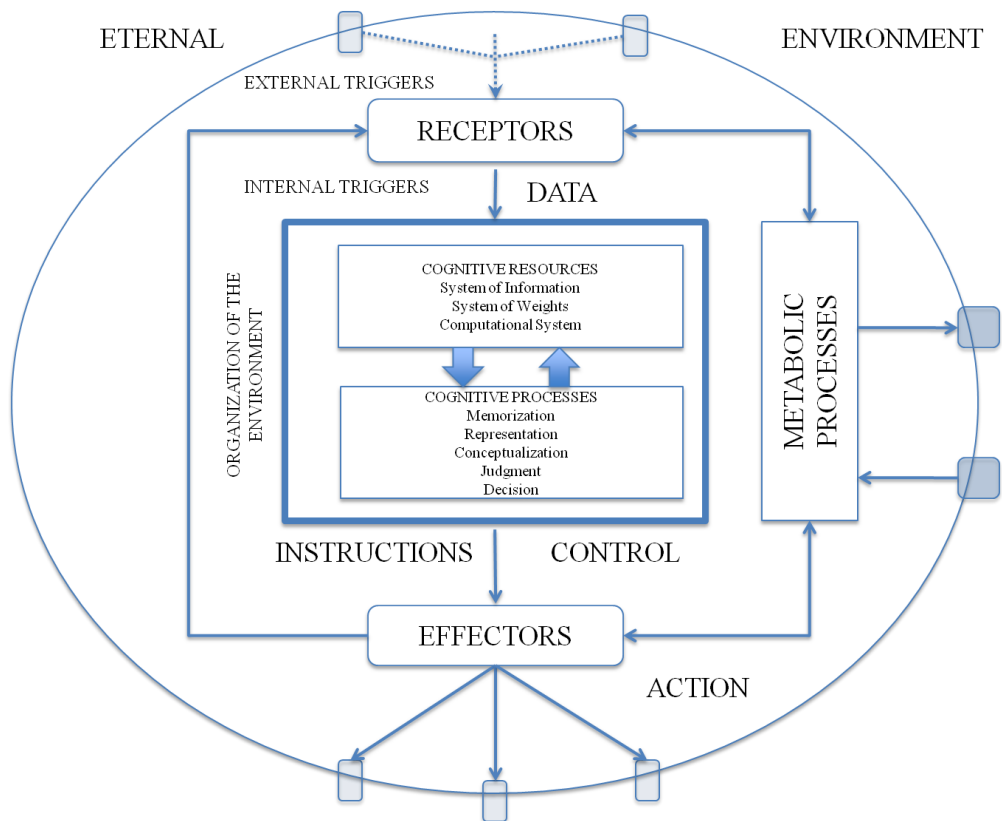
Fig. no 3 – Cognitive conscious system (author elaboration)

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.
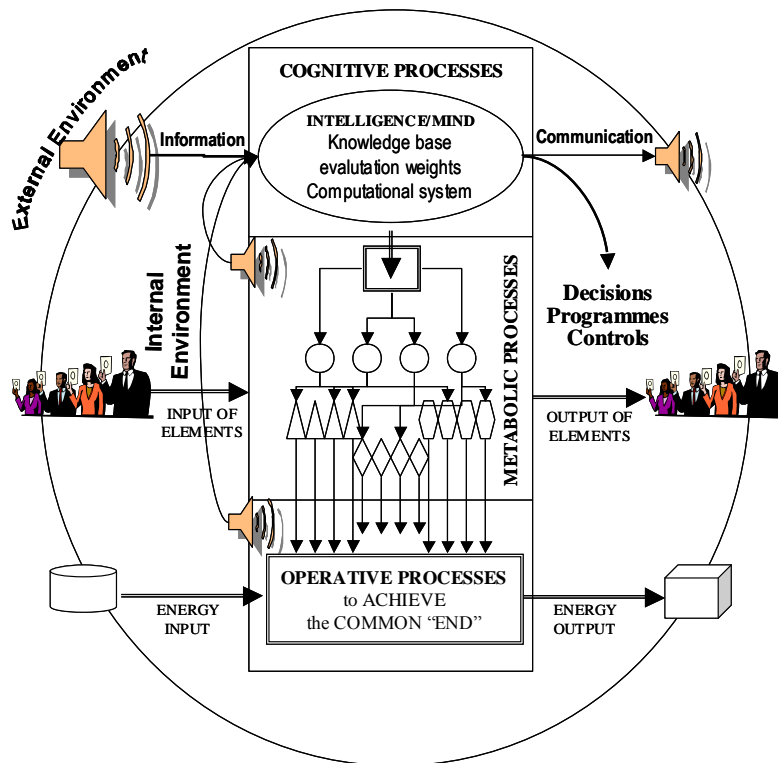
Fig. no 4 – Firm as a cognitive system (author elaboration)

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.
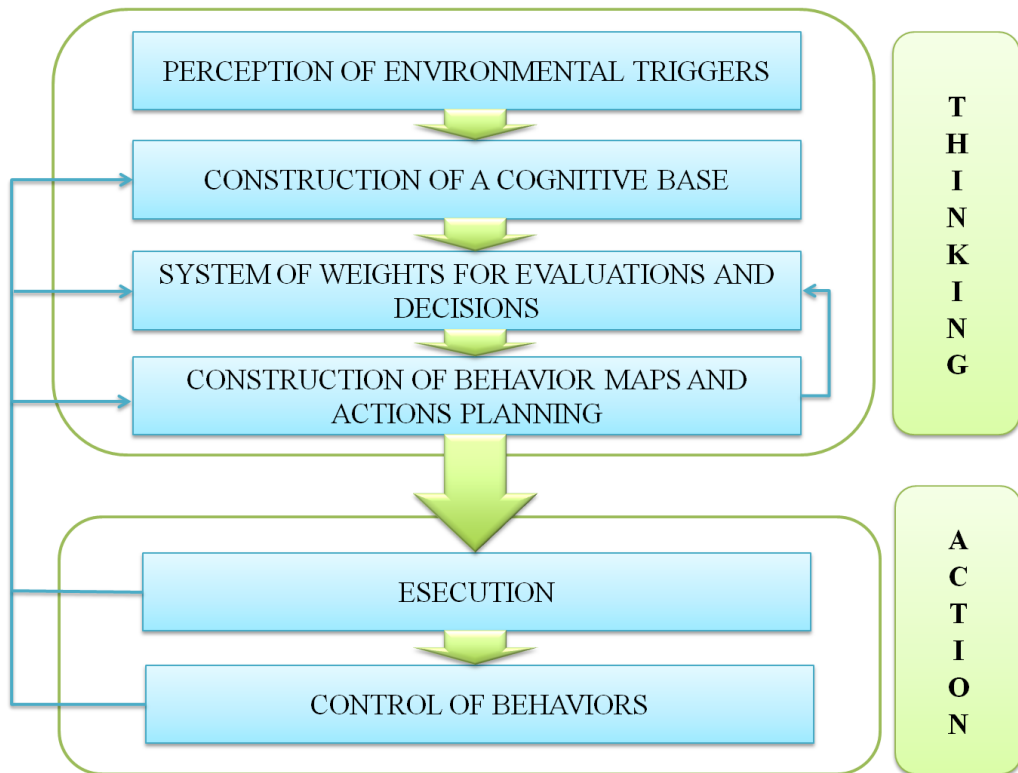
Fig. no 5 – The "chain thinking-action" (author elaboration)

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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ORGANIZATIONAL CHANGE: BUSINESS PROCESS REENGINEERING OR OUTSOURCING?

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This article aims to analyze the decisions that lead management to decide whether to make business process outsourcing or business process reengineering.
Investigating business phenomena, economic literature assumes some preliminary statements - or postulate - that guide the method of analysis, synthesis and generalization. In particular, we recall some preliminary statements method that helps us to understand the processes of organizational change.
We focus on the relevance, difference and usefulness of outsourcing and business process reengineering to support organizational change in the managerial function of an enterprise.
We show that BPR and BPO principles have a relevant content that could and should be the basis for imprenditorial change and innovation.

Keywords: business process reengineering, outsourcing, organizational change, change management, innovation.

JEL Code: L24, L25, L26

1. Le premesse per l'outsourcing

In generale, quanto processi e funzioni sono facilmente replicabili e standardizzabili, tanto maggiori saranno i vantaggi dell'esternalizzazione. Proprio in funzione della standardizzazione dei processi, l'outsourcing può riguardare attività di produzione di beni oppure servizi e possiamo individuare quattro tipologie: a) outsourcing industriale nel settore produttivo manifatturiero, b) outsourcing industriale nel settore dei servizi, d) outsourcing di servizi nel settore produttivo manifatturiero, e) outsourcing di servizi nel settore dei servizi.

Di fatto, l'esternalizzazione riguarda, con maggior frequenza:

a) la produzione di parti, componenti, prodotti finiti;
b) la produzione di servizi industriali, quali la manutenzione, il controllo di qualità, le lavorazioni accessorie;
c) la ricerca e lo sviluppo di nuovi prodotti e servizi; la progettazione e il design;
d) i servizi amministrativi, quali la contabilità, il controllo di gestione, l'auditing, la gestione del personale;
e) il settore dei sistemi informativi che rappresenta uno dei punti focali dei processi di outsourcing;
f) i servizi di consulenza gestionale;
g) i servizi logistici ed i trasporti;

h) la mensa e le pulizie;

i) la rete distributiva, la promozione, la pubblicità, e altri servizi di marketing;

j) la gestione del circolante e della tesoreria; i servizi incasso e pagamento;

k) la ricerca di fonti di finanziamento.

Nell'indagare i processi ed i fenomeni aziendali, l'Economia Aziendale assume alcune premesse – o postulati – che guidano il metodo di analisi, di sintesi e di generalizzazione.

In particolare, ricordiamo tre premesse di metodo che aiutano nella comprensione dei processi di outsourcing.

La *prima premessa* (Mella, 2008) è che le imprese – a qualunque settore appartengano e di qualunque dimensione siano – devono essere osservate quali organizzazioni che sviluppano funzioni differenziate tutte preordinate allo sviluppo di un portafoglio di business per la produzione di beni e di servizi intermedi o terminali.

La *seconda premessa* è che il management delle organizzazioni pone sempre in atto processi decisori fondati sul criterio di massima efficienza.

Tale criterio, com'è stato dimostrato, nelle imprese capitalistiche – che finanziano i loro business con capitale di Equity e di Debt – si traduce nei correlati criteri della *massima economicità* (massimizzare il risultato operativo) e della *massima redditività* (massimizzare il Return On Equity).

Questi due criteri sono tra loro inscindibilmente integrati e formano il criterio ultimo di *razionalità aziendale* secondo il quale ogni azione manageriale deve essere decisa scegliendo l'alternativa che renda massimo sia il rapporto tra ricavi e costi (massima economicità) sia il rapporto tra profitto e capitale proprio investito (massima redditività sul capitale investito).

Il criterio ultimo di *razionalità aziendale* si applica sia a livello di business, sia a livello di funzioni aziendali e di processi di produzione.

A *livello di business*, esso mantiene validità tanto per il *portafoglio* di business considerato come unità, quanto per i *singoli* business che lo compongono; il criterio di *razionalità aziendale* può tradursi, allora, nelle seguenti regole che specificano come selezionare i business da inserire o da far uscire dal portafoglio (Pellicelli M., 2007):

a) nel valutare i business occorre tenere conto sia della loro economicità sia dell'entità del capitale investito per la loro attivazione, sia delle fonti di finanziamento disponibili;

b) tra due business scegliere quello con maggiore ROE medio negli anni di vita (maggiori risultati operativi e/o minori volumi di capitali investiti e/o minor WACC, inteso come costo medio ponderato dei capitali reperiti ai tassi di rendimento attesi dai finanziatori);

c) a parità di ROE medio scegliere quello con pay-back period più breve;

d) un business con ROE medio negativo, per gli anni di vita residua, deve essere eliminato dal portafoglio.

A *livello di funzione organizzativa*, il criterio si applica per selezionare le funzioni da mantenere o da far uscire dalla struttura organizzativa.

Se assumiamo che una funzione possa essere considerata come un'entità astratta per la produzione di servizi necessari al funzionamento ed al mantenimento dell'integrità dell'organizzazione, il criterio di razionalità aziendale può essere tradotto nella seguente regola: per massimizzare economicità e redditività aziendale, occorre svolgere internamente le sole funzioni che forniscono servizi a costo inferiore rispetto ad analoghi servizi acquistabili da altre imprese esterne, a parità di affidabilità (qualità e tempestività) e di rischio di continuità di fornitura, cioè le funzioni "vincenti" nel confronto con il mercato.

Simmetricamente, occorre esternalizzare le funzioni il cui mantenimento rappresenta un'alternativa non efficiente, cioè che sono "perdenti" rispetto ai fornitori esterni.

Il criterio di razionalità aziendale si applica, infine ai processi aziendali necessari per la produzione.

Supponendo che il prodotto finito sia la risultante di un sistema di attività, ordinate in processi, svolti dall'organizzazione, la *razionalità aziendale* si esplicita con la regola seguente: per massimizzare economicità e redditività aziendale, ogni attività non necessaria per la produzione non deve essere attuata; ogni processo il cui costo unitario medio risulti superiore al costo per acquisire analoghi risultati da fornitori esterni, deve cessare.

La *terza premessa* è che le imprese operino in un sistema economico capitalistico, nel quale vi sia disponibilità di capitali da investire in business, sia garantita la libertà di investimento che favorita la nascita spontanea di nuove imprese e la concorrenza tra quelle operanti.

Queste tre premesse rappresentano il framework operativo e concettuale per l'esistenza dell'outsourcing, per l'analisi delle sue motivazioni e forme.

Appare, infatti, intuitivo che ove esse non siano riscontrate valide – imprese individuali, mancanza di libera iniziativa, mancata ricerca della redditività (aziende di erogazione, non profit, ecc.), impossibilità di genesi spontanea di imprese, scarsità di capitali, insicurezza economica ecc. – il fenomeno dell'outsourcing appare assente o limitato a forme embrionali.

2. L'outsourcing come decisione volta all'efficienza delle trasformazioni aziendali

Il modello di impresa proposto da Mella (1992, 2005, 2008) – ancor più che la semplice logica del "make or buy" – consente di chiarire la logica che guida il management delle imprese alle decisioni ed alle strategie di outsourcing.

Si ricorda che per Mella l'impresa *capitalistica* è, per sua natura, un'organizzazione permanente *business e profit oriented* che può esistere se, ed in quanto, sviluppa cinque tipi di trasformazioni, orientate alla massima efficienza e dirette al conseguimento della massima economicità e redditività per rendere massimo il valore dell'impresa, comunque definito.

In sintesi, le imprese sviluppano:

1) una trasformazione *tecnica produttiva*, attuando uno o più processi per trasformare flussi di fattori produttivi (materials, machinery, manpower, management, know-how, tecnology, ecc.) in flussi di *prodotti* finiti a fronte di una domanda. Appare evidente, allora, che il management, con decisioni di "make or buy", può ritenere conveniente affidare in outsourcing in tutto o in parte i processi di trasformazione produttiva. Un sistema di decisioni dell'impresa (acquisti, logistica in entrata, trasformazione industriale e logistica in uscita) è così trasferito stabilmente ad un'altra impresa secondo vincoli regolati da un contratto. La produttività dei processi e la qualità dei processi esternalizzati, i due elementi determinanti della trasformazione produttiva, sono gestiti dall'*outsourcee*, ma sottoposti al controllo dell'*outsourcer*. L'*outsourcee* ha interesse a controllare e a migliorare la produttività e la qualità al fine di contrastare i propri competitors nei confronti dell'*outsourcer* ed al fine di migliorare la customer satisfaction dei clienti dell'*outsourcer* stesso. Nel presentare il significato attribuito all'espressione *smartsourcing* da loro coniata, Koulopoulos e Roloff (2006, p.111) scrivono "*In una economia globale efficiente ogni organizzazione dovrebbe fare soltanto ciò che più esalta le sue core competencies. In tal modo smartsourcing conduce non soltanto ai costi più bassi, ma anche alla qualità più alta e all'innovazione.*";

2) una trasformazione *economica* o di *mercato,* che si configura come trasformazione di valori, in quanto tiene conto dei prezzi che rappresentano i valori degli input e degli output della trasformazione produttiva. Secondo il principio della massima economicità, l'impresa

deve modulare la catena verticale (par. 1.1) non solo in considerazione di scelte tecniche di produttivtà e di qualità, ma anche, e soprattutto, di scelte economiche di "make or buy" per rendere massimo il divario tra i costi di produzione (da minimizzare) ed i prezzi di vendita (da massimizzare), come indicatori di valore per il mercato. Appare chiaro che il ricorso all'outsourcing mira, innanzitutto, a ridurre i costi di produzione o ad acquisire competenze specializzate di cui l'impresa non dispone per accrescere, dal lato dei ricavi, il valore dell'intera value chain. Possono essere affidati in outsourcing sia la produzione di un componente, sia un processo di gestione (recupero crediti ad esempio), sia un processo di marketing come il "customer care" – e, in generale, i rapporti con i clienti – o i servizi post-vendita. Questi processi, se efficaci, consentono di pagare prezzi inferiori, per ridurre il costo di produzione interno, o di sostenere minori costi di gestione, oppure di praticare prezzi di vendita più alti se nei rapporti con i clienti aumenta l'apprezzamento verso il prodotto ed i connessi servizi, quindi il suo valore percepito.

3) una trasformazione *finanziaria*, per acquisire il capitale di *equity* (capitale proprio) e di *debt* (capitali finanziari) necessari per effettuare gli investimenti necessari a formare, mantenere e rinnovare la struttura produttiva necessaria per la trasformazione produttivo-economica, secondo un'efficace leva finanziaria che minimizzi, nel tempo, il WACC (weighted average cost of capital) (Pellicelli M., 2007, Cap.1). La ricerca e la gestione del capitale investito in attività fisse (immobilizzazioni) e circolanti (crediti e debiti di fornitura e magazzino) sono funzioni finanziarie svolte dall'organizzazione. Non è infrequente la possibilità di esternalizzare alcune di queste funzioni ad imprese o a consulenti specializzati; l'outsourcing può riguardare il cash management, la gestione del circolante, la gestione degli assets e le decisioni di scelta degli investimenti strategici;

4) una trasformazione *manageriale*, nella quale le informazioni operative circa il funzionamento della struttura si traducono in un sistema di pianificazione, programmazione e budgeting che ricerca la massima efficienza nel conseguire gli obiettivi di *valore dell'impresa* e in un connesso sistema di controlli operativi relativi all'efficienza produttiva, economica e finanziaria per verificare che la produzione di valore segua i percorsi stabiliti (Mella, 1997). La decisione di ricorrere all'outsourcing può dare un notevole contributo alla trasformazione manageriale in quanto l'affidare ad altri attività di direzione e di controllo aventi carattere ripetitivo consente al management di realizzare economie di tempo e di concentrare l'attenzione sulle decisioni di maggiore importanza. Possono essere esternalizzare molte funzioni che richiedono competenze tecniche fungibili, con esclusione, pertanto delle funzioni connesse alle "core competencies" che devono essere mantenute per non compromettere la sopravvivenza dell'impresa.

5) una trasformazione *imprenditoriale* nella quale le informazioni esterne, di mercato, macroeconomiche, tecniche, politiche, ecc., sono trasformate in *decisioni strategiche* volte a modulare il portafoglio di business da gestire, alla tecnologia, ai mercati, ai prezzi e alla struttura finanziaria, per rendere massima l'efficienza economica generale, cioè per produrre nel tempo i massimi risultati economici con il minor volume e costo del capitale finanziario, rendendo, di conseguenza, massimo il valore dell'impresa.

La trasformazione *imprenditoriale*, in quanto modifica la *posizione strategica* dell'impresa, risulta subordinata ad un sistema di *corporate governance* che sceglie i soggetti responsabili delle decisioni strategiche e ne controlla l'attività.

La stessa definizione di outsourcing esclude che queste attività possano essere esternalizzare; l'imprenditorialità è connaturata all'impresa e la sua esternalizzazione trasformerebbe l'impresa in una semplice unità produttiva, strumentale per altre imprese. Non deve trarre in inganno il fatto che spesso i vertici delle organizzazioni ricorrono alla consulenza esterna per la revisione

delle strategie e per la formulazione di nuove strategie. La consulenza appare come una premessa alle decisioni. La responsabilità della scelta definitiva è sempre dell'imprenditore o dei consigli di amministrazione che valutano le informazioni su opportunità e minacce dell'ambiente esterno, su forze e debolezze interne e, avendo sullo sfondo obiettivi di valore da raggiungere, modulano le azioni strategiche in relazione al grado di rischio percepito e ritenuto sopportabile dagli shareholders e dagli stakeholders.

3. Come decidere il ricorso all'outsourcing: una serie di modelli

Quinn e Hilmer (1994) hanno ricordato che, per assumere razionali decisioni di ricorso all'outsourcing in un'ottica "strategica", le imprese devono prima di tutto individuare quali siano le fonti dei vantaggi competitivi, al fine di:

1) concentrare le risorse sulle "core competencies" che creano valore per il cliente in modo distinto e non imitabile;

2) affidare in outsourcing i processi e le attività per le quali l'impresa non abbia né particolari esigenze strategiche né particolari competenze, spesso includendo molte che in passato erano per tradizione considerate parte integrante di qualsiasi strategia.

Con lo scopo di mettere in evidenza i criteri che possono essere adottati per le decisioni di esternalizzazione, sono stati proposti vari modelli per avviare a soluzione la scelta dei processi e delle funzioni da affidare in outsourcing piuttosto che mantenere *in house*.

Riteniamo utile presentare i caratteri distintivi di quattro modelli ritenuti significativi per l'individuazione dei processi da esternalizzare in un'ottica "strategica".

Occorre premettere che tali modelli devono essere considerati più strumenti di diagnosi che criteri di decisione e che raramente possono fare scattare un'idea "creativa", un'idea che spezza le regole, che innova drasticamente.

Il primo modello ricorre ai concetti di strategie generiche e value chain.

Il modello noto come "La regola 80/20" distingue le funzioni candidate all'outsourcing a seconda della capacità dell'impresa di mantenere il controllo su di esse.

Lo "Strategic sourcing model" evidenzia due criteri di scelta: l'importanza strategica della funzione e dell'attività che l'impresa intende cedere in outsourcing e l'impatto che sulla finanza potrebbe avere l'outsourcing.

Il quarto modello, infine, propone di affrontare la scelta tra "core" e "non core" individuando una scala di priorità e distinguendo cinque tipi di competenze ordinate per grado di rischio della loro esternalizzazione.

3.1 Il modello delle strategie competitive

Relativamente al primo modello, Kedia *et al*. (2005) ricorrono al concetto di strategie generiche sviluppato da Porter (1985) per valutare vantaggi e rischi dell'affidare produzioni in outsourcing, sostenendo che l'outsourcing – ma le argomentazioni valgono ancor di più per l'offshoring – può dare all'impresa la possibilità di combinare e ottenere vantaggi in tutte le tre dimensioni delle strategie generiche: cost leadership, differenziazione e focus.

Vantaggi competitivi derivano dalla cost leadership "*quando l'impresa riesce ad essere il produttore con i costi più bassi del settore*" (Porter 1985, p.149). Tuttavia anche se l'impresa riesce, in un determinato momento, a raggiungere questa posizione, resta sempre sotto la minaccia dei suoi competitors che possono "fare meglio". Ricorrere all'outsourcing può, allora, mantenere l'impresa in posizione durevole di cost leadership.

Il suo vantaggio cesserà quando un'altra impresa riuscirà a produrre a costi più bassi o a realizzare una rete di outsourcing che spinga i costi a livello ancora inferiore.

Per riguadagnare la cost leadership, l'impresa deve cercare nuovi *outsourcees* e cercare nuovi distributori che siano in grado di competere a costi più bassi di quelli dei rivali e pertanto, in questo processo ripetitivo, la ricerca dell'*outsourcee* con il costo più basso è continua, senza fine.

Con la strategia generica di differenziazione, l'impresa costruisce vantaggi competitivi quando "*cerca di essere unica in campi che il compratore valuta positivamente*" (Porter 1985, 129).

In questa ipotesi, l'outsourcing consente al management di concentrare le risorse e l'attenzione sulle "core competencies" dell'impresa, destinando le economie di costo ottenute dall'outsourcing per aumentare il valore aggiunto delle produzioni investendo, ad esempio, in R&D, con la possibilità di ottenere vantaggi da nuovi prodotti o servizi o da nuovi processi produttivi.

L'impresa può invece "focalizzarsi" per eccellere in un segmento o in un gruppo di segmenti. *"E' una strategia profondamente diversa dalle precedenti perché è basata sulla scelta di un'arena competitiva molto ristretta all'interno di in un settore"* (Porter 1985, p.129).

Questa strategia ammette due varianti: focus sui costi e focus sulla differenziazione. L'impresa supera i competitors o perché serve meglio i clienti offrendo loro prodotti o servizi a prezzi più bassi, oppure perché offre loro prodotti o servizi nuovi e differenti da quelli dei rivali.

Affidando in outsourcing le attività più semplici e i processi ripetitivi il management può concentrarsi maggiormente sulle relazioni con i clienti.

Come abbiamo visto nei capitoli precedenti, Dell e Ibm nel settore dei computer, Microsoft nei software, Nike nelle calzature sportive hanno costruito le loro posizioni dominanti affidando a fornitori a basso costo e "Third world" parte delle produzioni concentrando le risorse su due core competencies, marketing e R&D, mantenute saldamente all'interno.

Kedia *et al* (2005*)* affrontano il problema di come selezionare funzioni, processi e, in generale, le attività che potrebbero essere affidate in outsourcing, rilevando che, per tale selezione, il management deve svolgere un'analisi approfondita che porti a:

1) specificare con chiarezza la value chain dell'impresa;
2) distinguere le "core competencies" dalle "non core";
3) definire la value chain delle "core competencies";
4) distinguere le attività essenziali da quelle non essenziali;
5) separare le attività "core" o "quasi core" da quelle "non core".

Occorre che il management affronti, innanzitutto, il problema di definire i caratteri delle "core competencies".

Per tale definizione, Quinn e Hilmer (1994) individuano una serie di requisiti: 1) danno origine a capacità distintive o a conoscenze distintive, non solo prodotti o funzioni; 2) non sono aree ristrette in cui l'impresa eccelle, ma piattaforme ampie e flessibili, in grado di adattarsi al cambiamento e di evolvere; 3) sono in numero limitato; 4) sono fonti uniche di vantaggio nella value chain; 5) costituiscono aree nelle quali l'impresa può mantenere una posizione dominante; 6) rappresentano elementi che il potenziale cliente considera importanti anche nel lungo termine; 7) risultano innestate profondamente nella cultura dell'organizzazione.

Per Prahalad e Hamel (1990) le "competenze distintive" sono *"conoscenze collettive dell'organizzazione, relative soprattutto al coordinamento delle diverse conoscenze produttive con i flussi di tecnologia"*.

Gli Autori rilevano che, per essere definita "core", una competenza deve avere alcuni requisiti: 1) dare accesso ad una varietà di mercati e segmenti; 2) contribuire a creare benefici per il cliente; 3) essere difficile da imitare; 4) agire trasversalmente su tutte le funzioni dell'impresa, su tutti prodotti e su tutti i mercati; 5) essere radicata nell'organizzazione e quindi persistere anche quando alcuni particolari persone o gruppi di persone lasciano l'impresa.

Per svolgere l'analisi da essi proposta, Kedia *et al* (2005*)* suggeriscono di ricorrere allo strumento della value chain e alla "matrice competenze/ vantaggi competitivi".

La value chain che, come afferma Porter *"disaggrega un'impresa nelle sue attività strategiche rilevanti allo scopo di interpretare il comportamento dei costi e le fonti attuali e*

potenziali di differenziazione" (Porter 1985, 150), comprende cinque attività primarie e quattro attività di supporto.

Le attività primarie sono: logistica in entrata, gestione operativa, logistica in uscita, marketing e vendite, servizi.

Le attività di supporto sono: gestione degli approvvigionamenti, gestione della tecnologia, gestione delle risorse umane e infrastrutture dell'impresa.

La value chain – proprio in quanto rappresenta i legami tra le varie attività ed esprime le potenziali sinergie tra prodotti e servizi – consente di esprimere il valore di un dato prodotto o servizio in termini di valore delle attività necessarie per produrlo, proprio distinguendo tra attività primarie e attività di supporto.

L'analisi della value chain è, pertanto, fondamentale per individuare la natura dei vantaggi competitivi e per individuare le azioni strategiche per proteggerli e rafforzarli.

Kedia *et al.* suggeriscono di analizzare ciascuna attività primaria e di supporto in sub-attività e tentare di individuare: 1) quale contributo ciascuna sub-attività porti ai vantaggi competitivi dell'impresa; 2) quale contributo ciascuna sub-attività porti alle "core competencies". 3) quali sub-attività debbano essere date in outsourcing al fine di mantenere e/o raggiungere vantaggi competitivi.

Per attuare questa analisi, le sub-attività individuate nella value chain possono essere collocate in una "matrice competenze/vantaggi competitivi" – che può assumere la forma indicata in Figura 3.2 – per esaminare come ciascuna contribuisca alle core competencies e ai vantaggi competitivi dell'impresa.

L'esame combinato della value chain e della matrice dovrebbe fornire gli elementi per decidere quali sub-attività o quali attività cedere in outsourcing.

Le attività che si collocano nella posizione basso-basso sono candidate potenziali all'outsourcing in quanto il loro contributo sia alle "core competencies" sia ai vantaggi competitivi appare modesto. Queste attività consumano risorse non necessarie senza dare vantaggi competitivi all'impresa. Le considerazioni sono opposte per le sub-attività che, collocandosi nella parte alto-alto della matrice, sono le fonti principali dei vantaggi competitivi; esse devono essere, pertanto, mantenute all'interno, protette e potenziate.

La posizione centrale è rappresentata da sub-attività che non contribuiscono in modo significativo né alle "core competencies" né ai vantaggi competitivi dell'impresa; per esse vi è la scelta tra lo sviluppo, attraverso investimenti, in modo da diventare risorse strategiche nel lungo termine, e collocarsi nella posizione alto-alto della matrice, oppure l'essere considerate come candidate all'outsourcing.

Fig. 1 – Matrice competenze-vantaggi competitivi
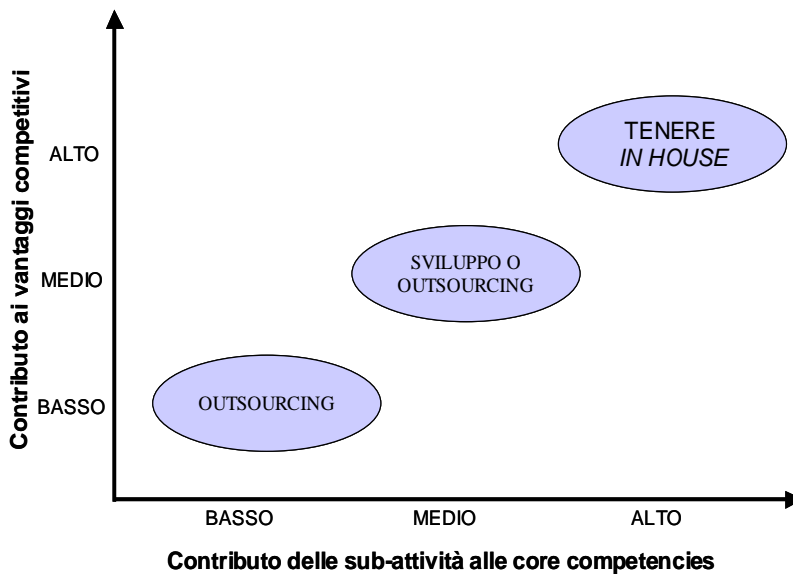
Fonte: Kedia B., Lahiri S., Lovvorn A., Seeking competitive advantage on distant shores, *EBF*, (21), spring 2005.

Il ricorso alla tecnica di analisi della value chain e della costruzione della matrice è necessario per impostare il problema di stabilire per quali attività ricorrere all'outsourcing ma non sufficiente per arrivare ad una soluzione; il management deve, infatti, individuare, con altre accurate analisi, quali siano le fonti delle "core competencies", le fonti dei vantaggi competitivi, e i legami tra queste fonti.

In ogni caso, queste analisi presentano alcuni evidenti limiti.

Anzitutto, occorre ricordare che i cambiamenti dell'ambiente economico e competitivo impongono revisioni frequenti delle decisioni riguardanti l'outsourcing. L'outsourcing non è una decisione "una volta per tutte" (one-off).

Affiora quindi un punto debole sia della value chain, sia della "matrice competenze/vantaggi competitivi". Tali strumenti individuano posizioni attuali, mentre ogni strategia competitiva deve essere la risultante di una proiezione futura e deve considerare anche la verosimile risposta dei competitors.

Zook (2007) stima che i due terzi delle imprese nei prossimi dieci anni debbano ridefinire il loro core business sotto la spinta di forze che vanno dalla globalizzazione all'impatto di Internet.

Secondo tale Autore, le imprese per competere devono essere pronte a passare ad un nuovo modello di business utilizzando ciò che egli definisce "i punti di forza dormienti". Le tre principali "forze dormienti" sono: a) "forze" adiacenti al core business (segmenti di clienti non esplorati, mercati geografici, o servizi); b) esistenza di organizzazioni di sostegno (ad esempio la divisione servizi di IBM che per lungo tempo aveva fatto da sostegno alla produzione manifatturiera); c) attività "non core" ma ad alto impatto economico di breve periodo.

L'outsourcing, come tutte le attività di un'impresa, non può essere ricondotto ad una mappa. Le decisioni prese e le attività avviate da entrambe le parti continuamente estendono o riducono il loro campo di azione.

3.2 La regola 80/20

Un secondo strumento diagnostico che può aiutare a prendere la decisione circa quali attività affidare in outsourcing e in quale paese o area geografica è proposto da Puryear (2000).

Questo strumento si distingue da quello esaminato al paragrafo precedente in quanto non cerca tanto di individuare quali attività si *vogliano* esternalizzare ma quali l'impresa *sia in grado* di dare in outsourcing senza minare la base della sua capacità di competere.

L'Autore applica il noto principio dell'80/20, introdotto da Pareto, osservando che, in genere, tra imprese di un dato settore, l'80% delle attività sono simili e che quindi occorre porre l'attenzione sul rimanente 20% se si vuole dare unicità all'offerta. L'impresa dovrebbe cercare di ottenere l'80% delle attività simili dal miglior fornitore alle condizioni migliori – incentivando l'outsourcing – e concentrare le risorse sul 20% delle attività che "fanno la differenza".

Per individuare le attività distintive rientranti nel 20%, il management deve dare risposta a due domande.

La prima domanda è se l'impresa sia in grado di gestire assieme ad altri una determinata attività. La possibile risposta è rappresentata nel grafico di Fig. 3.4, sull'asse orizzontale denominato asse "Am I able?"; in esso si posizionano, da un lato, i processi unici di esclusiva proprietà dell'impresa e, dall'altro, i processi comuni alle altre imprese del settore, fino ad arrivare all'estremo dei processi comuni alle imprese di più settori.

Fig.2 – Aree di priorità nell'outsourcing
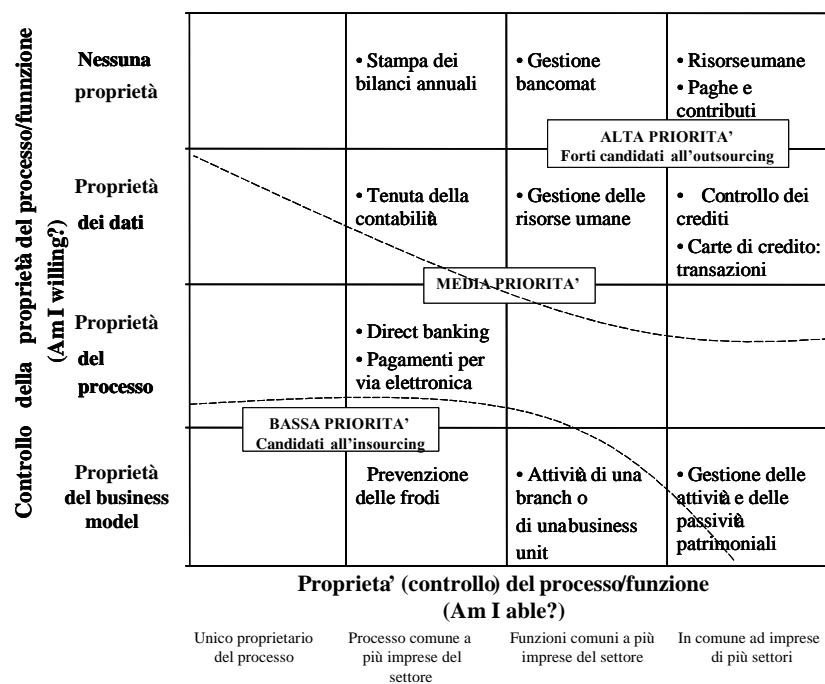
Fonte: Puryear R., (2000), *CIO Insight*, april.

La seconda domanda è se, esternalizzando attività in outsourcing, l'impresa rischi di cedere definitivamente conoscenze di importanza critica. L'asse verticale, l'asse "Am I willing", esprime il grado di proprietà (capacità di controllo) del processo. Su tale asse si posizionano le alternative di nessuna forma di proprietà su un processo o su una funzione (ad esempio la gestione delle paghe e contributi o l'applicazione degli IAS ad una particolare voce di bilancio)

alla proprietà del business model. La seconda domanda così diventa: se divido con altri la proprietà, cedo ad altri conoscenze distintive? E quindi cedo informazioni di importanza critica che non potrò più mettere in comune con altri?

Le risposte possibili alle due domande, rappresentate nel grafico, indicano le priorità nell'outsourcing. Nell'angolo in alto a destra si collocano le funzioni e i processi che l'impresa è propensa a cedere in outsourcing, in quanto comuni a molte imprese e sono condivisibili senza il rischio di cedere competenze esclusive. Le funzioni per le quali l'oustourcing è più utile tendono a collocarsi in questo angolo.

I processi che si collocano nell'angolo in basso a sinistra sono invece quelli che l'impresa non è propensa a dividere con altri, in quanto sono di sua proprietà, oppure sono particolarmente distintivi, unici. Di conseguenza non sono candidati per l'outsourcing, bensì per la produzione *in house*.

3.3 Lo Strategic sourcing model

Owens *et al*. (1998), ponendosi dal lato della funzione degli acquisti, propongono un modello per integrare le scelte di outsourcing nelle strategie corporate che offre una valido supporto per orientare la scelta in una prospettiva strategica.

Rispetto ai modelli precedenti, il modello proposto da Owens ha il pregio di introdurre anche la variabile tempo e l'impegno richiesto al management nei vari tipi di decisione di esternalizzazione.

Rappresentato con la matrice di Fig. 3.5, il modello individua, lungo la dimensione verticale, il grado di priorità che, per la sua importanza strategica, una data attività ha nella gestione e nell'organizzazione dell'impresa; rappresenta lungo la dimensione orizzontale l'impatto finanziario di tale attività, cioè l'impegno intermini di investimenti richiesti.

Combinando in una matrice le due dimensioni si ottengono quattro aree. A seconda dell'area in cui si colloca l'attività si hanno prime indicazioni circa il se e il come procedere con l'outsourcing. In particolare il modello può dare suggerimenti circa l'approccio che il management dovrebbe adottare nell'outsourcing dei vari tipi di attività.

Fig. 3 – La matrice dello "Strategic sourcing model"
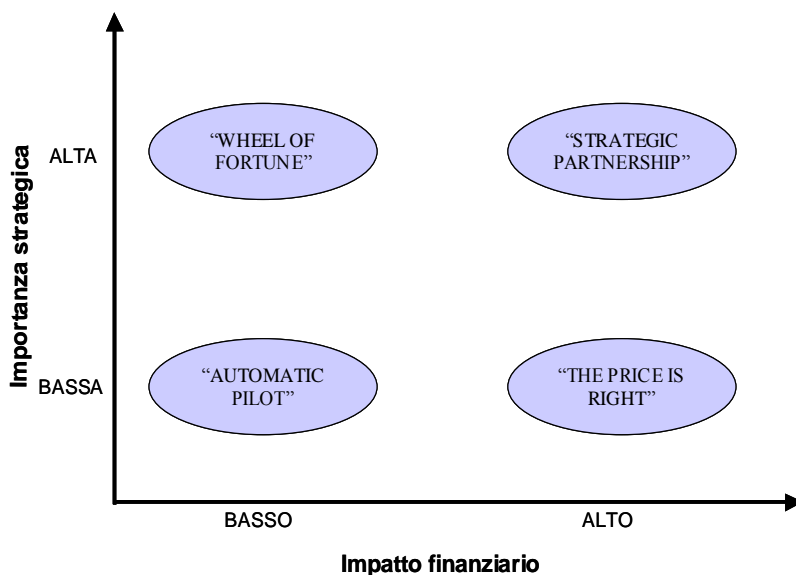
Fonte: Owens G.,Vidal O., Toole R., Favre D.,"Strategic sourcing. Aligning procurement needs with your business goal", in Gattorna J. (1998), *Strategic Supply Chain Alignment. Best practise in supply chain management*, Gower, Brookfield.

L'importanza strategica di un'attività, rappresentata sull'asse verticale, è determinata dal peso che ha sul "core business" e sulla futura capacità di competere dell'impresa.

Le attività di modesta importanza strategica possono essere necessarie, ma non danno vantaggi competitivi rispetto ai rivali. Un esempio è rappresentato dai sistemi informativi standard basati su software che qualunque impresa può acquistare. Le attività di importanza strategica sono invece in grado di agire sulla capacità di competere. Un esempio è la capacità di alcuni stilisti di moda italiani di dettare tendenze.

Oltre a graduare l'importanza strategica di un'attività, occorre anche stabilire quale impatto essa abbia sull'impegno finanziario. Tale impatto agisce sul tempo da dedicare alla decisione se ricorrere o non ricorrere all'outsourcing e sull'impegno finanziario che l'outsourcing può richiedere al management. Se il tempo e l'impegno sono valutati bassi, allora anche l'impatto risulta basso.

Esaminiamo le caratteristiche delle quattro aree mantenendo il loro titolo originario.

"Authomatic pilot". L'attività di modesta importanza strategica e modesto impatto sulla finanza si collocano nell'area in basso a sinistra. La soluzione migliore è ricorrere al normale sourcing di fornitura e stabilire in presenza di quali condizioni ripetere l'ordine al fornitore, senza ulteriori interventi del management.

"The price is right". Vi sono poi le attività di modesta importanza strategica, ma con forte impatto sulla finanza. La soluzione è ricorrere all'outsourcing e indire gare tra fornitori per ottenere il prezzo più basso. Essendo modesta l'importanza strategica, il prezzo è il criterio base per la scelta.

"Wheel of fortune" L'area in alto a sinistra raccoglie le attività con forte importanza strategica, ma con modesto peso finanziario. La scelta del *supplier* tra i possibili candidati è molto importante e Owens *et al* (1998) suggeriscono di adottare un contratto tipo che stabilisca gli obblighi di fornire uno specifico numero di prodotti e servizi entro un determinato periodo di tempo. Dopo la prima negoziazione gli ordini sono ripetuti seguendo una procedura predeterminata, di routine. Il pagamento attraverso carta di credito ha un'importanza strategica per Amazon. Il cliente deve essere rassicurato in quanto teme atti di pirateria. Amazon ha ceduto la gestione dei pagamenti a istituti bancari specializzati in cambio di commissioni basse relativamente agli importi della transazione.

"Strategic parternship". Nell'area in alto a destra sono classificate le attività che presentano un'elevata importanza strategica ed un forte impatto finanziario. Le decisioni ad esse relative richiedono la maggiore attenzione e il maggiore impegno. La soluzione migliore, nel caso in cui l'impresa voglia esternalizzare, può essere un'alleanza strategica con il vendor/outsourcee. Uno stilista di moda che intenda affidare all'esterno parte del processo creativo (ad esempio la prima realizzazione dei prototipi) dovrebbe farlo soltanto attraverso un'alleanza con l'outsourcee. La cessione totale potrebbe far perdere il controllo sull'evoluzione delle tecnologie di realizzazione (ad esempio Cad/Cam).

Owens *et al*. osservano che il trattare l'outsourcing in una prospettiva strategica comporta anche una revisione della struttura organizzativa, per quanto riguarda, in particolare, le relazioni interne tra funzioni. Comporta anche una revisione delle relazioni esterne: quelle tradizionali dell'ufficio acquisti se si opera in "Automatic pilot" e quelle riguardanti le alleanze strategiche se si propende per "Strategic partnership".

Se la scelta è per l'esternalizzazione mediante uno "strategic sourcing" non vi è dubbio che che lo "Strategic partnership" debba essere potenziato e le funzioni connesse debbano rimanere accentrate.

Occorre osservare che senza uno stretto coordinamento tra più funzioni è impossibile costruire relazioni efficaci con i fornitori esterni.

Lo "Strategic sourcing" deve interagire, in particolare, con R&D, progettazione, produzione e gestione operativa, vendite e marketing, contabilità e finanza.

3.4 I modelli di Cordon, Vollmann ed Heikkilä

Tenere all'interno le "core competencies" e affidare in outsourcing le "non-core competencies" è un criterio di decisione che pochi mettono in discussione.

Cordon, Vollmann, Heikkila (1998) vanno controcorrente e considerano questa distinzione come un'eccessiva semplificazione della realtà che può condurre gravi errori e che le attività "non-core" non necessariamente devono essere esternalizzate.

Chiariscono di non mettere in discussione il concetto di "core competencies" reso popolare da Prahalad e Hamel considerandolo, infatti, un concetto utile per definire una strategia e per concentrare l'impegno del management sulle azioni che rafforzano le "core expertise" come è accaduto in Honda la cui "core competency" è produrre motori a combustione interna in quanto sono il "core" di un'ampia varietà di prodotti: autoveicoli, motociclette, tagliaerba, fuoribordo, generatori di energia elettrica.

Come decidere allora cosa affidare in outsourcing e cosa non affidare? Inoltre, dato che l'outsourcing può assumere varie configurazioni, qual è quella più adatta alle attività di una data impresa?

Cordon *et al* hanno proposto due modelli per arrivare a questa decisione. Il primo modello ha lo scopo di capire a fondo la situazione attuale classificando le competenze in più categorie. Il secondo mira a preparare la scelta tra insourcing e outsourcing.

Il primo modello pone le premesse per costruire una priorità tra i vari tipi di competenze, classificando le competenze in cinque categorie:

1. *Distinctive competencies*: sono le competenze "più importanti" di un'organizzazione; ad esempio la miniaturizzazione per Sony, la produzione di motori per Honda.

2. E*ssential competencies*: sono le attività di cui una organizzazione ha necessità per operare. Ad esempio il fornitore di componenti di un costruttore di auto deve avere competenza nella gestione di processi di qualità elevata e deve essere certificato come ISO 9000 al fine di essere abilitato a fornire un particolare cliente.

3. *Spillover competencies*: sono quelle che consentono ad un'impresa di mantenere l'economicità attraverso un'attività legata alle competenze distintive. I tre autori fanno l'esempio di Michael Schumacher. I guadagni derivanti dal merchandising di abbigliamento con il suo nome è una competenza derivata dalla sua abilità di pilota di Formula 1.

4. *Protective competencies*: riguardano le attività il cui venir meno o la cui cattiva gestione porrebbe a rischio il successo dell'intera organizzazione.

5. *Parasitic competencies*: sono le attività che "sprecano" risorse se realizzate all'interno di un'organizzazione. Sono spesso l'eredità di decisioni prese in passato. Un'attività diventa parassita se sul mercato sono presenti imprese che possono realizzarle a costi di molto inferiori.

Gli Autori giungono alle seguenti conclusioni. Agli estremi della scala di classificazione, le "distinctive competencies" devono essere mantenute *in house* e potenziate, mentre le "parasitic competencies" devono essere esternalizzate.

Le "essential competencies" e le "protective competencies" possono essere esternalizzate se l'impresa si assicura, attraverso opportuni meccanismi, la continuità delle forniture e la minimizzazione dei rischi di peggioramento della qualità.

Le "spillover competencies", proprio in quanto fondamentali nella catena del valore, possono essere affidate in outsourcing solo se l'impresa può far proprio il valore creato con l'esternalizzazione.

Fig. 4 – Il modello delle competenze per le decisioni di outsourcing
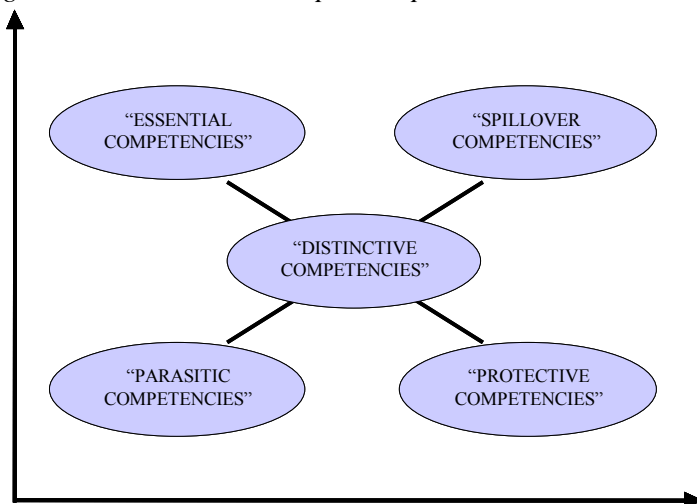
I tre Autori avvertono che il modello, rappresentato nella Figura 3.7, deve essere inteso in senso dinamico, in quanto le competenze di un'impresa possono passare da una categoria all'altra a seconda dell'evoluzione dell'organizzazione e del mercato. Una "essential competency" può diventare "parasitic" nel caso in cui si sviluppi un mercato che offra stabilmente prodotti/servizi migliori a prezzi più bassi come, ad esempio, accade quando l'impresa entra nel mercato di un paese emergente, nel quale non si trovano affidabili fornitori di componenti o di servizi accessori. L'impresa che entra in un tale mercato deve pertanto far fronte alle proprie esigenze produttive con proprie attività che rientrano nella categoria delle competenze essenziali. Se in tempi successivi nel mercato locale si sviluppa un'offerta adeguata, le competenze possono essere affidate in outsourcing, cessano quindi di essere considerate essenziali.

Il secondo modello proposto da Cordon, Vollmann ed Heikkila (1998), che assume la forma di una matrice, analoga a quella di Fig. 5, ordina le attività o i processi di un'organizzazione secondo due dimensioni correlate: il *rischio* relativo al trasferimento all'esterno dell'attività (asse verticale) – come la perdita di know-how e la perdita della capacità di competere – e *l'efficacia* dell'attività realizzata *in house* contrapposta a quella realizzata in outsourcing (asse orizzontale).

Ciascuna area della matrice individua specifiche azioni che il management dovrebbe intraprendere.

Se l'efficacia *in house* è alta e i rischi derivanti dalla cessione di attività in outsourcing sono alti (lato destro in alto) l'attività va tenuta all'interno, almeno fino a quando l'impresa sia in grado di mantenere elevata l'efficacia.

Se l'efficacia *in house* è bassa e i rischi di esternalizzazione sono bassi (lato sinistro in basso) appare logico ricorrere all'outsourcing.

La situazione più difficile si ha quando l'efficacia *in house* è bassa e il rischio è alto. In questo caso, il management dovrebbe riconfigurare l'attività (come indicano le frecce) o per renderla più efficace (spostandola verso destra) o per ridurre i rischi (spostandola verso il basso). Se la riconfigurazione consente di riposizionare l'attività nel quadrante in basso a sinistra, essa può essere affidata in outsourcing.

Queste azioni possono, però, trovare, in fase di decisione, molte resistenze da parte del management a vari livelli dell'organizzazione.

Le resistenze manageriali emergono anche quando, dopo aver affidato in outsourcing un'attività, si deve decidere per internalizzarla con un *backsourcing*.

Per completezza, si ricorda che Kumar *et al* (2007) presentano un modello che ha gli stessi obiettivi di quello appena illustrato, appare più articolato ma riguarda unicamente il settore dei servizi industriali.

Tale modello, che impiega un software specializzato, vuole essere uno strumento operativo per decidere cosa e quando affidare in outsourcing al fine di ottimizzare la redditività o la produttività e minimizzare i rischi.

Individua le scelte ottimali secondo lo schema decisionale "go-no-go" a seconda della fase del ciclo di vita del prodotto in cui si pone il problema dell'esternalizzazione.

Assume che l'impresa sia nella fase di maturità, abbia elevata capacità di competere e intenda esplorare le opportunità di outsourcing su scala globale; il modello, rappresentato in Figura 3.8, appare interessante in quanto basa le scelte di outsourcing non solo su valutazioni interne dell'impresa ma anche sull'analisi delle *best practices* impiegate nei settori di riferimento per le decisioni.

Fig. 5 – Matrice efficacia e rischi nell'outsourcing
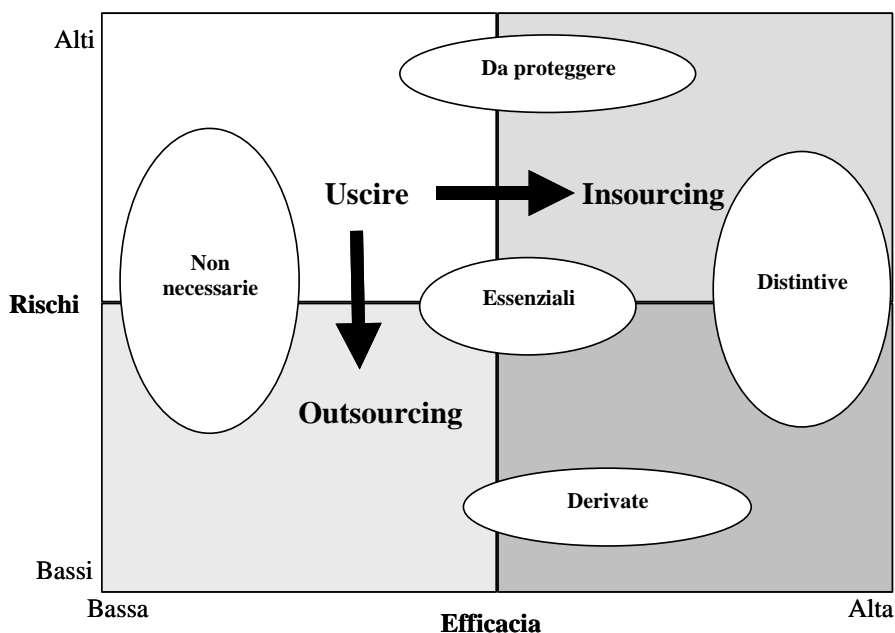
Fonte: Cordon C., Vollmann P., Hekkilä J., "Thinking. clearly about outsourcing", *Mastering in Global System*, Financial Times, 19.02.1998.

A conferma dei modelli precedenti, risulta interessante, da ultimo, citare ancora l'indagine Kearney, in quanto sono specificati i motivi di preoccupazione relativi alle aziende del campione esaminato.

SURVEY ON THE USE AND THE INTEREST OF INDIVIDUALS IN ONLINE STORES

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In Romania, most products sold in online stores are technology and communication ones. Best sold products through the Internet, globally speaking (games, toys, flowers, watches, tickets), are only 30% of the online products offered in Romania. Culture (books and information) only represents 10% of all products, as well as clothing and grooming products.
In recent years electronic commerce has had an explosive increase, starting to gain more and more ground on the traditional trade. In what follows, we will analyze the factors that favoured the development of electronic commerce, both in terms of consumers as well as vendors.
Keywords: electronic commerce, online store, customers, loyalty, Internet.
JEL Classification codes: M10, M15, M31.

In analyzing the evolution of electronic commerce in Romania we must start with the evolution of the number of Internet users. Despite the fact that in Romania the share of Internet users in the total population increased from 3.6% in 2002 to 35.5% in 2010 (according to statistics provided by Internetworldstats.com), our country ranks last in the European Union, which had a share of 67.60% in 2010. Countries with the highest percentage of Internet users are The Netherlands with 86.6% being users and Sweden with a share of 92.5% in 2010.

Romania is well below the European average considering the frequency of Internet users' online presence: in Romania only 21% of Internet users access it daily compared to 53% which is the European Union average.

Electronic commerce in Romania is still in its infancy. Romanians show fear because they are exposed to fraud (stolen credit cards, personal data's privacy, lack of compliance of the bought product with its presented description etc.). Although there are not many companies that have adopted this form of commerce, is a certainty the fact that their number and that of the online customers is increasing.

The slower growth of this new type of commerce in Romania has many causes. The most important cause is related to Internet access, either because of physical inability to connect, or because of lack of computer literacy, especially among the elder population segment. Also, another reason is that Romanians are still tributary to the mentality that an achieved property must be touched and seen in reality, measured and turned all around, while when shopping on the Internet the buyer can only read the product's description which may be more or less in line with reality.

The factors representing advantages of electronic commerce for consumers are primarily, consequences of the economic and social global development. Economic globalization has been one of the factors that have led to changes in the life of the population, with a direct effect on the way they makes their purchases.

Among the advantages offered by the electronic commerce we include the following:

a) *time* - nowadays, because of the many activities the population is involved in, the time required for shopping has become an important element in choosing the purchasing method. From this

perspective, electronic commerce has the advantage that a buyer can visit several virtual shops in a much shorter time than he would need for visiting the actual stores.

b) *distance elimination* – is a great advantage offered by electronic commerce. By eliminating the distance between buyer and seller, anyone can easily buy products that are offered for sale in other cities or countries, without one of the parties having to move around.

c) *access to information* - both online stores and the Internet give the buyer a lot of information about product's features. Most sites offer, besides the section where they display product characteristics, a section where those who already own one can provide feedback.

d) *the price* - the use of electronic commerce offers the opportunity to get a much better price for a product, whereby the seller's trade mark-up not having to cover rental expenses and also having lower staff costs. Also, many sites offer the possibility to compare prices from various online stores for the same product. A good example is the electronic supply procedure (eProcurement) which by organizing auctions offers the opportunity to obtain lower prices for public procurement of goods and services.

e) *freedom of choice* - because of the large number of stores, the customer can choose according to a much important number of options he desires, such as price, delivery date, colour, etc.

f) *product* comparison - electronic commerce makes choosing a product from a group of products with similar characteristics much easier. Online stores sites offer the possibility of selecting more products for comparison. The selected products appear then in a table where one can see their compared characteristics, facilitating a purchasing decision for the customer.

g*) permanent availability* – the uninterrupted running of the online shops throughout the year, 24 out of 24 hours a day, allows customers to shop at any time. It is one of the biggest advantages of electronic commerce, especially for people who have a very busy schedule, purchases being available at any time of day or night.

i) *post-sales technical support* - buyers can receive online technical support from the provider, on the company's website in a separate area dedicated to questions and answers, solutions being provided by the company's technical staff, or through a facilitator who provides real-time answers. If none of the two support techniques is offered, it will be done by e-mail.

This study explores how does the general population understand and use online stores to buy certain products.

The research's subject, which is the public's perception on electronic commerce is relatively difficult to address in a quantitative research. In the present study's case, a special attention was given to how the questions were formulated, in order to avoid the respondent's tendency to generalize.

This study captures some of the topics addressed by other researchers, but new questions being also introduced.

The methodology:
The purpose of the study was to carry out a survey on the public's perception on online store.
The study's general objectives:
- The perception of individuals on Internet use and their interest in online stores;
- The perception of individuals regarding the categories of products in online stores.
- The perception of individuals on how shopping is being done in an online store and the relationship with the store.

Target population: Romanian citizens (men and women), urban and rural residents in Romania, over 18 years of age.
Sample size: 60 people
Type of sample: random sample, in stages,stratified
Sampling: probabilistic selection of the sampling points

Representativeness: the 60 people sample is representative of the population over 18 years old in selected areas (a 2.8% error at a confidence level of 95%).

Method of research: survey - face-to-face interview-based questionnaire administered by the interviewer.

Data collection: For each individual, data was collected using the questionnaire below, with one or more accepted variants, by a field operator (the authors of the paper). The interviews were conducted face to face.

Fieldwork, data processing: they were carried out by the authors of this paper between September and October 2011.

Study results:

A. The perception of individuals on Internet use and their interest in online shops
When asked "Have you ever bought from an online store?", 27 people (47%) of those surveyed said they have shopped in online stores several times and 28 confirmed that they only bought products from an online store once. 8% of respondents (5 individuals) have never shopped online.
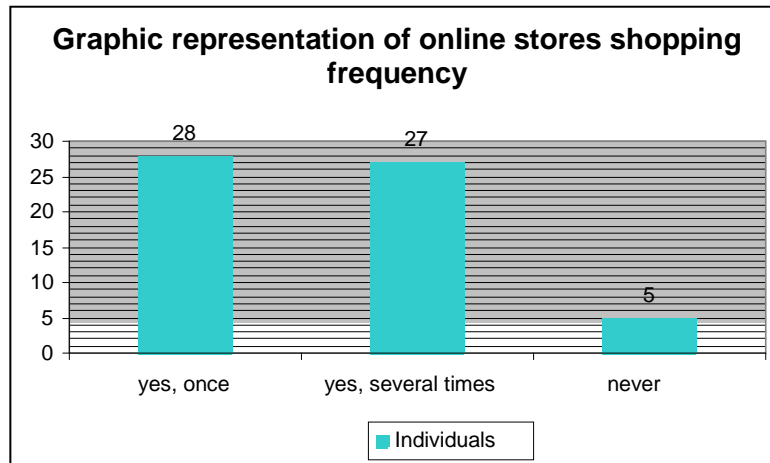
Graphic no.1
Realized by author

When asked "How often do you access the Internet to visit online shops?", more than three quarters of the respondents (76%) stated that they use the Internet daily to visit online stores, compared with 16% who frequently access the sites of electronic stores and only 8% of respondents who rarely or never use the Internet for this purpose.

B. The perception of individuals on categories of products in online shops
When asked "What kind of products you are interested in when you visit an online store?", 25% (15) of respondents are interested in IT products, 18% (11) want to buy gifts and 17% (10) appliances . 15% (9) of individuals are seeking clothing in online stores, while in electronics 10% (6) are interested. People who buy CD/DVD and other products are in proportion of 5% (3), and 3% (2) show an interest in books. Only 2% (1) of them goes online to buy medical products.
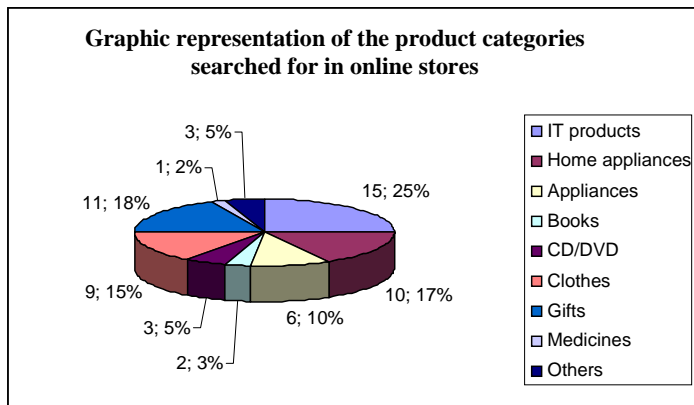
Graphic no. 2
Realized by author

The fact that you cannot try on or/and test products may induce a feeling of insecurity when one wants to purchase products from online stores, so: 45% of respondents have no fear in buying products from online stores, while more than half (35%) choose stores where they can return unsatisfactory products. Only 20% of respondents avoid such stores.
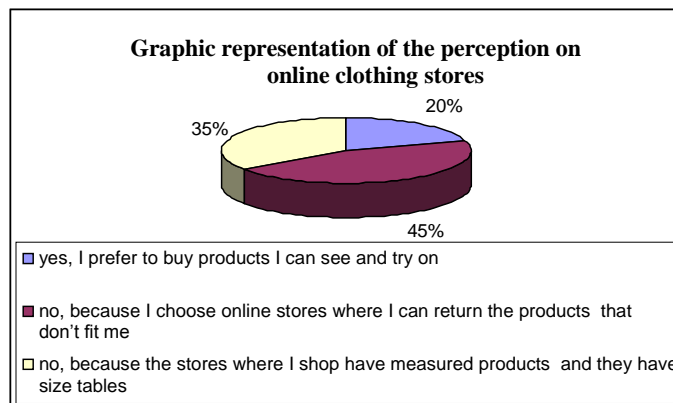
Graphic no. 3
Realized by author

Three quarters of the individuals consider that the price of the products in online stores is lower than in real shops, while 28% think the price is higher. Only 8% see no difference.
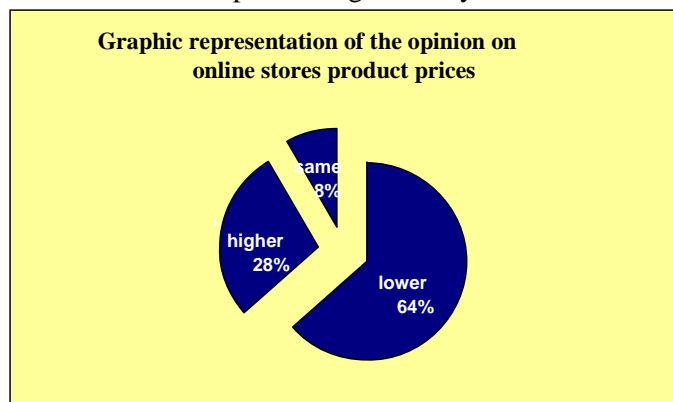
Graphic no. 4
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Conclusions:

Most of the people who answered the questionnaire, are interested to purchase IT products (25%), in online stores, and prefer to buy clothing / shoes in stores where they can return products if they do not fit (45%). In large proportion (24 people) choose to purchase daily/street vestments and 64% believe that online stores prices are lower than in real stores.

C. The perception of individuals on how shopping is being done in an online store and the relationship with the store.

When asked "What do you think about the fact that some online stores ask for customer registration before an order?", almost half of individuals considered it to be a benefit for them to register on the site, while 23 consider that this gives a safety element to the sales process. 8 people would choose not to buy from an online store, where they would require registration.

Graphic representation of the agreement of registration on the online stores sites

- a reason to give up shopping in that store
- a positive aspect, because it offers the vendor a safety element when successfully ending the sale
- A good thing, because there is no need for completing the personal data Each time you want to initiate an order
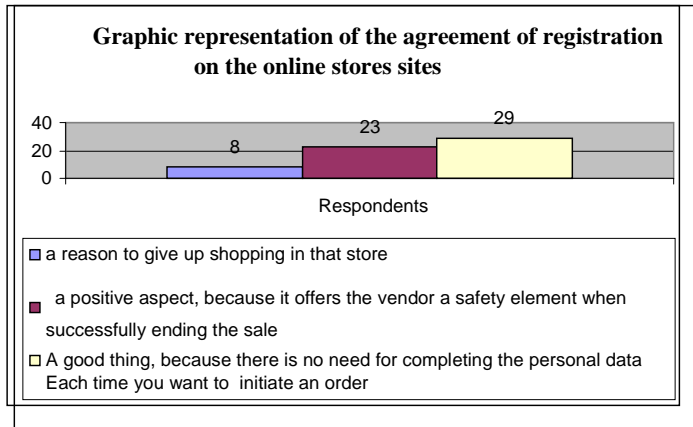
Graphic no. 5
Realized by author

When asked "What are the reasons that would determine you to choose to buy from an online store?", 26 people of 60 respondents would choose to buy from a store, where the transportation of the products would be paid, 21 would be influenced by the opinion of other clients, and 9 would not shop in stores where the procedure is too complicated. 4 individuals consider that the lack of technical support would make them hesitate when buying online.

Graphic representation, by number of respondent individuals, of the reasons why they would choose to give up buying in an online store

- The transportation must be paid — 26
- Other clients consider the products not to be quality ones — 21
- There is no technical support — 4
- The ordering method is too complicated (registration, confirmation, etc) — 9

No. individuals
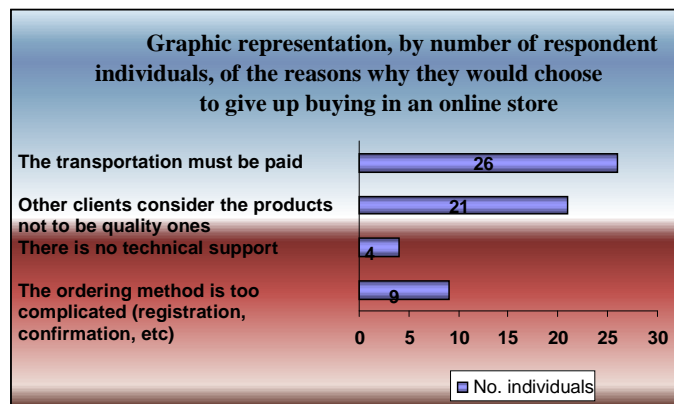
Graphic no. 6
Realized by author

Of all respondents, 51 (55%) prefer the courier as a transportation method, whereas 7 (42%) are convinced that by Post they can receive goods safely. Only 2 people (3%) choose the personal delivery of the ordered goods.
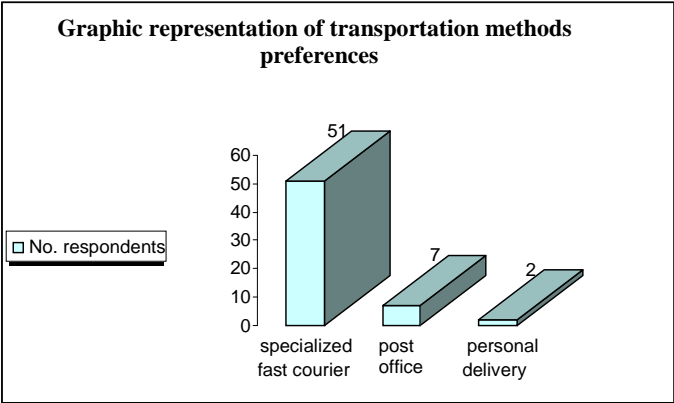
Graphic no. 7
Realized by author

Regarding payment methods, more than half of those who participated in the study (33) prefer cash payments, while 25 chose to pay with a credit card. Only 2 people find it more convenient to do a bank transfer.
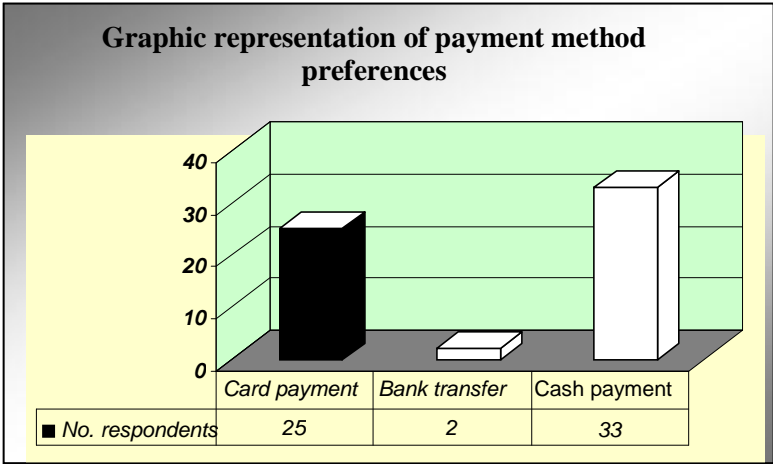
Graphic no. 8
Realized by author

When asked "Do you consider it useful for online stores where you have registered, to send you e-mail alerts when they offer discounts on certain products or they have new products?", 63% of respondents said yes, while 22% are not interested in such price alerts. 22% say they are not registered with such stores.

Usefulness of e-mail price alerts

22%

15%

63%

□ yes ■ no □ I am not registered with such stores
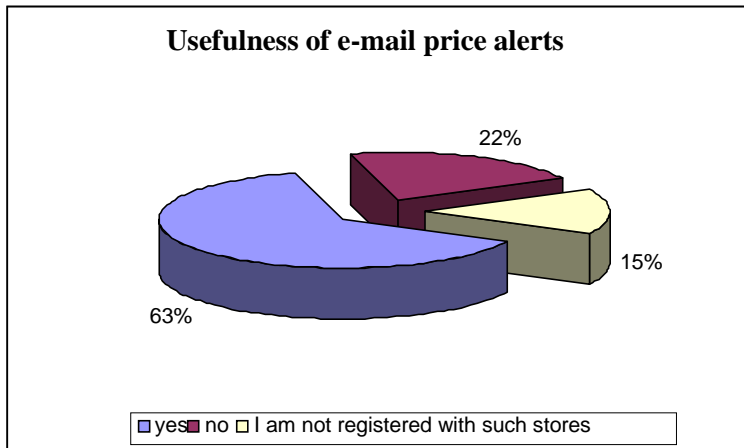
Graphic no. 9
Realized by author

Regarding the relationship with the loyalty tools used by some stores, at the question "Would you be more willing to buy from a store that rewards customer loyalty?" the answer was clearly yes for 50% of respondents. Furthermore, this is one of the aspects that proves the great interest of customers for the customizing of the products and services they buy, and this regardless of how the transaction takes place.

Graphic representation of buying availability

in stores that reward loyalty

don't know — 1

no — 8

yes — 51

0   10   20   30   40   50   60
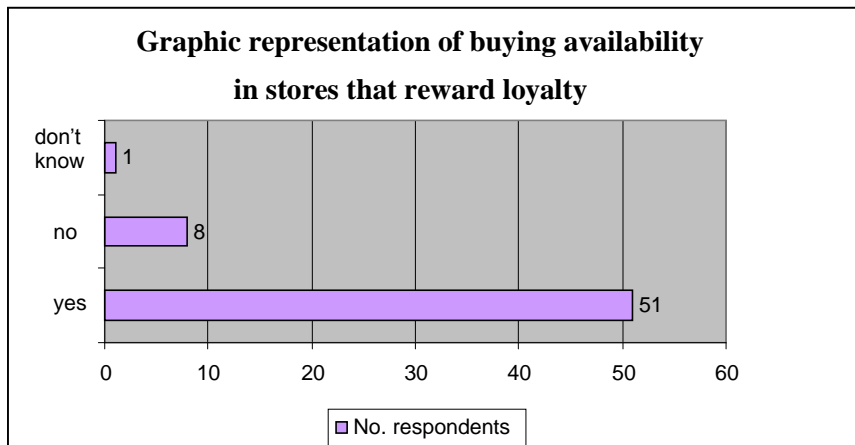
□ No. respondents

Graphic no. 10
Realized by author

Almost half of respondents (29.49%) would become loyal customers of stores that offer shopping benefits and advantages, while 17.28% appreciate in a store, the quality of products and services. 14.23% are more interested in the frequent occurrence of a novelty.
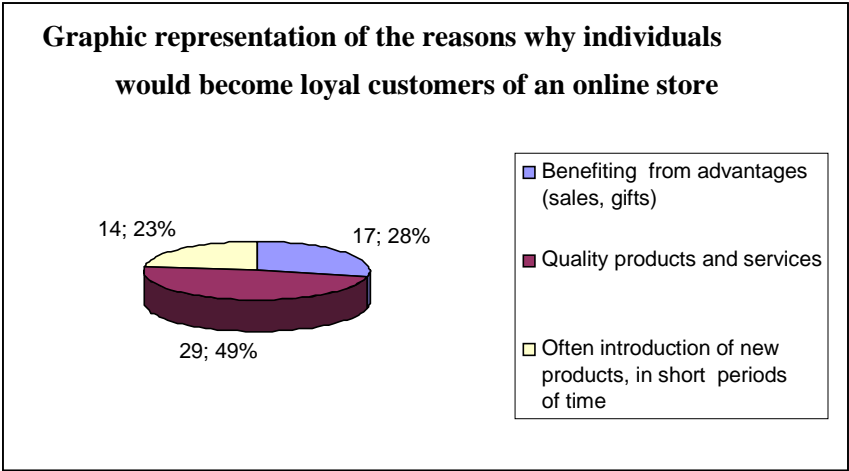
Graphic no. 11
Realized by author

Regarding the reasons which would determine them to choose not to purchase products in online stores, respondents' answers reveal an aspect any trader already knows, namely, the fact that the ultimate differentiation element in the perception of buyers- especially in times of crisis - is and will remain the price of the products.
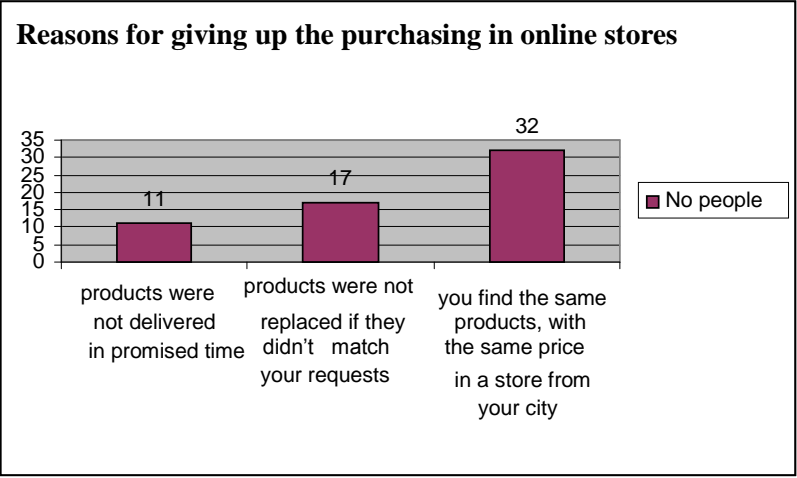
Graphic no. 12
Realized by author

Conclusions:

Regarding registration on online store sites, only 8 respondents would choose to buy when they are requested to create an account, while almost half believe it to be useful. 26 of the respondents do not agree to pay for the transportation of the products and 51 of them would like to receive them by courier. As for payment methods they prefer reimbursement. Almost half of the individuals consider it useful to receive notifications about discounts by e-mail and appreciate stores that offer discounts and benefits, but would decline to buy online products that can also be found in traditional stores using the classical sales method.

With regard to information pertaining to the structuring of other elements of the survey respondents, key findings are presented in the table below as follows:

Socio-demographic data

	Sex	Age	Occupation	Studies	Background	Monthly income on family member
Answers	**Female** (33 people)	**21 – 35 years old** (17 people)	**Employees** (19 people)	**Superior** (31 people)	**Urban** (45 people)	**Less than 950 lei** (25 people)
Percent (%)	55,00	28,34	31,67	51,67	75,00	41,67

Survey conclusions:

Without pretending to having finished up the questions related to online stores and hardly considering the number of respondents as being enough, we conclude that people from all walks of life and different environment, know about the existence of virtual stores, and, if they don't shop in them yet, they are interested in certain categories of their products or in products they think they might find online.

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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 the 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, 1994, 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; Marelli, 2003: 73-124):

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:

[1]   *short-term fixed cost capacity – variable cost capacity =*
= short-term fixed cost available capacity – utilized variable cost capacity =
= non utilized capacity that can be managed in the short-term

[2]   *fixed cost capacity – variable cost capacity =*
= fixed cost available capacity – utilized fixed cost capacity =
= non-utilized capacity that can be managed in the long term

the presence of constraints in the short term if :

[3]   *short term fixed cost available capacity = variable cost capacity=*
= short-term fixed cost utilized capacity
the presence of constraints in the long term if :
[4]   *fixed cost available capacity = variable cost capacity =*
        = fixed cost utilized capacity

[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	690.000	No of 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	2.200.000	Machine 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	1.550.000	Hours of dir. 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				202.000	

the short

	Total	Cost driver			
Non-utilized capacity in the long					0
Cost of Non-utilized capacity in the long					0
Quality control	3.700	No of Controls	1.500	1.000	1.200
Capacity			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	85.000	No of Orders	36.000	35.000	14.000
Capacity			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:

$$[5] \qquad S_i^B = \left(p_i - p^{\min} \right) \times q + \sum_j c_j^B \times D_{ij}^B$$

where:

$S_i^B = \text{score for supplier } i$

$p^{\min} = \text{unit sales price for most economical supplier}$

$q = \text{number of units purchased}$

$c_i^B = \text{estimated unit cost of activity } j, \text{ whose use is measure by cost driver } j$

$D_{ij}^B = \text{estimated units of cost driver } j, \text{ which is consumed by supplier } i$

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:

$$[6] \quad S_i^A = \left(p_i - p^{\min}\right) \times q + \sum_j c_j^A \times D_{ij}^A$$

[5] is subtracted from [6] to obtain:

$$[7] \ S_i^A - S_i^B = \sum_j c_j^A \times D_{ij}^A - \sum_j c_j^B \times D_{ij}^B = \overbrace{\sum_j \left(c_j^A - c_j^B\right) \times D_{ij}^B}^{\text{purchaser–effect}} + \overbrace{\sum_j \left(D_{ij}^A - D_{ij}^B\right) \times c_j^B}^{\text{supplier–effect}} + $$
$$\underbrace{\sum_j \left(c_j^A - c_j^B\right)\left(D_{ij}^A - D_{ij}^B\right)}_{\text{combined–effect}}$$

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:

$$[8] \ S_n^B = \left(p_n - c^{abc}\right) \times q + \sum_j c_j^B \times D_{nj}^B$$

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 $n = 1,..., N$, $S_i^B > 0$, 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: 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
	Lead time 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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A REVIEW OF TOURISM AND HOSPITALITY INNOVATION RESEARCH

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Innovation plays a vital role in a company's development and in helping it keep up with new technologies and customers' highest expectations. A large number of publications on tourism innovation reflect the interest of many authors in this topic. In the past few years several authors have approached tourism innovation, developed models of innovation in tourism, analyzed innovation types or the factors that influence innovation in this field. The purpose of this paper is to review the existing literature on tourism innovation and to identify the main research tendencies in this area of interest. Therefore, we searched for keywords like "tourism innovation", "hospitality innovation" or "service innovation" in several databases such as Science Direct, Emerald, Sage Publications and The Center for Hospitality Research of Cornell University. Because this study focuses on tourism and hospitality innovation, there were analyzed 17 research papers regarding these aspects. Relevant findings such as factors that influence innovation in tourism and hospitality (hotels' size, category and chain structure, introduction of ICTs, employee involvement and commitment, customer or guest requests etc.), types of innovation implemented in this area and correlations between innovations' success and hotel performance were highlighted.

Keywords: innovation, service innovation, tourism, hotel, hospitality industry

JEL Classification: M10, O31, L83

Introduction

Innovation is an intensely studied phenomenon in the tourism field, a relatively new area of interest – fact proven by researches that first appeared in the late 80's and intensified in the 2000's when researchers and entrepreneurs started to notice the importance of innovation in tourism. Several aspects regarding innovation were discussed in the undertaken research (Hjalager, 1997; Hjalager, 2002; Enz and Siguaw, 2003; Orfila-Sintes *et al.*, 2005, Ottenbacher and Gnoth, 2005, Ottenbacher, 2007): factors that influence innovation, innovation types, innovations effects on firms' performance, innovation cases, measurement of innovations' success.

In order to highlight the importance of these aspects, further sections of the present paper analyze aspects regarding:
- definitions of innovation and service innovation based on the Schumpeterian approach of the concept (innovation is analyzed from a manufacturing perspective);
- some relevant findings regarding tourism and hospitality innovation;
- analysis of these findings in order to frame three important dimensions of innovation.

Aspects regarding innovation and service innovation

In the field of economics, innovation was first approached in 1912 by the Austrian economist and professor Joseph Alois Schumpeter. He sees innovation more from a manufacturing/production perspective and defines it as "the setting up of a new production function" (Schumpeter, 1939: 84), because this covers the case of a new product, a new form of organization or the opening of new markets (Schumpeter, 1939: 84).

Studies regarding innovation were also conducted by Peter Drucker, according to whom innovation is the act that gives products the capacity of creating wealth (Drucker, 1993: 27).

Drucker approaches the innovation concept from an entrepreneurial perspective derived from Schumpeter's manufacturing perspective, however none of them is approaching innovation in the service industry, let alone in tourism.

Service innovation was first studied by Richard Barras in 1986. In his approach, he started with the service characteristics and also proposed a theoretical model of process innovation in services based on the idea of reverse product cycle (Barras, 1986: 161-162). Other approaches regarding service innovation were made by Gallouj and Weinstein (1997), Sundbo (1997), Evangelista and Savona (2003), Hipp and Grupp (2005), de Vries (2006), Verma *et al.* (2008), Gallouj and Savona (2009), Lu and Tseng (2010).

Relevant findings for service innovation were pointed out by Gallouj and Weinstein (1997). In their opinion, service innovation is difficult to accomplish because of two major aspects: first, because the innovation theory was developed only on its technological analysis in manufacturing, and second, because unlike products, services have certain specific characteristics and the outcome of their production process is not something tangible – which makes service innovation more difficult to measure and monitor (Gallouj and Weinstein, 1997: 537).

Also, relevant findings regarding innovation in the service industry were highlighted by Verma *et al.* (2008). In the research they conducted after a Roundtable between academics and practitioners, there were framed the principles of service innovation (Verma *et al.*, 2008: 7): *customer focused* – needed in order to exceed customers' expectations; *process focused* – by using new technologies or new methods of organizing the innovation process, a service provider can improve and adapt its products; *continuous improvement* – needed to keep up with the newest trends in service industry, as well as to analyze and monitor guests' experience.

We find the aspects mentioned above very important and relevant for further studies in this field, more likely for tourism, especially because they offer a solid feedback regarding the importance of involving both customers or guests and employees in the innovation process.

In order to identify the main research directions and trends in tourism innovation, there will be analyzed several research papers on this topic.

Innovation in tourism and hospitality – main findings

Even if it is important for tourism field development, tourism innovation is a relative recently studied concept, several researches being conducted only after 2000, when along with technological development, the results (new technologies) were implemented in tourism field as well. Many authors (Poon, 1988; Hjalager, 2002; Orfila-Sintes *et al.*, 2005; Victorino *et al.*, 2005; Sundbo *et al.*, 2007; Orfila-Sintes and Mattsson, 2009; Hjalager, 2010; Aldebert *et al.*, 2011; Lopez-Fernandez *et al.*, 2011; Meneses and Teixeira, 2011) reach the conclusion that most of the innovations in tourism are technological. This assertion is sustained by the results of a study regarding service companies developed by Evangelista and Savona in 2003, according to whom "more than one third of the service firms in Europe (40,3%) have introduced a technological innovation" (Evangelista and Savona, 2003: 456).

In order to identify relevant findings regarding innovation in tourism field, there were analyzed several databases such as Science Direct, Emerald, Sage Publications and The Center for Hospitality Research of Cornell University. A search was done after keywords like "tourism innovation", "hospitality innovation" or "service innovation". There were analyzed 17 research papers regarding tourism or hospitality innovation. The results are highlighted in the table bellow (Table 1). The earliest paper identified was written in 1988 by Auliana Poon and focused on developing all-inclusive vacation concept in the Caribbean tourism. Also it analyzed the main types of innovation: technological, organizational, in management practices, in finding new markets or in introducing new goods/services to the markets.

Table 1. Relevant findings for tourism and hospitality innovation

Year	Author/Authors	Analyzed variable(s)	Relevant findings
1997	Anne-Mette HJALAGER	Innovation types	Main types of innovation that can be or were implemented or developed in tourism field: product, classical process, management, institutional innovations.
2002	Anne-Mette HJALAGER	Innovation types Innovation model for tourism	Development of a model of innovation in tourism based on Abernathy and Clark's model including regular, niche, architectural and revolutionary innovations.
2003	Cathy ENZ, Judy SIGUAW	Innovation cases	Examples of innovation from lodging industry, based on the analysis of hotels like Marriott, Ritz, Motel 6.
2005	Francina ORFILA-SINTES *et al.*	Hotel category, governance and chain structure, Hotel size, Human capital skills, Targeted market segment, Seasonality, Performance	Hotels that are part of a chain innovate more easily than the ones that are operating individually because they can benefit from managements' know-how; Human capital skills and the ability of their update is materialized in trainings and reflected in HR investments, both important for innovation success; The most innovative hotels have a higher classification (3 or 4-5 stars).
2005	Michael OTTENBACHER, Juergen GNOTH	Factors determining innovation success in hospitality industry	Innovations' success in the hospitality industry is determined by: market selection, strategic human resource management (SHRM), training of employees, market responsiveness, empowerment, behavior-based evaluation, marketing synergy, employee commitment and tangible quality.
2007	Jon SUNDBO *et al.*	Hotel size, Organization, Tourism firms' innovativeness	The most innovative hotels use professional management tools; Innovative hotels have a positive attitude regarding ICT instruments utilization; Innovative behavior of tourism firms is related to their size: the bigger the firms, the more innovative; Amongst tourism firms, hotels, restaurants and transport companies are the most innovative ones.
2007	Michael OTTENBACHER	Performance dimensions, New service performance dimensions	Innovations' success can be measured using three performance dimensions: market performance (market responsiveness, effective marketing communication, raising awareness, tangible quality), financial performance (market attractiveness, SHRM, employee involvement in NSD, NSD prelaunch activities) and employee and customer relationship enhancement (employee commitment, behavior-based evaluation, training, empowerment).
2009	Ester MARTINEZ-ROS, Francina ORFILA-SINTES	Independent variables: management, strategic decision of differentiation, market-	Hotels' dimension positively influences both degrees of innovativeness; The use of tour-operators is a determinant factor of incremental innovations especially

		orientation strategy. Dependent variables: degree of innovativeness: radical or incremental. Control variables: part of a chain, use of tour-operators, hotels size, age and location	because they have a limited negotiation power; Once a hotel develops an incremental innovation, it increases its chances of developing a radical one.
2009	Francina ORFILA-SINTES, Jan MATTSSON	Service provider's competences (size, use of physical capacity, additional services), Customer competences (travel motive, booking way, accommodation type) and Market drivers.	Hotels' dimension positively influences the innovation decision; Customers' requests have a positive effect on hotels' innovative behavior, increasing their chances to innovate; Managers' lack of experience (under 1 year) has a negative influence on innovation; Employees with higher education are positive determinants of innovations.
2009	Lori SIPE, Mark TESTA	Innovation and performance	Framework for innovation research in hospitality and tourism marketplace including innovation drivers, outputs and business performance.
2011	Bénédicte ALDEBERT et al.	ICT and tourism innovation Tourism @ event	Importance of ICT actors for tourism innovation development Software, Internet and databases are the main technologies used in tourism innovation development
2011	LÓPEZ-FERNANDEZ et al.	Firm size, belonging to a business group, changes and rigidities, high costs of innovation, lack of qualified personnel, financial support provided by public institutions, lack of information and of interest for innovation by customers.	Large size firms positively influence the innovation decision; Belonging to a business group or hotel chain has a positive influence on innovation decision; Organizational changes have a positive influence on innovation decision in hospitality industry operating firms; The lack of qualified personnel can slow-down the hospitality innovation process, but does not stop it.
****	The Center for Hospitality Research of Cornell University	Innovation cases	There are presented 55 cases of innovative service companies from all around the world and the innovations they implemented. Most of the companies are hotels, restaurants or transport companies.

(Source: author)

Result analysis

It can be noticed that there are several similar aspects regarding tourism innovation. Firstly, it was empirically proven that firms' size influences their capacity to innovate (Sundbo *et al.*, 2007; Martinez-Ros and Orfila-Sintes, 2009; Orfila-Sintes and Mattsson, 2009; López-Fernandez *et al.*, 2011). Secondly, the importance of involving employees and guests in the innovation process was highlighted (Orfila-Sintes *et al.*, 2005; Ottenbacher and Gnoth, 2005; Orfila-Sintes and Mattsson, 2009; López-Fernandez *et al.*, 2011), and thirdly, the importance of using information technologies in order to be innovative was pointed out (Sundbo *et al.*, 2007; Aldebert *et al.*,

2011). Also, there were pointed out the main types of innovative firms from the hospitality industry: hotels, restaurants and transport companies.

Upon analyzing the above research papers on tourism or hospitality innovation, one can notice that there are several trends followed by most of the researchers. These trends will be further referred to as *dimensions of innovation* and they can be structured as follows:

- *human dimension* – when there are analyzed aspects regarding the involvement of employees or guest in the innovation process (Orfila-Sintes *et al.*, 2005; Ottenbacher and Gnoth, 2005; Ottenbacher, 2007; Orfila-Sintes and Mattsson, 2009; López-Fernandez *et al.*, 2011);

- *financial dimension* – when there are involved aspects regarding the costs of innovation, investments, profit maximization, sales (Orfila-Sintes *et al.*, 2005; Ottenbacher, 2007);

- *organizational dimension* – refers at aspects regarding firms' size and capacity, chain structure, management (Orfila-Sintes *et al.*, 2005; Sundbo *et al.*, 2007; Martinez-Ros and Orfila-Sintes, 2009; Orfila-Sintes and Mattsson, 2009; López-Fernandez *et al.*, 2011).

Conclusions, limitations and future research

As proven above, tourism innovation research was approached by several European and American authors, both from theoretical and empirical perspectives. The analysis of these studies is relevant for Romanian tourism as well, because there is a lack of research in this field. The analysis revealed some important factors that influence innovation in tourism and hospitality: hotels' size, category and chain structure, employee involvement and commitment, managements' orientation towards innovation, empowerment etc. Also, the analysis of relevant findings allowed us to identify three important dimensions of tourism innovation: human, financial and organizational. It is important to highlight that these dimensions were developed from the analyzed papers and are not the result of an empirical research, which we plan to undertake in order to validate them.

Acknowledgments

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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.

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**
1st year	80	44.2
2nd year	40	22.1
3rd year	61	33.7

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	*Learning (5 items)*	*Mean*	*SD*	*KMO*
I.16	*To broaden my general knowledge*	*4.06*	0.857	
I.19	To prepare homework or a project	3.52	0.998	
I.23	*Would contribute to my education*	*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	*Cultural (7 items)*	*Mean*	*SD*	*KMO*
I.5	To be with people with similar interests	3.51	1.057	
I.6	*To experience cultural events and places*	*4.06*	0.857	
I.12	*I enjoy cultural places and events*	*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	***Relaxation (7 items)***	***Mean***	***SD***	***KMO***
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	***To be with friends/ family***	***3.75***	1.065	
I.13	It is important to visit cultural places	3.30	1.055	
I.17	***To spend my spare time***	***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	***Pleasure-seeking and entertainment (4 items)***	***Mean***	***SD***	***KMO***
I.9	***To be with other people who enjoy***	***3.52***	0.998	
I.18	To tell friends about it	2.92	1.019	
I.31	***I want to have some entertainment***	***3.48***	1.083	
I.32	I want a day out	3.19	1.105	
	Total	**3.28**		**0.629**
V	***Experience something new(4 items)***	***Mean***	***SD***	***KMO***
I.3	I was curious	3.83	0.900	
I.4	***To experience new and different things***	***4.24***	0.814	
I.7	It is stimulating and exciting	3.59	0.894	
I.11	***I like the variety of things to see and do***	***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 polices 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.

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 achieve 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. Wiliamson

		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.

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 competitional 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 "evolutive 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 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 (marshalian 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 c-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 esentially 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-psihologie/385-dilema-prezonierului-teoria-jocului.html)

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ORGANIZATIONAL CULTURE AND ITS WAY OF EXPRESSION WITHIN THE ORGANIZATION

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The main theme of this paper is the role of organizational culture in a company and its way of expression within the organization, for its management, for its employees and for its competition. Organizational culture is undoubtedly one of the fashionable areas of management, with a relatively recent history. Its purpose is to sensitize readers to the importance of organizational culture for the success of an enterprise, and its objectives were: to define organizational culture and its influence factors, as well as to explain the role of its components in the organization as a whole and for its members. Practically, the interest in organizational culture began in the 7th decade, largely due to the performances of Japanese companies, performance explained by their specific culture. Although the concept is increasingly met in international and local literature, the process that prevents its practical implementation is the lack of scientific (theoretical) research at a company´s level. The old generation of leaders lead based on knowledge acquired years ago, few are those who really consistently do research and are up to speed with the latest news in management, or in the economic field in general. This paper aims to identify key conditions that determine human activity in an organization and their relationship to the successful implementation of an organizational culture by examplifing great successes of international companies. This is relevant, not only because these companies have huge incomes and recorded notable successes, but also because they enter and develop on the local market, trying to implement their thinking. Thus, local businesses can improve their business by adopting and adapting this way of thinking. The rezults of the research results reflect the fact that despite the concept that people are the main value of an organization, companies continue to ignore their employees, instead seeking the magic formula, the immediate solution or the latest management tool, not giving organizational culture the importance it deserves. We want to preclude the notion that it is easier to implement a new policy than to invest time to analyze and improve internal organizational culture. An organizational culture of success tries to improve old ways without losing the tradition, it brings advantages to the organization, to the management and to the employees.

Keywords: organizational culture, symbols, organizational behaviour, beliefs, values.

JEL Code: M14

Organizational culture is the one that directs the employees to act according to the principles and values of the organization and to understand what is good, bad, ugly or beautiful for it. Organziaţional culture refers to those written and unwritten rules, concepts, ways of thinking that spiritually diverse an institution from another and that is reflected in every interaction with its external or internal environment. It is a lifestyle, a set of rules, traditions and beliefs common to all members of an institution.

R. Lynch suggests that organizational culture is a company's own set of beliefs, values and ways of empirical management which reflect in the company's structure and system, in the way the cooporate strategy is developed and implemented.

As each person represents an unique human being, any manager without exception is bound to prove an infinite flexibility in his/her behaviour towards subordinates, on one hand, and in understanding their needs and aspirations on the other.

In order to accomplish this, it is necessary that each manager knows those elements that influence the human behaviour and efficiency. The main factors that characterise the human resources in an organization are creativity, ability to inovate, atitude towards work, needs and desires, character traits and group behaviour. These human traits can be influenced by managers in such way as to ensure maximum efficciency in using human resources.

The efficient use of human resources in organizations requires ensuring and respecting certain conditions, conditions that directly influence the human activity. Thus, the main factors that influence human activity in an organization are:

- factors related to the employee: professional training, practical and theoretical knowledge about their work, work experience, creativity, innovation and other such factors which, as seen, are in a very large extent related to the employee. The manager can intervene here during staff selection and recruitment, identifying those individuals who best fit the organization, on a professioanl level.

- factors related to the organization: motivation policy, working conditions, company reputation, employee facilities, organizational culture and organizational behavior. These factors are heavily related to the organization, namely to its leadership, the manager liberty of action being restricted only by the limits of their creativity and imagination in terms of personnel policy.

- researching organizational behavior is a way of learning about the world through objective and systematic collection of informații. A good research in organizational behavior involves rigorous training in management-applied psychology or sociology. There are two basic techniques of organizational behavior research - *observation and correlation* - , to which a third is added, less used, namely, *experimentation*.

- the observation method requires that the researcher proceeds to examine the natural activities of people in the organizational environment, hearing what they say and observing what they do. Firstly, the researcher attacks the organizational environment with an extensive training on the nature of human behavior and a particular set of questions to be answered by the research. These factors provide a systematic framework for conducting the observation. Secondly, the researcher will try to keep permanent and careful records of the events he observes right as they emerge. He should not influence the behavior of the ones that are being observed in any form. Research results through observation are summarized in a narrative form, sometimes called a case study. This specifies the nature of the organization, the people and the events that were studied, the particular role of the observer and the techniques that were used.

- two researchers, Bensman and Gerver investigated an important organizational problem: what happens when the activities necessary to perform a specific task come in conflict with the official policy of the organization? They were interested in the illegal use of taps by workers in an aircraft factory. A tap is a steel hand tool used to cut a thred in metal. Possession of such a device by aircraft fitters was completely prohibited because workers could use it to adjust inappropriate or difficult to assemble parts, which could ultimately result in lower resistance of the metal structure or maintenance issues. Having a screw tap was a strict violation of the company's policy and a worker could be fired on the spot for it. On the other hand, maintaining a certain quota of work was necessary, and the use of a screw tap could have saved hours of disassembly and alignment. This conflict was resolved through cooperation between supervisors and inspectors to encourage cautious and appropriate use of taps. New employees were gradually introduced into the mysteries by tapping by older workers and supervisors ensured completion of the skills. Taps were used in front of the inspectors or to correct chronical inappropriate works. If he got caught, the one who had illegally used a tap, had to receive the supervisors punishment

even if it was he who suggested the use of the tap. All this resulted in the development of a social ritual to use this tool.

Organizational culture is undoubtedly one of the fashionable areas of management,with a relatively recent history. Practically, the interest in organizational culture began in the 7th decade, this concern being largely due to the performances of Japanese companies, performance explained by their specific culture.

A first approach to organizational culture on management terms belongs to T. Petersand and R. Waterman, who in thier book called "In Search of Excellence" illustrate the relationship between organizational culture and the development of some firms. The term "culture" was used in economy from anthropology, both in economics and anthropology existing several meanings for this term "culture": phenomenologic, structural, critical and anthropological. According to several specialists, four types of cultures can be distinguished in every country:

- national;
- economical;
- on different branches of economical activity;
- organizational;

Organizational culture, as many other managerial concepts has many definitions. Thus, according to N. Oliver and G. Lowe, organizational culture consists of a set of beliefs, shared by most of the staff of an organization, beliefs about how people should behave at work and what the most important goals and tasks to accomplish are.

Another definition of organizational culture belongs to the Americans M.J. Stahl and D.W.Grigsby. In their view, organizational culture designates a set of values, beliefs and major meanings shared by the members of an organization.

Organizational culture can be defined as all the values, beliefs, aspirations, expectations and behaviors shaped over time in each organization, which prevail there, conditioning its functionality and performance.

The content of organizational culture is treated in different ways in the literature.Thus, Williams and Dobson structured organizational culture on three levels:

- of beliefs and convictions, embedded in the consciousness of the staff which often is un aware of these;
- of values and attitudes, which employees choose and display;
- of individual and group behavior within the organization.

Also other researchers make an analogy between organizational culture and an "onion" in the sense that both encompass multiple layers, only one of which is noticeable at first glance. All these approaches of the content of organizational culture have a common thing– identifying multiple levels that are overlapping. The forms of manifestation of organizational culture are largely intangible, less visible, but we believe that the main manifestation form are the following elements: symbols, behavioral rules, rituals and ceremonies, statutes and the role of the staff, organizational stories and myths.

As major components of organizational culture, simbols provide meaning or comon meanings to its members in relation to some organizational elements of group interest, allowing them to communicate and harmonize. The cultural symbols convey meaning that reflects the philosophy and values, ideals,beliefs and expectations shared by employees. For example, a symbol can be even the name of the organization when it reprezents an essential element of its activity. The names of competitive companies become in time symbol of what they represent for economy. Thus, Philips and Mercedes are symbols of top quality in televisions and, respectively cars.

The Logo of the company is often a major symbol for its employees and clients. For example, the „tiger", the logo of the Exxon Company, suggests the power that the respective fuel generates and, at the same time the power that it beholds as one of the most powerful oil companies in the world. As you can see, this symbol is aimed both at customers - through power, symbolic for the

fuel quality - and at employees, and competitors – through the company's market position. The lion can be interpreted the same way, the symbol of Peugeot Comapny. The official language or the slang is also a frequent bearer of symbols in the organization. In competitive firms from developing countries, the practice of formulating commands or sayings that summarize the organization's work concept is increasing. In this respect, the 10 commandments used as informal behavioural guidelines at the American Bankers Insurance Group Company in the U.S., engraved in stone at the entrance of the general headquarters. A special symbolic value are seen in the fittings, furniture, paintings,colors, etc., used in the organization. For example, equipping the meeting room with a round or oval table suggests the idea of participation, of group action. The general manager's use of a of a huge desk and a big chair suggests putting a great emphasis on hierarchy, on autocratic vision in management. In conclusion, we can say that cultural symbols are used to express certain views and to promote certain values and behaviors within the company. They help focus the thinking, the behavior and the actions of the employees towards the crystallization of certain , typical, prevailing organizational behaviors.

However, organizational culture stands not just for values and principles, it means the company´s openness to new, acceptance of changes, development of good communication between employees and between departments, bringing managers down to the level of each individual employee, a climate that support creativity and positive relations between people ... it means creating a place where people love coming to every day. Organizational culture incorporates the following:

- staff ethics;
- attitude towards risk;
- attitude towards competition;
- attitude towards the client;
- attitude towards the employee;
- attitude towards external forces;
- management style;
- identity;
- control.

Managers should be aware that an effective organizational culture brings only benefits to the organization, both on short and on long term. "Management leads culture and culture leads behaviour" (Dygert and Jacobs 2006: 21). Leadership guides the direction organization is headed, they express it through organizational culture, and the staff follow it and reach the desired performances, in the same time feeling satisfied and appreciated for the work they have done.

However, in implementing an organizational culture, managers must be aware of those disturbance factors that may have a negative influence if not controlled. They can create misunderstandings, quarrels, frustration and all this leads to a drastic decrease in performance. Usually employees are frustrated not by their work, but by the working environment, by colleagues, by managers, by the fact that they are not appreciated, etc. The most important elements to be controlled, to be coordinated so as not to create conflictual situations are called "the 4 C's '(Dygert and Jacobs 2006: 32):

- change: an organization is constantly changing, in a process of growth or, conversely, in a decrease, which will generate more and more situations. People struggle with change and fight even between them because of these changes;
- Competition: competition has always been a reason to quarrel between employees, but competition can be positive as long as it stimulates creativity and good cooperation. Internal competition should be transformed into teamwork. The employee must learn to enjoy the success of his colleague, and even help him because the situation may change at any time;

- cooperation: when two people or a group cooperate in a certain situation, success is three times safer than if they all pull in different directions, because it proven that teamwork is more effective than independent work;

- control: control can be the power that unites or divides in an organization. A good measurement of the level of authority required in each situation is key to success. Sometimes, people must be guided in a certain direction and strictly be controlled in what they do, but sometimes it is better for employees to learn to think for themselves, not always be told what to do.

It is very important for employees to understand organizational culture because it affects their daily work through the benefits they receive, through how they interact with colleagues, through how they dress at work and everything else relating to work at the office . Own experience and observation will help employees, in time, to understand the way in which actions are taken in the organization and which are "the house rules". Also, the organizational culture provides them with economical, spiritual security, with the need for recognition and self-esteem that the human psyche craves for. A job means added value, not just execution (for that there are machines). Thinking that the employee works for the boss, should be changed into a different attitude, namely that the employee works for the customer to meet his/her needs and requirements.

Culture actually expresses the way human resources of the company are seen and what behavior the employees must adopt both in the working process and in different situations they face during their activity within the organization. At first glance, one might say that all successful organizations have similar cultures, since they have asserted themselves on a market with fierce competition. But it is not the case. It is almost impossible to identify two identical cultures from two different organizations. This difference in culture is due to several factors, factors which influence the organization,giving it a certain type of culture. Among the factors that influence an organization's culture, the following can be mentioned: the founders of the organization, the national culture within which the company operates, age and size of the organization, managers, the activity profile and the work nature, characteristics of the human factor, etc. All these elemets offer each organization a certain system of values and a certain perception of reality. To grasp the true importance of organizational culture it is enough to observe some successful organizations and the values they promote.

McDonald's is a company known practically all around the world, with restaurants open in our country as well, in almost every major city. Headquartered in Illinois, the company had become the leader in the fast food business and a rolemodel for aspirants in the franchise business. It can be said that the company's success was due to its management and its mission: "fast service of hot snacks, in a clean restaurant, at affordable prices". The company has developed a true"cult of quality". Nothing is left to chance in a McDonald's restaurant, from the interior design, to the equipment and staff behavior. All these are dictated in an operating manual created at headquarters. The manual gives instructions for employees on how to present themselves ,what to tell customers and how to do their work. Hamburgers and fries are made in a way as to respect the most strict uniformity. Preparation of hamburgers is made with great care and each employee is trained to know which layer of meat comes first. Employees in a McDonald's restaurant have a certain dress code and must be very careful with their customers. A McDonald's employee has several tasks in the restaurant: he/she serves, cleans, helps unload the supplies, which means that not everyone is able to integrate in the work environment at McDonald's.

Organizational culture is a concept that is slowly making room in our companies, but they have a lot to make up for over the multinationals that are coming to Romania with a certain mentality,with a vision of success, built in a stable and competitive economic environment. And often, this view makes them proficient,through the people they select and the values they adopt. At this level, organizational culture can make the difference between a successful company and one that struggles to survive.

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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:

WORK ETHICS IN ROMANIAN COMPANIES (I) - EMPRIRICAL 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

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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, manger'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 previsions of Law nr.346/2004:

> -*Category I - Microenterprise under 9 employers*, (In this study 52,2% of responses came from micro-firm owner/mangers 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 past 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	- Equal opportunities - Affirmative action - Reverse discrimination - Sexual and Racial Harassment
Right to privacy	- Health and drug testing - Work – life balance - Presenteeism - Electronic privacy and data protection
Right to process	- Promotion - Firing - Disciplinary proceedings
Right to participation and association	- Organization of workers in work councils - Participation in the company's decisions
Right to healthy and safe working conditions	- Working conditions - Occupational health and safety
Right to a fair wages	- Pay - Industrial action - New forms of work
Right to freedom of conscience and speech	Whistle-blowing
Right to work	- Fair treatment in the interview - Non-discriminatory rules for recruitment

Employee duties	Issues involved
Duty to comply with labor contact	- Acceptable level of performance - Work quality - Loyalty to the firm
Duty to comply with the law	Bribery
Duty to respect the employer's property	- Working time - Unauthorized use of company resources for private purposes - Fraud, Theft, embezzlement

Listen
Read phonetically

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**
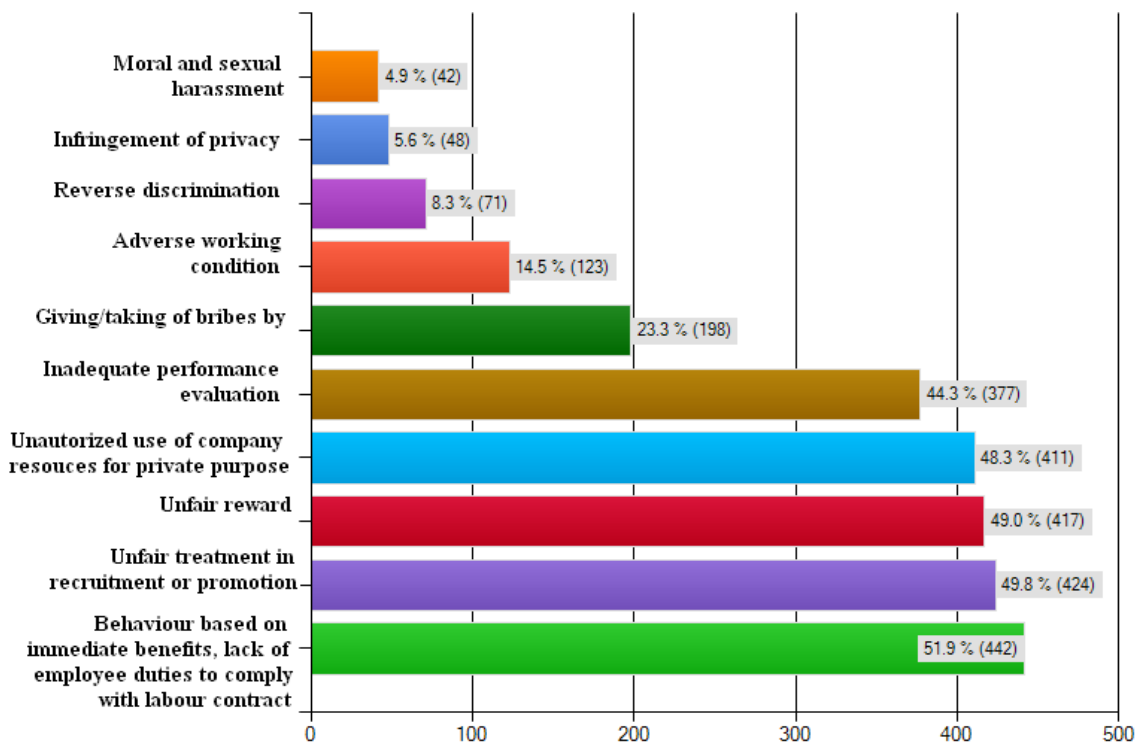
The obtain results are listed below according to the hierarchical relevance and in the parenthesis is mention to which type of employees\s right or duty makes the answer references and if the ethical issue is based on financial or social aspects:

-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**
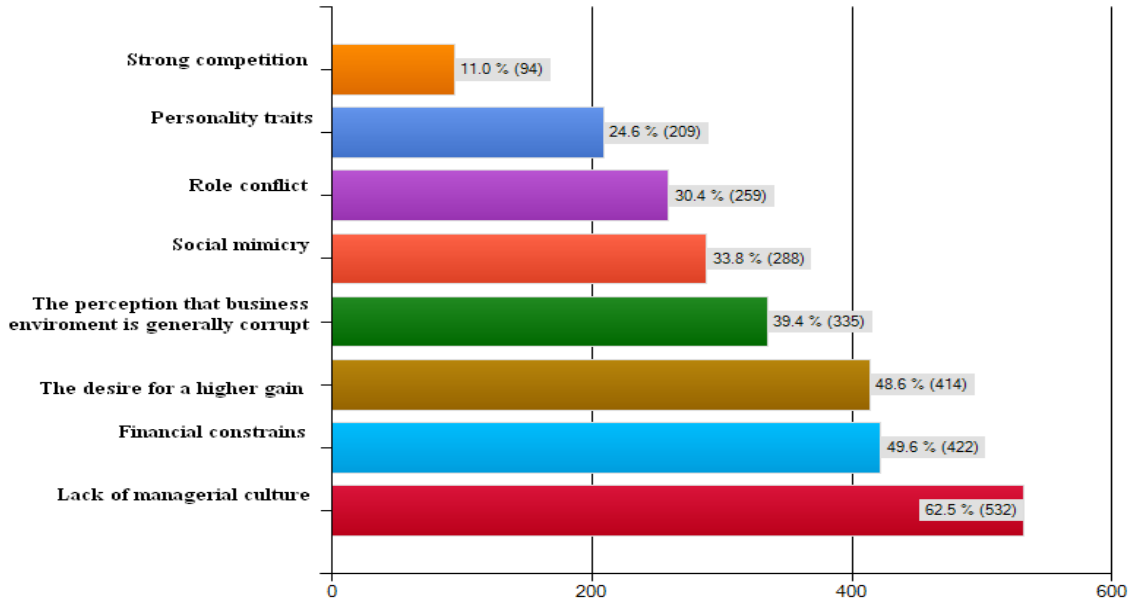
It is important to emphases that on the first position is placed the lack of a managerial culture. There is a clear evidence that the managers from my country, are awarded that the main reason causing various unethical practices, is precisely how are managed and controlled the activities that take place 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 to create 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.   ListenRead phonetically

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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?" Indentifying 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

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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 restrain 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 chiliasm of modern man is the megalomania of self-infinitisation. 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

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 şi eficiente, Programul operaţional Sectorial Dezvolarea Resurselor Umane 2007 – 2013,"

Analyzing these results, it is obvious that managers who mange 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 loosing 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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RURAL DEVELOPMENT, TOURISM BUSINESSES IN VADU AND CORBU'S MUNICIPALITIES

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The main purpose of this article is to present the transformation needed by a seaside rural area in an internationally competitive tourism. Vadu and Corbu areas are rural municipalities which want to develop and convert into a new city: Orion City. Therefore, Vadu and Corbu's municipalities want to become a cluster region within the tourism industries and hence turn into a resort municipality where tourists can live and run their businesses as well as providing for tourism activities. The reason why it is interesting to create a cluster region is because it comes with benefits for the companies and it helps developing the regional economy, since clusters' lower barriers in a new business formation are the ones which improve the environment for productivity. One investment that needs to be made in the direction of becoming a great resort municipality is the start up of an Advanced Rural Tourism Vocational Education in the region, named Orion Entrepreneur.
It should start with only 20 students in this programme, skilled ones, which should all want to start up own businesses within 10 years, and maybe some of them even plan to establish their companies in Orion City.
Also, the two municipality councils should invest in attractions to capture tourism companies.
However a trend can be estimated from the very beginning. The districts where most of the tourism businesses in Romania take place are rural areas close to populated regions, so called semi-urban areas. Or, there are no cities in Corbu and Vadu's municipality only one bigger town, Constanta. These makes us believe that, if the two rural areas want to become tourism municipalities they must invest, for example creating job opportunities and new residential areas. Therefore, the idea that I would like to promote would be to build a Las Vegas as a city of Romania, a city that would become internationally recognized as a 5-star holiday city, with hotels and rest facilities, shops and famous casinos, access to the delta, the Black Sea coast and to the historical sites for the passionate, but also access to spa treatments.
These investments are needed to attract inhabitants and business people to their municipalities before the tourism companies can flourish. Investments make this type of clusters attractive.

Keywords: cluster, tourism, rural, investments, entrepreneur.
JEL L26; L83

I. Introduction

The rural tourism related industries are clearly growing in Romania and in the European Union. The rural tourism industries come with many job opportunities which have economic benefits (Erlandsson, 2009). Furthermore, there is a demand for cluster regions within tourism industries because clusters develop businesses, build up the rural areas and creates a regional growth (Guinet, 1996; Porter, 2000). There has been a structural change within the rural tourism industries. Historically rural areas were used for agriculture and farming. Nowadays rural areas are starting to be used for leisure time and for sports. There is a connection between people getting more leisure time and the growing rural tourism industries.

Corbu and Vadu's municipalities want to seize the opportunity of these growing industries. The hobby establishments are a large part of these industries, but there is a need for professional tourism businesses to make the rural tourism more solid. Therefore Corbu and Vadu want to create a cluster region and become a rural tourism municipality where tourists can live and run

their businesses as well as providing for sports activities. The first investment in this respect needs to be the Advanced Rural Tourism Vocational Education in their region, named Orion Entrepreneur. One specification needs to be made: the enrollment needs to take place on a national level and to have high entry criteria.

The purpose of this paper is to identify a general outlook about what it can be made to see if the municipality is suitable for transforming from a rural territory into a tourism resort or not. This paper is therefore based on interviews with municipal authorities about their business ideas, and what they think of the future of the municipality and the future of the education. This study aims to answer the following questions:

- Are Vadu and Corbu suitable municipalities for tourism companies and being a cluster region within tourism industries?
- What is missing in Vadu and Corbu area?
- What future investments should the municipality council make?

To be able to answer these questions, interviews have been conducted with several local authorities, local business counselors and entrepreneurs in the area. The reason why local business counselors were encouraged to participate was to eliminate skewness and to receive everybody's opinions. Several interviews took place on the telephone and two have been face to face. The interviews were conducted in Romanian, and parts of the interviews were translated into English, by the author, for quoting purposes. The interviewed persons could choose to be anonymous.

The delimitation on the qualitative part of the report is what arising companies thereof will have on the municipality.

This study begins with an explanation of the theoretical framework including the theory of market demand for cluster regions and the definition of cluster theory and the effects of it. Further on, excerpts of the interviews and quotations were analyzed. The subsequent part presents the qualitative analyze which determines the future outlook for each municipality based on the interviews. The study ends with conclusions.

II. Literature review

This part will examine the theory of clusters and market demand of cluster regions. Porter, Giarratani, Hoover, Nelson, Lundvall, Karlsson, Blien, Enright, and Ohlin are well known researchers who have elaborated much in the field of cluster theory. The empirical study for this article is based upon a cluster analysis derived by Brakman, Garretsen, and van Marrewijk (2001). The analysis investigates the industry agglomeration (y) through geographical and industry concentrations (G and Herfindahl Index (H) respectively).

The theory of market demand is partly derived from the acknowledged microeconomist Varian's book Intermediate Microeconomics, A Modern Approach (2005). Varian (2005) describes market demand as the aggregated demand of all consumers in a market. One part of market demand, which is important for this article, is the market demand for cluster regions.

2.1. Market demand for cluster regions

Why is it interesting to create a cluster region? There appear to be two types of clusters, company clusters and geographical clusters. Company clusters indicate a close relationship with partner companies and organisations, which does not necessarily be within a region. Geographical clusters on the other hand imply that companies interact with each other locally. However, both cluster types are signified by innovations, networks, information flow and labour skill. These effects are valuable for the regions where the companies are located in both cases.

These two cluster types can further be divided into two categories (Porter, 1990). These two are vertical and horizontal clusters. Vertical clusters imply that a whole product chain is present in one region or that the whole product chain has close interactions (no matter where they take

action). Horizontal clusters imply that companies have common costumers, share same technology, uses same channels, etc. A cluster economy is defined as a region where a specific industry has increased to over its normal value (Blien & Maier, 2008). "They [Clusters] are present in large and small economies, in rural and urban areas, and at several geographic levels (for example nations, states, metropolitan regions and cities)." (Porter, 1998b). According to Porter (2000) a cluster economy comes with benefits. Cluster regions, for example, decrease the risks of transport delays and also prevent hidden costs. Cluster regions contribute with increased innovation and knowledge. Even if companies are rivals there will be information spillovers through informal interactions and contacts due to "people talk". This happens mainly between companies in the same region. In Porters' major work, *The competitive Advantage of Nations,* (1990) he states the negative effects of cluster economies. High labour costs due to attractive labour force are one drawback. Further there must be a local demand for quality for companies to develop their products and thus increase their global competitive edge. If this local demand lacks, Porter thinks businesses will lose innovation efforts. Blien (2008) said that knowledge leakage, industry spying and poaching of experts (into the cluster from elsewhere) are some of the negative effects. Martin and Sunley (2003) affirmed that cluster policy has become a trend and is seen as a solution for economic problems, but many decision makers rush into applying cluster policy, the decision makers should be more cautious, they said. Martin and Sunley (2003) further stated that not even researchers have agreed upon the definition of clusters, so there is concept confusion.

According to Brakman, Garretsen, & van Marrewijk (2001:189) "a major drawback of urban agglomeration is to be found in congestion, which can arise in many different ways, such as limited physical space, limited local resources (such as water for cooling processes), environmental pollution (which may require extra investment), and heavy usage of roads, communication channels, and storage facilities".

Clusters can arise either from policy interventions and thus be a transplant cluster, or it can arise from nature, and thus be called an organic cluster (Enright, 1998). A combination of the two is also possible, called hybrid cluster (Enright, 1998). "Transplant strategies can help develop a regional economy rather quickly, but are limited to the investments available for attraction, are subject to imitation and destructive competition, and face the risk that poorly embedded facilities will eventually close." (Enright, 1998).

Local suppliers, customers and society demand for cluster economies. Ohlin (1933) declared that local suppliers and customers will interact where there is specialized labour skills and diversification in order to become economies of scale. Clusters are dependent on labour force and to create a geographical cluster the industrial politicians need to provide attractive opportunities locally with the aim of attracting labour force. With the demand of local economic growth in society, R&D and educational institutions are used to develop the innovation systems (Lundvall, 1992; Nelson, 1993). With increased innovation businesses will utilise their resources in a more efficient way, and hence become more competitive. The most innovative companies are the ones with strongest cooperation globally.

Dissimilar companies or industries located in clusters have also shown economic benefits when interacting. No matter the size of the business, if they are service or goods businesses, or if they are high or low tech, they can still benefit from interacting.

Giarratani and Hoover (1971) stress the importance of clusters to attract customers. For example, high fashion shops are often seen in shopping centres or agglomerated shopping districts. This idea is based on bringing similar products to one place to facilitate customers' decisions.

But, even though the information technology improves steadily, the personal contact between people is still very important when it comes to complicated matters. Therefore geographical closeness is seen as an advantage and lays the foundation for innovation and knowledge.

Clusters increase productivity in terms of outsourcing or vertical integration through improving access to specialized inputs and information, facilitating complementarities among cluster participants, and improving incentives and performance measurement. More important, in many cases, is the role of clusters in improving the rate and success of innovation. Finally, clusters lower barriers to new business formation that improve the environment for productivity. While traditional agglomeration economies are centered on cost minimization, cluster advantages rest on information, transactions costs, complementarities, and incentives as well as "public" goods that result from both public and private investments.

III. Methodology
3.1. *Research design*
Since the research is qualitative, it is clear that it focuses on the studied municipalities, in our case Vadu and Corbu. The study does not proceed from a hypothesis but it is let free to emerge (De Vos et al., 2002). In this type of study, the questions can be modified and the advantage is that the conclusions can be draw directly from the answers. The study is exploratory and it tries to find out which are the necessary tools and techniques in order to guarantee successful rural tourism development.

3.2 *Preliminary Study*
According to De Vos et al. (2002) in a qualitative research, the preliminary study is meant to test and thus conduct to modifications both in the interview plan and in the nature of question in order to improve the investigation.

Also, this preliminary research: asses the non-structured interview, estimates the necessary time during the non-structured interviews, predicts problems which may take place while applying the non-structured interviews and decides on the respondents who will be part of the target group at which the non-structured interviews should be applied to.

The methodology of the preliminary study consisted of several stages. First, the approach of municipalities' involved authorities and entrepreneurs. Second, after making a list with these names and speaking to them, obviously that the researcher introduced to these persons the research goals and inquired them if they would desire to participate in the preliminary study. Ten respondents who were part of the public management team of each municipality accepted to participate in the preliminary study and further on were arranged interviews. Also 10 entrepreneurs accepted the interview. Their names will not be told for confidence reasons. Respondents were offered Appendix A in electronic format. Further on, the study was conducted through a survey where personal interviews were held. The discussion at these interviews was focused on rural tourism development in general and Appendix A.

The conclusions of the preliminary study are presented in the next sections.

3.3. *Sample Framework*
In the hereby research will be used two types of sampling techniques in order to establish the sample framework. Using sample gives you a higher accuracy than a census (Saunders, 2012). Firstly it is judgmental sampling, which implies that sample elements have things in common, in the present case: rural tourism development. The preliminary study was used to identify sample elements with similar features. In our case, the common feature is that both municipality authorities and entrepreneurs claim that they want to make strategic planning for rural tourism development in Vadu and Corbu area.

The major benefit of the sample method used before is the fact that respondents offered to the researcher the contact details needed in order that the most important municipalities public managers, strategy implementation managers and entrepreneurs can be contacted and

interviewed. Five persons from each municipality were chosen and 5 entrepreneurs, a total amount of 15 persons.

IV. Results

In this part, the answers from the interviews are qualitatively analyzed. The analysis is drawn upon how the local authorities and entrepreneurs themselves expect their future to be, as well as how they believe that the municipalities' future will be.

What Strengthens the Tourisme Businesses in Corbu and Vadu area?

A city in full construction, where the extravagant luxury and the opulence surround everyone. I propose therefore to build Orion City, a city that never sleeps a spectacular city full of unexpected energy.

The city would focus on tourism, especially if we consider the area's history, geographical position and traditions.

Therefore, it will be necessary to set up casinos with a range of facilities. Thus, there is a need to restaurants and shops, and local authorities and entrepreneurs proposed even small miniature imitation of the world's major tourist attractions, such as the Eiffel Tower, the Pyramids of Egypt, Hanging Gardens, etc., which will create an interesting atmosphere by locating them geographically together.

In addition to the casino games, other things would be more interesting in the casinos. There will be large palaces that will exceed all imagination. In this regard, it is necessary when selecting projects to be held, to be chosen the most daring, extravagant and, why not, the more difficult to achieve. Each casino will have a special theme. Thus, for example there may be a casino called Luxor, which must have the shape of a pyramid with a Sphinx at its' entrance. Obviously, the casino will be built in the Egyptian style, full of statues.

Another casino could be built in the form of Taj Mahal, this bringing tourist into the Oriental world, close to Buddha and Tagore, etc. Of course, all this luxury should be dazzling; everything should be perfect, so that no one can resist without playing a sum as small.

Orion City is intended to become the shopping capital of Europe, will be a real paradise for shopping lovers from around the world, which can loiter for days in the modern malls with large stores, fashion houses and also in the traditional bazaars, where bargaining should be on the agenda.

Besides this, Orion City would provide other attractions that tourists would not expect: horse racing, hot beaches, archaeological sites, water park sites rarely seen in other cities of the world, golf courses and much sun. Yacht sightseeing cruises and scuba diving, characteristically for a city on the Black Sea coast would be among the highlights. With all this, Orion City would offer unique attractions.

The Romanian state will be the one that will ensure all city utilities and also the building of a football stadium within a public-private partnership, where sport competitions and shows would take place, a stadium with a capacity of about 100,000 spectators, therefore higher than New Camp stadium in Barcelona.

There will also be build Olympic competition pools, tennis courts, volleyball, basketball and the largest amusement park in the world with a capacity exceeding 5 mil. Pers. / year.

In conclusion, the tourist attractions of the new city will be varied, for all tastes, given that the city has natural resources that were not recovered at all so far.

Given all the above, we can provide the Orion City motto as: "Orion City - gateway to absolute luxury".

Both entrepreneurs and the municipality council share the view that when tourism companies will establish in Corbu and Vadu area, they will trigger further establishments of other companies in the area. Increasing the number of hotels, events and activities would spread the news of Corbu

and Vadu area being a developing rural tourism municipality. Tourism development attracts retail stores and service companies.

V. Conclusions

As written in Giarratani and Hoover (1971), they emphasise that cluster regions attract labour force. The reason why it is interesting to create a cluster region is because it comes with benefits for the companies and it helps developing the regional economy (Enright, 1998; Porter, 2000). "Clusters lower barriers to new business formation that improve the environment for productivity." (Porter, 1998a). Also Ohlin (1933) proclaimed that clusters develop rural areas. Vadu and Corbu area are rural municipalities; therefore it is understandable why they would benefit to attract entrepreneurs to their municipality.

Finally it must be said that model-building and development plan of Orion City will be implemented and achieved only if all social actors, at all levels, regional, national or international, will be integrated and only if they will implement the innovative ideas, actions and objectives already stated. It's in the power of governors and of the future Orion City mayor to satisfy the conditions necessary to achieve those objectives. Only through a unified thinking about the objectives that must be followed will be created the necessary prerequisites to ensure the occurrence of a strong impact in achieving a harmonious and sustainable project as the one presented.

The development phase of this project involves examining all complex issues specific to various forms of land ownership.

Also, the Romanian seaside will be unable to compete as long as entrepreneurs in the area will not apply sustainable strategies, aimed at creating quality tourism products which meet the requirements of tourists. This must stop pursuing further high profits by charging extremely high prices not reflected in the actual quality of the services and products marketed.

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VII. Appendix A

Dear participant,

By answering the following questionnaire we would like to find out your opinion on tools and strategies which can be used in order to transform the Vadu-Corbu area in a resort city. 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,
Safta Dan (PhD. In Management)

The Interview 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)

Marital Status
□ Married □ Single □ Divorced

Department You Work In
□ Management □ Marketing □ IT □ HR □ Production □ Other

Work experience at present job
□ <1 year □ 1-3 years □ 3-5 years □ 5-10 years □ >10

Section 2: Entrepreneur's Questions:
What was your first motivation to start up a business? Which are your best qualities as an entrepreneur?
-        Which qualities would you like to have?

What is your best advice to success in your industry branch?
How has the education influenced you as an entrepreneur?

Section 3: Business/ Local authorities' questions:
What is your opinion about Vadu and Corbu as a municipality?
Does everything you need for your business exist in Vadu and Corbu area?
-        What is missing?
Could you imagine Vadu and Corbu area after investments are made?
What makes Vadu and Corbu area interesting for you?
How can be financed this start up process?
Would it be profitable for people from Vadu and Corbu area?

Section 4: Both Entrepreneur and Business/ Local authorities' questions:
Please shortly describe your business idea.
-        What makes it special? How did you come up with it?
-        For how long have the idea existed in your mind? How has your idea changed during the education period?
-        What has the education contributed with? How can you materialise your idea?

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).
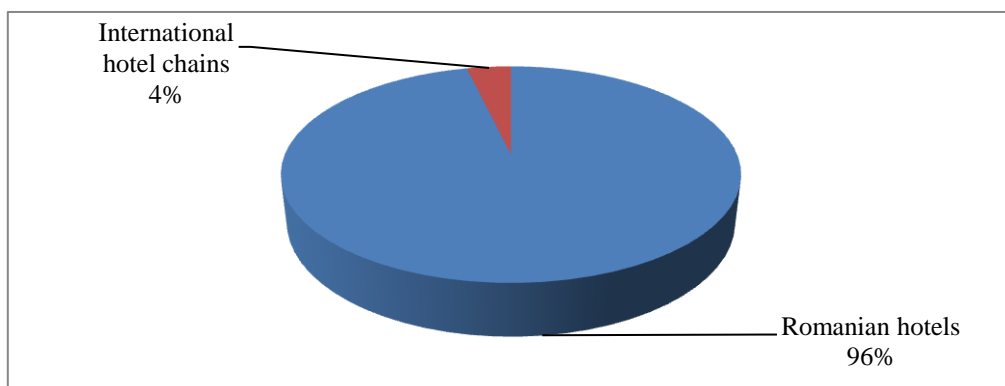
Fig. nr. 1: The presence of international hotel chains on the Romanian hotel market
Source: made by authors

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

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.
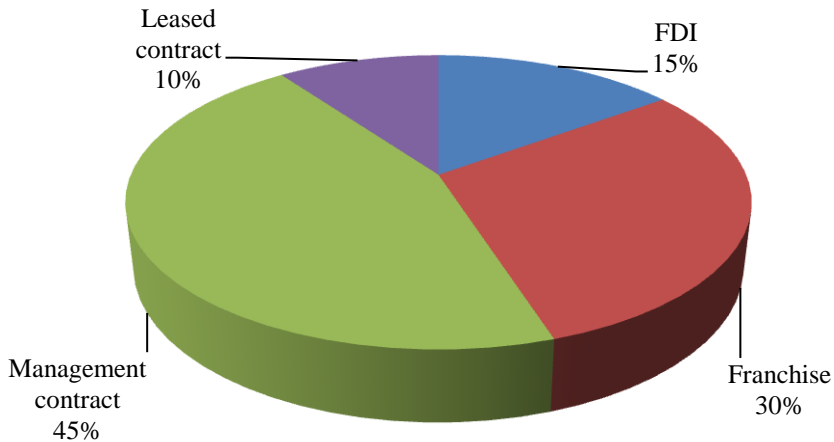
Fig. nr. 2: Strategies used by international hotel chains, which are present on the Romanian market (% number of international hotel chains)
Source: made by authors

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

	Predominant strategy into the world	*Strategy used in Romania*
Golden Tulip	Franchise	Franchise
Best Western	Franchise	Franchise
Ramada	Franchise	Franchise
Howard Johnson	Franchise	Franchise
Radisson Blu	Management contract	Management contract
Pullman	Management contract	Management contract
Novotel	Leased contract	FDI
Ibis	Leased contract	Management contract
Hilton	Franchise	Management contract/Franchise
DoubleTree by Hilton	Franchise	Management contract
JW Marriott	Management contract	Management contract
Crownw Plaza	Franchise	Management contract
Intercontinental	Management contract	Management contract
Danubius Hotels	FDI	FDI
NH Hoteles	Leased contract	Leased contract/ Management contract
K+K Hotels	FDI	FDI
Hunguest Hotels	FDI	Franchise
Starlight Suiten Hotel	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 there 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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DEVELOPMENT POSSIBILITIES OF THE HUNGARIAN-UKRAINIAN BORDERLAND IN THE MIRROR OF GLOBALISATION

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Abstract

Thanks to the all pervasive globalisation trends previous state borders have become more permeable and subject to change. Regional integrations – like the European Union – spur this process and helps the integration of borderland inside and outside of the common market. This paper focuses on of one the most peripheral external borderland of the Schengen zone: the Hungarian-Ukrainian borderland. After taking into consideration the relevant economic theory it tries to give empirical evidence in connection with development possibilities and more increased economic interactions.

Keywords: globalisation, spatial impact, borderlands, Hungary-Ukraine

JEL Codes: F22, J61, R12

1. Introduction

Among the tremendous globalisation trends, the disappearance of borders, continuous change of borderlands have become a new tendency in the world and in the European Union (EU) as well (Ohmae 1995: 15). The EU is by far the best case because after the 2004 and 2007 enlargement rounds the length of state borders is 26,160 km and the total number of borders is 62. Currently the european integration borders with 16 new countries where almost 400 million people live (Kallioras et al. 2009: 7).

Taking into consideration the previous trends, we could expect that the EU remains such an integration where the removal of artifical borders launches different tendencies (Hanson 1996: 945, 1998: 12). Unfortunately, the Europe without borders concept envisoned by O'Dowd and Wilson is still to be reached in Central and Eastern Europe (CEE) where state borders still divide the previously coherent economic space. In this way borders still play an important role in the economic processes. An average border region is far from the core area and the border narrows the cross-border interactions. No wonder that there the regions show a below-average development level in the national context (Petrakos and Topaloglou, 2008: 150).

Consequently, approaching the macro and micro impact of european integration of borderlands is vitally important.

In this paper first I try to shed light on the question from a theoretical point of view and than I focus on empirical approaches. Later I describe my own research and intend to draw some conclusions. The main focus of my research is on the Hungarian-Ukrainian border where the more intensive economic relations could serve as a huge impetus for economic integration and growth.

2. Theoretical Framework – Implications of Economic Theories

Under the title of theoretical framework I try to approach the different borderland implications of traditional location theory, trade theory and new economic geography (NEG). First I would like to point to the fact that *borders and borderlands are not exactly in the main focus of these theories because countries and different spatial unites are treated as single points with no extension.*

As for the *traditional location theory*, consumers and producers are mobile and they show perfect distribution in space. Firms seeking economies of scale, in this way locate at such places where the total demand can be best served. According to Lösch's theory the market potential of central areas can be described as a circle or as a hexagon. However, a state *border means multiple hindrances*. The total market potential is disturbed so with the appearance of borders the economic area is largely affected (Rechnitzer 1999: 24; Niebuhr and Stiller 2002: 5). This is confirmed in the border literature in many ways (Nijkamp et al. 1990: 242; Paasi 1996: 74). As a consequence *borderlands are not favourable for firms and they try to avoid it.* Lösch (1944/1945: 37) calls these places deserts where consumption is largely restricted by the low availability of goods. *When borders are lifted* borderlands can have a much larger market potential. However just those *economically integrated spatial unites can benefit from these tendencies which have good access to foreign markets.* According to Giersch (1949/1950: 92) these places are the centrally located borderlands in the core of the European Community. This is confirmed by Topaloglou et al. (2005: 70) when *they point to the fact that peripheries are not always able to benefit from the favourable trends.*

For many decades the factor of space was left out of the concept of *trade theory* and even today this aspect is far from fully answered. In addition the *international trade models treat nations as a dimensionless point so they are unable to describe the special effects of integration.* However, one thing is definitely true, integration fostered by the disappearance of trade barriers leads to increased trade relations (Niebuhr and Stiller 2002: 12). Rauch (1991: 1238) creates such a modell which contains space caracter. According to his conclusions the geographic location is important in case of the regional adjustment to the international trade. He claims that *borderlands could have a geographic advantage in attracting export-oriented firms since they are located closer to the largest export markets.* However, the potential market is small or poorish, location becomes less important. As for the limited conclusions of the trade theory the followings can be mentioned. *Proximity to foreign markets can be a huge advantage so those regions which reach foreign markets with lower costs can be natural production zones* (Hanson 1996: 944).

In 1991 Paul Krugman created the *new economic geography theory (NEG)* in which the spatial distribution of economic activity is in the center of the attention. Regional differences are totally answered by endogeneous localisation decisions. According to this theory the *centripetal and centrifugal forces* and their *balance* are determining. Centripetal forces help the concentration of economic activities while centrifugal forces do the opposite: foster the dispersion of economic activities. A large number of studies confirm the fact that integration largely affect the allocation of economic activity (Ludema and Wooton 1999: 220; Elizondo and Krugman 1996: 141; Fujita et al. 1999: 118). When taking into consideration different studies *one conclusion is always clear: centrally located regions enjoy significant geographic advantage in an economic integration.* To confirm this Henderson and Thisse (2004: 137) points to the fact that the largest 38 cities of the EU represented 0.6% of the total territory giving 25 per cent of the population and creating almost 30 per cent of the GDP. In this way it is obvious that previously the core regions were the main beneficaries of integration and this trend is likely to continue. However, new economic centres can also be created *(*Fujita and Mori 1996: 101). Taking everything into account, the NEG modell is also far from outlining the exact future of borderlands. *Concentration of economic activity is very likely in core regions but to a certain extent peripheries can also benefit from the borderless space.*

As a final consequence, I have to point to the fact that the *economic theory is not able to outline a clear-cut picture for the development possibilities of border regions* so an empirical analysis is definitely needed to understand the cross-border dynamics.

3. Empirical Approaches

To describe the spatial effects of integration many methodological approaches are in use. Topaloglou et al. (2005: 82) uses factor and cluster analysis focusing on the most important character of regions. Multi-variable regression modells are also able to give important conclusions (Buettner and Rinke 2007: 538). Regression analysis can also be an important starting point when conducting research (Niebuhr 2004: 152). Gravitation-based approaches are also common and a lot of studies focus on the simulation of the positive effects stemming from the disappearing borders. However, there are many bottlenecks when modelling the integration processes in CEE. Settlement-level data are not always available and up-to-date. This is the case in the Hungarian-Ukrainian borderland as well, and this fact directs the researcher to a questionnaire-based empirical research. This method is also popular in the literature and in some cases this is the only option to measure the possible effects of integration (Baranyi 2001: 15; Baranyi 2008: 22; Zillmer 2005: 8).

4. A Case Study: The Hungarian-Ukrainian Borderland

The Hungarian-Ukrainian borderland is 136,7 km long and currently belongs to the external Schengen border (Map 1.). There are 5 border crossings but the permeability of borders is restricted and the general cross-border interactions are low. In my research I take into consideration a 25 km long area at both sides of the border and now in this paper I focus on those micro regions in Ukraine which directly borders with Hungary. Transcarpathia – as the macro regions is called – is a peripheral but a developing spatial unit in Ukraine. No wonder that expectations are running high in connection with more intensive cross-border relations.
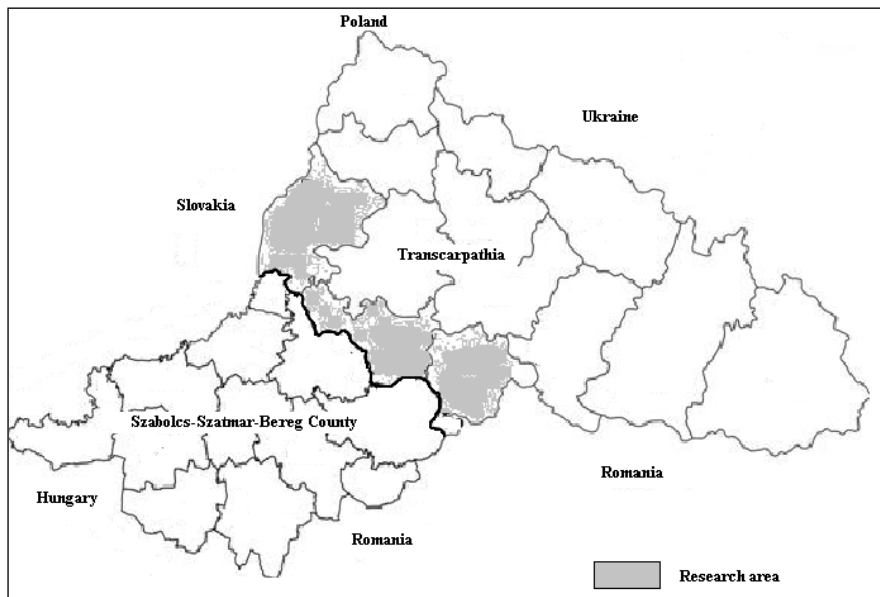
Map 1.: The Research Area of the Study
Source: Made by the author

5. Results

Thanks to a questionnaire-based survey, data have been collected from 6 micro regions from the Ukrainian side. These micro regions directly borders with the Hungarian-Ukrainian border. 50

settlements provided data and the questionnaire contained 23 questions and finally I have 432 number of cases.

I do not want to surpass the limits of the paper so I focus just the most important conclusions. The frequency of border crossings is quite low: more than 60 per cent travels 3 times or even less to Hungary. Behind the reasons financial factors must be mentioned. For example a passport means a huge financial burden for the individual.

In the questionnaire I asked the motivation behind visiting Hungary. Here I managed to confirm the previous research according to which the non-economic motivation (visiting relatives) is dominant. It is indeed favourable that economic motivations are also among the most mentioned factors. As we could see the frequency of border crossings cannot be compared with western border numbers so I was interested in the hindering factors. Almost 70 per cent mentioned financial reasons, more than 50 per cent long queues at border crossings and around 25 per cent bad infrastructural networks. As I have already indicated the development path of the Hungarian side is in the centre of this paper so I was interested in the destination of border crossings. Here I could confirm the former empirical evidence because the respondents mentioned only far-away, larger towns (Debrecen, 76%; Nyíregyháza 74%) not borderland settlements.

Finally, I tried to unearth the most important negative tendencies in the Transcarpathian settlements. The answers were clustered around the following factors: unemployment, *lack of employment possibilities, massive depopulation, increasing number of low skilled population (mainly gypsies).* Almost 35% wants to move to other countries like Hungary, EU countries or the USA but they prefer to move to central, core regions not to the other side of the border.

6. Conclusions

When approaching that question of integration dynamism in borderlands I turned first to the theoretical approach. This framework did not give me a consistent and clear-cut picture of the possible tendencies than I focused on empirical evidence. Taking a large number of studies into consideration I came to the conclusion that methodology differs paper by paper.

In case of the Hungarian-Ukrainian borderland settlement-level reliable statistical data are not available so in paralell with other studies I conducted a questionnaire-based survey. With 432 responses I came to the following conclusions: *existing borders still separate the economic interaction on both sides, crossing the border is expensive and time-consuming. Those who come to Hungary visit only the larger towns not directly the borderland.* In this way it is quite possible that *central and more globalised regions, towns could benefit from the more intense cross-border interactions in the Hungarian-Ukrainian relation.*

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AN OVERVIEW ON THE DETERMINANTS OF MERGERS AND ACQUISITIONS WAVES

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This paper concentrates on the presentation of the economic dimension of the mergers and acquisitions from a macroeconomic perspective. Thus, the objective of this paper is to reveal the main drivers of merger and acquisition activity. These operations take place in waves, which enters the context of changing the competition game marked by economic changes, technological evolutions, changes generated by the phenomenon of globalization, and by regulating changes. On the other side, a series of studies in the literature argue the existence of a connection between evaluating the securities and the merger and acquisition activity. This research is based on a systematic, logical and comparative analysis of scientific literature regarding the macroeconomic determinants of mergers and acquisitions.

Key words: external growth, merger and acquisition waves, macroeconomic determinants, neoclassical hypothesis, behavioural hypothesis

JEL Codes: M10, M20

1. Introduction

Merger and acquisition activities regard both quoted companies which direct themselves and target the consolidation of the activities at the world level and unquoted companies which have to cope with the growth problems and even survival problems. In the literature there are numerous theories trying to explain why firms adopt the growth strategy through mergers and acquisitions or analyse the consequences of this strategy. Our objective is to present the economic dimension of mergers and acquisitions, from the macroeconomic perspective, in order to understand the determinants of these operations. The merger and acquisition activity takes place in waves which belong to a context of changing the completion game, marked by economic changes, technological evolutions, changes generated by the phenomenon of globalization, and also by changes in what the regulation process is concerned.

2. Research methodology

This theoretical paper is based on a systematic, logical, and comparative analysis of scientific literature regarding the determinants of the merger and acquisition activity. Therefore, we have used as a research method the qualitative approach, in order to identify the macroeconomic determinants of the external growth operations through mergers and acquisitions. The usefulness of the paper is reflected in its contribution to this research, ensuring the premises for future studies related to this topic.

3. The macroeconomic determinants of the merger and acquisition activity

The observation of the annual evolution of the number of merger and acquisition operations emphasizes the phenomenon of evolution in waves, which consists in a sudden and important growth of the number of operations, concentrated in a short period of time. Golbe and White (1993) were the first to notice the cyclic character of the merger and acquisition activity. So far, six waves of mergers and acquisitions have been analysed in the literature: those from the 1890s, '20s, '60s, '80s, '90s, and the last started in 2003 and concluded in 2007, when the economic-financial crisis started. Each of these waves was based on motivations and characteristic specific

to the period of development. Ceddaha (2007:16) considers that, except for the factors specific to each enterprise, the main common points of each wave are those referring to political and regulating factors, macroeconomic factors (the concentrations intensify during the economic growth periods) or to industrial and sector factors.

Gregoriou and Renneboog (2007:1) consider that the economic recovery (after a period of recession) seems to generate takeover waves and these often coincide with periods of credit rapid expansion. The changes regarding regulation are, also, important determinants of the merger and acquisition waves. It is considered (Martynova and Renneboog, 2005 quoted by Gregoriou and Renneboog 2007: 1) that the first waves, those of the 1890s and '20s, were generated by the antitrust laws while those of the '80s seems to have been generated by the markets' large scale deregulation. In the last years, the merger and acquisition activity concentrated on sectors making the object of deregulations, for example financial services, health, utilities, media, telecommunications or defence. There are in the literature significant proofs regarding the fact that the merger and acquisition activity is intensified in the deregulated sectors as compared to the regulated sectors (Jensen, 1988; Mitchell and Mulherin, 1996; Mulherin and Boone, 2000). The deregulation has eliminated the artificial barriers within these sectors and stimulated competition (yet, it had other effects, negative).

The evolution of these operations is characterized by recurrence, in other words, the succession of intense activity periods followed by periods when only few transactions are recorded. These belong to a context of changing the competition game marked by technological, economic, regulation policies changes etc. Thus, innovations, technological, organizational or financial, imply re-engineering simultaneously reaching several sectors (Coutinet and Sagot-Duvauroux, 2003:31-32). Current operations are different from those of few years ago, both in what the size is concerned and their internationalization, a consequence of an economy subscribing to the tendency of globalization.

When technological innovations are transversal, they will determine large organizational re-engineering. In the same time, they will be at the origin of new activities subscribing to the dynamics of a product' lifecycle and which, when they reach maturity, will generate concentration movements. Practically, these technological innovations participate to the "creative destruction" phenomenon described by Schumpeter (2011:40) and within which mergers and acquisitions play a central role. Also, organizational innovations play an important role regarding the waves of mergers and acquisitions. Thus, we can mention the organizational innovation of the '20s, that is the passing from a one-divisional structure (the U firm), to a multidivisional structure (the M firm), illustrated by firms like General Motors or Dupont. Another organizational innovation is the occurrence of the holding firm in the '60s, whose organizational structure corresponds to the conglomerated operations of that period. In the category of financial innovations, we have the appearance of *Leverage Buy-Out* operations or the appearance of *junk bonds*), which stimulated the merger and acquisition operations (Coutinet and Sagot-Duvauroux, 2003:32, 34).

Ceddaha (2007:16) and Depamphilis (2010:16) state that all the waves of mergers and acquisitions have certain common aspects. Thus, the operations tend to get intense in periods of sustained economic growth, of low interest rates and increase of the capital market. The relation between a sustained economic growth and the merger and acquisition operations is quite complex and can be regarded from two points of view. On one side, a high rate of economic growth reflects the dynamism of economy, which can determine intensification of the merger and acquisition activity and, on the other side, the recession periods are favourable to re-engineering which can take the form of mergers and acquisitions. The mergers and acquisitions take place, also, in the context of stock exchange growth. Nelson (1959) or Andrade, Mitchell and Stafford (2001) showed that mergers and acquisitions are concentrated in time, that they tend to group themselves during periods of stock exchange growth and the payment manner is represented,

generally, by certificates. Practically, the anticipation of a future growth in the price of shares can determine enterprise make mergers or acquisitions, hoping to obtain large revenues. The cost of capital can, also, influence the activity of mergers and acquisitions, the low interest rates stimulating the operation through indebting.

In the literature there are two hypotheses meant to answer the question"Why do merger and acquisitions waves appear?" For a wave of mergers and acquisitions to appear, obviously, the frequency of making certain types of mergers and acquisitions must increase in certain periods of time. We will further approach models susceptible to forecast such variations in time of mergers and acquisitions.

3.1. Neoclassical hypothesis

The neoclassical explanation (considered as such because it is based on suppositions such as: the managers maximize the profit; the mergers and acquisitions create wealth; the capital markets are efficient) of the merger and acquisition activity, supported by many studies (starting with Gort's study, 1969, quoted by Harford, 2005; Mitchell and Mulherin, 1996; Mulherin and Boone, 2000; Andrade, Mitchell and Stafford, 2001 or Harford, 2005) is that these operations represent an efficient answer to the reorganization opportunities occurring as a result of certain economic events, the merger and acquisition waves being caused by a combination of economic, technological, and regulating games. Mitchell and Mulherin (1996) clearly emphasize the existence of the waves of mergers and acquisitions in the sectors and associate this phenomenon to different economic, technological ore regulating shocks, reaching these sectors. These researchers suggest the fact that a systematic analysis of the shocks and of the merger and acquisitions activity can help a better understanding of the waves of mergers and acquisitions.

During the conglomerated wave of the '60s, the well managed companies built diversified groups by competing the capital and the *know-how* of the target companies (Gaughan, 2011:44). During the wave of the '80s, the raiders financed through bank loans and *junk bonds* acquired and separated the conglomerated formed in the '60s because the conglomerated organization was not efficient anymore (Jensen, 1986).

Holmstrom and Kaplan (2001) consider that the corporate governance problems represented a determinant factor of the waves of mergers and acquisitions in the '80s and '90s. Andrade, Mitchell and Stafford (2001) and Mulherin and Boone (2000) consider that the wave of mergers and acquisitions in the '90s corresponded to a consolidation within the large sectors, yet it also represented an answer to deregulation. Practically, deregulation, another factor considered determinant for the appearance of waves of mergers and acquisitions, functions in the same way as the appearance of new technologies, because it allows the expansion of the set of input-output combinations. By removing certain constraints, firms are encouraged to penetrate the market. In order to adapt to changes generated by deregulation, a re-engineering of sectors may be necessary and the mergers and acquisitions can facilitate this process. On certain markets, such as that of utilities or flights, the shares of the firms were constrained by deregulation. After the start of the deregulation wave at the end of the '70s, many firms took advantage of this freedom, which has led to the intensification of the merger and acquisition activity.

A wave of mergers and acquisitions may occur as a result of the flexibility of the antitrust policy. Therefore, a more permissive antitrust policy may determine the intensification of the merger and acquisition activity. The antitrust activity of growth of power occurred as a result of innovations in the communication and transport technology and the formation of larger organizations, in many geographical areas.

The neoclassical hypothesis explains the waves of mergers and acquisitions by the fact that numerous sectors have different shocks which make these operations become profitable and, moreover, the favourable macroeconomic conditions reduce the cost of acquisition financing. The economic shock has as potential sources factors such as: industrial over-capacity, the

appearance of new technologies, changes in terms of regulation or changes regarding the access to capital markets which modify the optimal operational scale of firms.

The economic shock takes the form of an economic expansion motivating enterprises to expand in order to cope with the increasing aggregated demand in economy and the mergers and acquisitions represent a much faster form of expansion than internal growth, through own forces. The shocks in terms of regulation may occur by eliminating the barriers which might hinder such operations. Technological shocks may have multiple forms because technological changes can generate important changes within the existing sectors or might create new ones. Coase (1937) was one of the first researchers supporting the fact that technological changes lead to firm mergers. Later, Gort (1969, quoted by Gregoriou and Renneboog, 2007: 6), through a model, argue that economic perturbations like market imbalances, can determine re-engineering within sectors. Jovanovic and Rousseau (2001, 2002b) concluded that technological changes were a determinant of the waves of operations in the 1900s, '20s, '80s and'90s, less of the wave of the '60s and that the waves are shorter when technological changes are bigger. They also consider that the waves of mergers and acquisitions tend to appear in the periods of *boom* of the capital market. The eaves of mergers and acquisitions coincide with the periods in which *price earning ratio* (PER- the report between the share price and the revenue per share) rates on the capital market are high.

Manne (1965) considers that mergers are a means to transfer resources (asset relocation) in the hands of those who can manage them better. He stated that a badly-managed company's share price would be lower and, thus, it would be an attractive target for those capable of managing it better. Moreover, the author states that mergers play the same economic role that the entry on a market plays – that of asset relocation – and that, often, these operations represent an even cheaper means and yet more efficient. Therefore, Jovanovic and Rousseau (2001) underline the idea that mergers and acquisitions, on one side, and the market entry and exit, on the other side, represent substitutable means to relocate assets. The idea that mergers represent asset relocations suggest the fact that this type of waves of operations should occur when there are important technological changes and should disappear when asset relocation is complete.

Yet, Harford (2005) states that these types of shocks cannot, in them, generate a wave of mergers and acquisitions, but there are other generating factors, too. Thus, analyzing the waves of operations on sectors (35 sectors were taken into consideration), in 1981-2000, Harford shows that a necessary condition for these shocks to produce a wave of operations is represented by the existence of enough liquidity capital to permit the asset relocation (transactions). Moreover, easy access to capital may cause the intensification of the activity of mergers and acquisitions even though sector shocks are absent. DePamphilis (2010:13) states that easy and cheap access to financing has been an extremely important impelling factor for the sixth wave of mergers and acquisitions. Also, he considers that the market's differences of evaluation do not represent a cause generating waves of mergers and acquisitions, yet they can represent a determinant for certain transactions.

Another neoclassical theory invoked to explain the waves of mergers and acquisitions is the Q theory of investments, whose promoters were especially Jovanovic and Rousseau (2002a). They say that economic and technological changes increase enterprises' growth opportunities. Such changes can determine the relocation of capital by the more lucrative and more efficient firms. Thus, the high dispersion of Tobin's Q rate records low values (sub-unitary) and in this view we can mention two favouring situations: an inflationist context (a situation in which the acquisition of assets by taking over the control of enterprise on the financial market becomes less expensive than purchasing new assets) and/or strong decreases recorded on stock exchange markets (as the stock exchange crack in 1987 and 1989, which have led the development of the mergers and acquisition activity at the end of the '80s, both in the United States and in Europe). In another paper, Jovanovic and Rousseau (2002b) stated that the *boom*s of the capital markets at the end of

the '90s were caused by important technological changes. The boom of the capital market at the end of the '90s was a result of the innovations in the IT field which has led to the increase of the opportunities for profitable mergers and acquisitions.

Neoclassical methods explain the concentration of takeovers at the sector or country level. Yet, the waves can also result from the firms' answers to the competition's actions. Therefore, if a firm makes more merger and acquisition operations, it can determine other firms to adopt this strategy (Persons and Warther, 1997 quoted by Gregoriou and Renneboog, 2007:6).

The neoclassical theory referring to mergers and acquisitions obviously has a considerable explainable power, yet it is incomplete. For it concentrates on the specific shocks at the sector level, it does not explain the aggregated waves of operations only in the situation in which several sectors experiment the same period of time, money or certificates, thus there are distinct patterns in choosing one or another. Regarding the central idea of neoclassical explanations, that of increasing profitability as a result of mergers and acquisitions, the result is inconclusive. If Ravenscraft and Scherer (1987), concentrating on the period of conglomerated operations, do not succeed in demonstrating profitability increases, Healy, Palepu and Ruback (1992), taking into consideration the period of hostile takeovers, managed to find evidence of profitability increase.

In the end, the neoclassical theory does not manage to explain certain obvious aspects of the capital market and the reaction to different announcements. Loughran and Vijh (1997) state that the market does not react fairly to the announcement of a merger or acquisition, the acquirers making the payment bid in money recording long term positive abnormal returns, while the acquirers offering certificates record long term negative abnormal returns.

3.2. Behavioural hypothesis

A series of papers support the connection existing between bond evaluation and the activity of mergers and acquisitions (Shleifer and Vishny, 2003; Rhodes-Kropf and Viswanathan, 2004 or Gugler, Mueller and Yurtoglu, 2005). The behavioural model requires the elimination of the hypothesis of efficient capital markets and or the hypothesis according to which the managers maximize the shareholders; wealth. This model takes into consideration the psychology of the players on the capital markets and, thus, explains why the waves of mergers and acquisitions appear and why they tend to coincide with the *boom* periods of the capital markets (Gugler, Mueller and Yurtoglu, 2005; Gugler Mueller and Weichselbaumer 2008). Therefore, as Shleifer and Vishny (2003) observed, when the managers of the acquiring company are aware of the fact the company's shares are over-evaluated, they decide to change them for tangible assets, through a merger or an acquisition, which has as effect the protection of the company's shareholders from a loss of value when the market is making a correction of the shares rate. During periods of stock exchange euphoria, the firms with over-evaluated shares use these shares to buy real assets of some under-evaluated or less evaluated companies, the interest of the target companies' managers having an important role in making the transaction regarding the maximization of the shareholders' long term profit. Thus, the merger or acquisition operation is a *win-win* operation, even though there are no value creating synergies (for both parties benefit from the merger or acquisition). Using some over-evaluated shares means that the acquirer can issue less shares, which will be reflected in a lower decrease of returns, in other words of the return per share. Therefore, over-evaluations lead to an intensification of the merger and acquisition activity and, therefore, to the appearance of waves of such operations, the managers taking advantage from the inefficiencies of the markets during periods of stock exchange euphoria. Consequently, the payment manner in the concentration operations should be represented by shares.

Rhodes-Kropf and Viswanathan (2004) suggest a rational managerial behaviour model in conditions of uncertainty regarding the evaluation. They foresee that the waves of mergers and acquisitions in periods of *boom* in the capital market, yet they provide another explanation referring to the fact that the mangers of the target company accept over-evaluated shares. The

researchers consider that the optimism of the market during periods of *boom* makes that the understanding by the managers of target companies of the motivation of over-evaluation be difficult. If they are not certain regarding the fact that the acquirer's actions are over-evaluated due to the market's optimism or to the fact that the synergies expected to take place as result of the merger or the acquisition, can make the mistake to engage in operations that will not generate synergies. In the model built by them, the target companies which do not have perfect information will accept takeover offers from companies over-evaluated in peak times of market evaluation, because in these periods the target companies overestimate the synergies. Therefore, the high flow of transactions produces the wave of mergers and acquisitions. Yet, their model is different from that of Shleifer and Vishny's (2003), meaning that the managers of the target companies rationally accept over-evaluated shares due to the information regarding the synergies and not due to rationales related to short term returns.

Holmstrom and Kaplan (2001), Verter (2002, quoted by Gugler Mueller and Yurtoglu, 2005), Dong et. al. (2003) or Ang and Cheng (2006) are other researchers whose studies mention the hypothesis of share overvaluation, in explaining the waves of mergers and acquisitions. These studies confirm that the long term market fluctuations regarding the evaluation and the number of takeovers are positively correlated. To test the validity of this argument, the researchers used certain methods to track the over-evaluation. These instruments are especially represented by the *book to market* rate value, or its inversion, *market to book*.

Another hypothesis enunciated in the same context explaining the mergers and the acquisitions refers to the managerial freedom and influence. The first researcher to talk about growth as being a manger's objective was Marris (1964, 1998, quoted by Gugler, Mueller and Yurtoglu, 2005). Then, Mueller (1969, quoted by Gugler, Mueller and Yurtoglu, 2005) applied the same theory to explain the wave of mergers and acquisitions at the end of the '60s. He states that the managers take advantage from the firm's growth, either because the returns grow as the organization becomes bigger, either because they obtain a certain "psychological comfort" by managing a bigger organization.

Also, these operations represent a defensive mechanism of managers as Gorton, Kahl and Rosen (2005) consider. Also, they show that the structure of the sector is very important for the dynamics of mergers and acquisitions. Therefore, the sectors in which several firms have relatively similar dimensions with that of the large firm, with opportunities of profitable acquisitions, are open to making defensive operations (generating a wave of operations), if the managers are busy with the private benefits related to control. Inversely, the sectors in which the firms are different from the point of view of dimension or less open to acquisitions (often the operations that are based on such motivations prove unprofitable). The authors maintain that the managers will always prefer to keep the independence of the firm they run and can get to other firm takeovers, as a defensive measure to the danger to become, in their turn, targets for other companies. If the managers consider that the firm is in danger to be taken over, this topic can generate a wave of inefficient activity of takeovers.

Yet, no version of the over-evaluation hypothesis cannot explain the activity of mergers and acquisitions at the level of the firms which are not quoted. The shares of these firms cannot be over-evaluated, or at least not by the capital market which means that these firms cannot change over-evaluated shares with other less evaluated shares. This aspect targets especially continental Europe because a larger part of its economic activity is made by unquoted firms.

4. Conclusions

Over the last decades, the boom that the strategy of growth and development through mergers and acquisitions has experienced, adopted by enterprises, is remarkable. These transactions have become unavoidable in the process to conquest the markets, especially internationally. Without using a merger or acquisition operation, it often becomes impossible for an enterprise to develop

in short time, to reach a right size and to show the financial community that a strategic project can be finalized. The merger and acquisition operations, more and more, the value of the firms and managerial teams represent central elements of their strategic movements. The mergers and the acquisitions do not represent a strategy in itself, as it might seem when initially approaching this subject, yet they are *instruments used to make a strategy.*

At the macroeconomic level, the operations result from economic, technological or regulations shocks and contribute to the intensification of the activity of mergers and acquisitions. Also, empirical studies in the literature have shown that there is a strong correlation between the evolution of stock exchange markets and the merger and acquisition activity, many operations taking place in periods of stock exchange euphoria.

We can state that this modality of growth and development is used by the majority of firms in order to restructure their strategic position, according to the objectives set and the evolution of the business environment. Practically, through merger and acquisition operations, the firms can adapt to the changes occurred in their competition environment. In a competition environment, the enterprise must be proactive and try to create growth and development opportunities.

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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.

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 acquistions. Thus, we used as a research method the qualitative approach in order to analyse the waves of mergers and acquistions 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-Duvauroux, 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-Duvauroux, 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-Duvauroux, 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 Sates, 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-Duvauroux, 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, Geramny 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-Kullman 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 Européene*, *Suplément A*, DGAEF, no 2, 1999:4-5. http://ec.europa.eu/economy_finance/publications/publication2894_fr.pdf.
European Commission. "Fusions et acquisitions". *Economie Européene, Suplément A*, DGAEF, no 5/6, 2000:8, http://ec.europa.eu/economy_finance/publications/publication2673_fr.pdf.
European Commission . "Fusions et acquisitions", *Economie Européene, Suplément A*, DGAEF, no 12, 2001:3. http://ec.europa.eu/economy_finance/publications/publication2404_fr.pdf.
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-Duvauroux, 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-Duvauroux, 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 Européene, Suplément 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)	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:
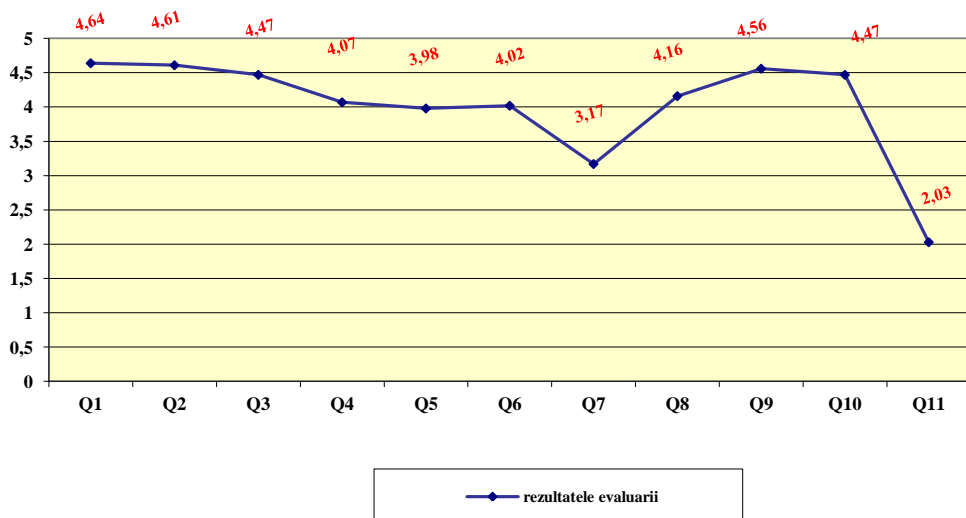
Fig.no.1. The marks obtained by respondents evaluation

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 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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THE MOTIVATION AND WAYS OF MOTIVATING THE HUMAN RESOURCES – BEST WESTERN HOTEL CENTRAL ARAD

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On one side, this paper aims to define the motivation and study the methods of approaching and motivating the human resources and on the other side, we take a more closer look in analyzing the motivation and its means by applying a questionnaire to the hotel's human resources. In every enterprise, the core of the motivation reflects the management and economic concepts adopted within its walls. The wide variety of these concepts along with the extreme diversity of the personal and managerial situations available in each firm, reflect in the underlined dissimilarity component of the managerial theories and practices.

I. Introduction

Motivation represents a major key component of management and it is also, a subject that is frequently analyzed in specialized literature. As a result, there is a wide variety of points of view, mostly contradictory. Studying the motivation from a managerial point of view, we can differentiate between two major approaches:

Motivation on a small scale - based on a classic vision of the organization and its management and regards only the employees or the staff.

Motivation on a big scale - it took shape in the last few years, it is based on a modern vision of the organization and its management. It has as an essential characteristic, this being the focus on the stakeholders, meaning those individuals, personnel groups and connections that have a major interest in the development and performance of the company. These two organizational approaches are also reflected in slightly different manner in the definitions of the motivation.

- *On a small scale, the motivation consists of a correlation between the needs, aspiration and personal interest with the achievements, task execution, abilities and responsibilities - all within the organization.*
- *On a big scale, the motivation reflects in the decision making process and actions that oblige the stakeholders to make a direct or indirect contribution towards functionality and superior performance, based on the correlation of their interests in the approach and achievements of the organization and its subsystems.*

Due to the fact that we are looking at the motivation from a managerial point of view, in this paper, we will focus especially on the first meaning of the motivationn. Human motivation represents the sum of factors that determinates the people to fulfill certain activates.

"The Motivation represents the sum of forces, internal and external energies that initialize and manages the human behavior towards a defined purpose: once fulfilled, it will determine the level of satisfying a necessity, since a mutual conditioning exists because between motivation and performance."

(R. Mathis & CO)

The performance of an organization represents the sum of individual performances of its employees. The performance level of an employee is given by: his motivation; his professional capability; his personal perspective upon the role occupied in the organization.

Motivation is the result between the interacting forces that develop in the organizational environment (the organizational culture and the practices adopted by human resources department) and the individual features, qualifications and attitude.

Motivation points out the fact that the human nature is based upon an assembly of ambitions - needs, tendencies and ideals – that lead to sustaining and achieving different essentials and actions as well as adopting a new attitude.

Within an organization, the motivation is defined by the process in which the managers point and concentrate the energies of all the subordinates, thus using the organization's resources at maximal economic efficiency.

Gary Johns **defines motivation, in his book „Organizational behavior", as being the extent to which persistent effort is directed in order to achieve a goal.**

The first aspect of motivation is the employee's behavioral energy regarding his work place, or in other words, the amount of *effort* that he deploys during his work hours. The second aspect of motivation is the *perseverance* that the employees exhibit when they are working.

The effort and the perseverance refer to the amount of work done by an employee. Concerning the work quality, this is given by the behavioral attitude of the personal towards their employment. The full time employees, of Central Hotel Best Western, are offered the following benefits and rewords as motivations:

- *Medical insurance:* for the employee as well as for his family by paying the medical expenses. All the actions include illness prevention and medical prescriptions, information about mental sanity, medical drug overdose and vision problems.
- *Short term disability or medical leave:* It protects the employees when they are not 100% healthy to manage their job responsibilities (illness or accidents recovery);
- *Retirement plan:* It is partially sponsored by the company and it is fully granted only after 5 years of contribution to the retirement fund. At retirement, the employees receive a financial gratuity based on their average winnings and number of years in service.
- *Paid leaves:* the employee is allowed to miss work, but still receive a salary for 31 days/year, that can be taken with the management permission, divided in stages (usually) or all at once (rarely);
- *Reliable salary:* Each employee is ensured that he will receive a salary in a fixed pay day. This is in favor of each and every employee because he can count on a certain income; he can safely plan ahead assuming that he will receive his salary. This way he will have confidence in the management, knowing that they are trustworthy, even in time of financial crisis;
- *Fixed income for each job type:* Seniority bonuses have been removed and the salary is now given considering only the position filled. This is actually an intelligent strategy, taking into account that the elderly staff is already occupying low rank management positions and are already receiving higher salaries. The managers have higher confidence in the older staff than the newer staff which is not familiarized with the working environment or the "house rules". However, this strategy allows the employees to receive a fair salary despite being newly hired and motivating him, in this manner;
- *Career advancement:* Although the management positions are limited and the number of employees is conditioned, the possibility of advancement is achievable - from a low rank job position s to a higher rank executive position (Front of House Manager, Maitre d'hôtel etc.);
- *Maternity or paternity leave***:** In case one of the employees has a baby, by law, he/she has the right to stay at home and nurture the child. Meanwhile he/she receives his/hers monthly salary even though they are not working;

- *Meal tickets:* Besides the salary, each employee receives a number of meal tickets equal with the number of work days for that month;
- *Holiday bonuses:* Christmas or Easter, the employees receive an approximately 100 RON bonuses;
- *Holiday bonuses for children:* Employees having minors are offered gift packages for every child under the age of 18;
- *Participating in the decision making process:* Even tough limited, the employees can be involved in the decisional process through suggestions, recommendations and ideas that are further analyzed by the managers. Only employees that occupy low rank management jobs can benefit from this opportunity;
- *Overtime bonuses:* In case of special events, that have unplanned extensions (like a wedding or baptism), the employees that are asked to stay, even though it was not initially scheduled, receive a reword, at the end of the program;
- *Night shift bonus payment:* In case of special events, that might require service until the following morning, the employees are given a bonus, adding an extra shift for each night that they worked between 00:00 and 06:00AM;
- *Positive working environment:* The majority of the employees have a 5 years seniority thus making them a well organized team, working together and getting along as one, without any major discrepancies. This way is created a friendly and familiar work environment which is very attractive and motivating for potential new employees;

In case small errors are encountered during a work day, the concerned employee is admonished in private or in the worst case scenario, in front of his colleagues. If the eventual errors or mistakes are serious, the concerned employee is officially warned by his direct superior, twice, the third time his superior will report the incident to the General Manager. As a result the employee will be invited in into the General Manager's office, the problem will be explained to him with the utmost importance and the superiors will bring to his knowledge that this will be his last warning. Firing the employee will be considered in case of a fourth mistake or error. In the event of material or financial losses caused by the employees, penalties will be instated until the loss will be covered.

II. Research methods and results

For the second part we have developed and applied a survey of 14 closed ended questions, mainly referring to: work satisfaction, interpersonal relationships at the work place, informing the employees of potential hotel problems, salary satisfaction, management style, subjects that have direct influence in motivating the employees. The survey was completed with the help of 20 hotel employees working in all existing departments: finance & accounting, administration, food & beverage, secretary ship, marketing etc. The survey structure as well as the questions and answers are mentioned bellow:

1. Which is the main reason why you go to work?

For this question, 55% of the responders have chosen job stability and 45% selected job excitement. A good salary, promotion possibilities and job title have not been chosen as a main reason for working in Best Western Central Hotel.

2. Do you consider that there is a relation between the job description and the professional education?

70% of the respondents consider that their educational background is matching their job attributes at Best Western and 10% consider that the two coincide for the most part. However, there are some employees that believe that there is absolutely no relation between their studies and their job attributes (15%) and some consider that there is little relation between the two.

3. How would you characterize your overall job satisfaction in this organization?

Regarding this question, there is no respondent that selected "not at all satisfied" and only 30% stated that "quite unsatisfied". For the most part, 65% confirmed that they do have many job satisfaction moments, meaning that they do enjoy coming to work and 5% consider that their job description offers them many possibilities and satisfaction moments. The study shows that, over roll, the employees are motivated in their daily work environment, due to the fact that the managers have a good strategy for human recourses motivation.

4. How important do you think is your work contribution towards the success of the hotel?

In this area, the respondents' opinions are divided: 40% consider that their contribution is "very important", 40% believe is "somewhat important" and there are some humble employees that chose the option "less important". (fig 2.). The hotel managers should explain to the employees that each of them plays an important role and that a high standard work ethic is imperative for the hotel success. Due to the fact that every job description and every employee are key to good management, it is for the utmost importance that there is no weak link in the hotel administration.

5. How would you characterize your salary level in relation with your work efforts?

If we gather all the answers to this question, the conclusion would be that the salary is not a motivational tool for 15% of the respondents. 20% of the respondents believe that their salary is satisfactory. The rest of the employees, 30% and 35%, consider that the payment is motivating and very motivating in relation with their work efforts.

6. How would you characterize your relationship with your co-workers?

Concerning this question, a big percentage of the respondents have confirmed that their relationship with the co-workers is "very good" (90%) and only 10% stated that the relationship is "good". None of the employees have a bad professional relation and for each of them is very important that the working ties are based on respect and harmony. Due to the fact that they have been working together for a long time, they know each other and they have come to work together as a whole.

7. How would you characterize your relationship with your superiors?

65% believe that, due to the fact that they have a great relationship with the General Manager and also with their superior, these acts as a motivational tool in their work ethics. 35% consider they have a "good" relationship with their superior. None of the respondents selected "satisfactory" and "unsatisfactory".

8. How would you characterize your working conditions?

The respondents were not given "very poor" as an option, however, 75% consider the working conditions to be "fair". 20% believe the conditions are "good" and 5% consider them "very

good". As a result, we would underline the fact that there is place for improvement regarding the working conditions in the hotel. (fig.4)

9. Are you informed with regard to the hotel policy?
For this question, all the respondents have confirmed that they know the hotel policy, they are aware of the requirements and the high standards.

10. Are you offered (have you been offered) the possibility of professional development through training courses?
10% of the respondents selected "Yes", however these employees are part of upper management. The rest of 90% have not been offered anu training courses, even those these would be an excellent motivational tool. The hotel employees wish to take part at training courses and they believe would be a great experience overall.

11. Are you being consulted in the decision making process by your superiors?
The respondents that are department heads are always consulted in the decision making (25%), due to the fact that the ideas are theirs or they are the ones that have to communicate the decisions to the subordinates. Also, they have been with the hotel the longest. The rest of the employees, are only partly consulted in the decision process (75%).

12. Are you informed about the changes that would occur in your hotel and that would affect your work environment?
100% of the employoess are informed regarding the changes and even though they are allowed to express their opinion, they do not have the power to make a change.

13. Are your personal initiatives taken into consideration?
The creativity of the hotel employees is restricted, they only execute the upstairs orders, work in accordance with a regulation form or they follow various unwritten rules. They all know their job description, responsibilities and rights. The only employees that have a creative role are the managers, that come up with the short and long term strategies for their own departments and also, the chef that creates the daily menu, wedding or baptism menus (following the recipes). As a result, 10% have confirmed that their own initiatives are always taken into consideration, 5% are allowed to be creative for the most part and 85% consider that their creative opinions are only slightly taken into consideration.

14. How would you characterize the management style of your superior?
75% of the employees have confirmed that their superiors have an authoritative but participatory style. This highlights the fact that the direct and indirect superiors are trained by the General Manager to adopt a certain attitude towards the employee: giving orders and asking for results, giving appraisals or scolding depending on the case. Due to the fact that the hotel is a family business, the General Manager does indeed consult with other department heads in order to sign on different projects, initiatives and strategies, but not with the subordinates.

15. Respondent profile (age, sex, level of professional studies):
55% of the respondents are between 18-30 years old, 25% are 31-43 years old and 20% are over 44 years old. 60% are women and 40% are men.   20% of the employees are qualified as economists, 30% are workers and 50% have only finished high school and do not hold a degree.

III. Conclusion

As a conclusion, we confirm that the Best Western Central Hotel Arad management team understands the importance of employee motivation through different means. For the most part, the motivation method used is the salary, that proved very affective along with job stability, in times of financial crisis. Nonetheless, the management do not offer any bonus payment or other financial incentives in order to encourage work efficiency or to make the employees more interested in their job description. Although they are not given any bonus salaries, most of the employees consider that their wages are in relation with their work efforts. Regarding the job stability, these is not a problem within the hotel, the employees have learned how to work as a whole, due to their long relationship (over two years) with the hotel business. However, job stability is not a continues motivational tool for the respondents, they would be interested in carrier development, an aspect that is lightly represented in the SWOT Hotel Analyze. Due to the fact that Central Best Western Hotel is a family business that conditions the employee promotion possibilities, the employees have developed a lack of respect towards the people within the management that have trained them.

Within the hotel, the co-worker relations are sociable based on professionalism and respect, an enjoyment work environment is another motivational tool for the employees. However, they are slightly demoralized because their own initiatives are being discouraged and they are not consulted in the decision process. The hotel management considers that they can combat these effects through positive motivation, encouragement and appraisals, in times of professional accomplishments.

To conclude, the hotel management team wrongly believes that their employees are only motivated by their salary, not taking into consideration other financial rewards.

In order to improve the present situation, we would recommend:

- Developing a Human Resources department;
- Motivating employees through training courses at other Best Western Hotels;
- Promotion possibilities for those employees that show a high level of professionalism and loyalty;
- After analyzing the questionnaire responses, we have realized that 20% of the respondents are upper management (marketing manager, administrator, accounting manager) and 80% have an execution role (receptionist, cleaning lady, and waiter).

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Information offered by Central Best Western Hotel employees (through applying a questionnaire and analyzing the data)

SUB-SECTION: ECONOMIC STATISTICS

IDENTIFICATION AND MEASUREMENT OF REGIONAL DISPARITIES IN ROMANIA

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Recent trends in the convergence process between countries are not observed at intra-national, emphasizing differences between regions. Increasing economic disparities between regions belonging to the same country is a result of the concentration processes.
Increasing regional disparities is considered rather determined by high performance regions, rather the slow performance of the backward regions.
The process of concentration is, however, not only the accumulation of wealth and means of production and services in certain areas. Knowing the concentration and influencing factors can make decisions and establish regional policy measures.
This article proposes a synthetic analysis of the development level of regions in Romania with the concentration/diversification model (Gini/Struck coefficients), based on the existing key statistical indicators.
Keywords: regional disparities, concentration/diversification, regional analysis
JEL classification: R1, R12, R15

1. Introduction

Concentration analysis can illustrate the intensity of certain phenomena on economic and social categories, the dominant areas, the territorial distribution of some phenomena, etc. In addition, the concentration analysis allows comparability of data between identical or different phenomena, starting from the same or different number of units, for the same year or different years, etc.

Given the above considerations, this article proposes an assessment of the degree of concentration/diversification in the developing regions of Romania, through a method commonly used by experts in the field: analysis of regional concentration/diversification degree. This method of analysis is also known as the Gini/Struck coefficients method.

2. Methodology

The concentration analysis permits comparability of data between different phenomena, starting from the same or different number of units, for the same year or different years, etc. Different methods of exploratory statistical applied to realizes scientifically sound combinations of indicators.

Given the above considerations, this article proposes an evaluation of the concentration/agglomeration degree in the eight developing regions in Romania, through a method frequently used by experts in the regional field: concentration methods, also named Gini/Struck coefficients method[43].

To achieve the analysis, there were used statistical indicators that exist at regional level, grouped by main areas, so that it can be covered the whole range of economic and social activities of

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[43] The Gini coefficient is a regular method used for analysis the degree of concentration (inequality) of a variable in a distribution of its components. It compares the distribution of a variable with theoretical perfect equality. The Gini coefficient ranges between 0, which implies no concentration (perfect equality), and 1, which denotes total concentration (perfect inequality).

scientific interest: demography (total population, urban, rural), workforce (employees), economic potential, health, telecommunications, urban infrastructure, investment, regional GDP.

Interpreting the results of this analysis took into account the fact that a higher value of the concentration/diversification coefficients involves an increase in disparities at territorial level, while a lower value may reflect a balanced distribution of some general or specific activities/phenomena. Also, the interpretation of results was envisaged that the region Bucharest-Ilfov is a major urban area, which may significantly affect the obtained results.

The analysis of indicators on the concentration/diversification can indicate us how far we place in comparison with the state of uniform and balanced distribution of economic results registered at the regional level.

Next, to identify the regional disparities in Romania, in 2010 and compared with 2008, we will use the Gini/Struck concentration/diversification coefficients method.

3. The assessment of regional disparities

In 2010, at regional level, the concentration analysis was based on the two coefficients presented above (Gini/Struck), taking into account 10 groups of indicators.

If the value of the coefficients exceeded 0.3, there is a relative concentration that can be mentioned and taken into account, and if the value was close to 0.5, then we can speak of a high concentration. The calculations were made at regional level, taking into account the inherent limitations related to available statistical databases.

3.1. Population at regional level

Regional concentration analysis was based on the following statistical indicators: total population, population in urban and rural areas.

The analysis of existing data shows that, in 2010, nationally, was a predominantly urban population (55.05%), while at regional level, five of the eight regions hold a majority urban population (West, Centre, South-East, North-West and Bucharest). The most urbanization region is Bucharest Ilfov (91,9% - urban population from total) (Figure 1).

Figure 1: Structure of total population in urban/rural and developing regions, 2010 (July)
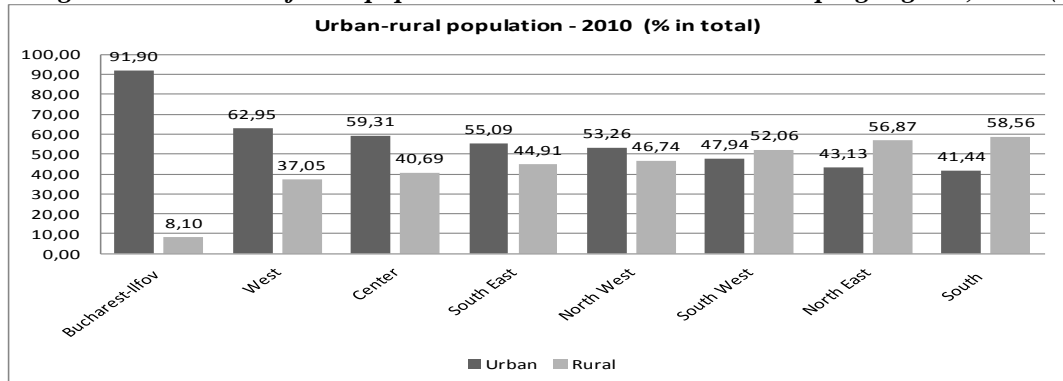
Source: Author's calculation on the basis of The National Statistical Institute data.

Concerning the concentration of total population in urban and rural areas, the coefficients value is below 0,105, which means that, in the year 2010 (July 1), there was no significant concentration of the total population in the eight development regions. Also, the urban population does not have an important concentration at regional level (Gini coefficient is below 0,1).

Regional allocation of the population is relatively balanced, the exception being given by the allocation of rural population at regional level, where, because the Bucharest-Ilfov region is

highly urbanized, there is a greater concentration of rural population in the other regions (the Gini coefficient is 0.244).

Compared with the year 2008, it is found that there was a decrease in the concentration of total population and a slight increase in the concentration of urban population (the Gini coefficient was 0,0982 in 2008, while in 2010 it came to 0,096) (Table 1). In the same time, we can observed a decrease of concentration in rural population (from 0,2442 to 0,2430).

Table 1: Regional concentration of population (Gini/Struck coeff.), years 2008, 2010

	Total population		Urban		Rural	
	2008	2010	2008	2010	2008	2010
Coeff. Gini	**0,1065**	**0,1060**	**0,0982**	**0,0996**	**0,2442**	**0,2430**
Coeff.Struck	**0,0774**	**0,0770**	**0,0713**	**0,0723**	**0,1812**	**0,1803**

Source: Author's calculation on the basis of The National Statistical Institute data.

3.2. Workforce

The analysis of the concentration of workforce was based on the following indicators: employment in major economic sectors, number of employees and the number of unemployed.

In 2010, the level of Gini/Struck coefficients reveals that there is a low concentration of the employed population in the eight development regions, the value of Gini coefficient being around 0,075 and the value of Struck coefficient being only 0,055. Compared with 2008, there is a decrease in the degree of concentration of employed population (the Gini coefficient was 0,114 and Struck coefficient was 0,083). The decrease of concentration mean o relative equilibrates distribution of employment at regional level.

In the same time, there is a relative concentration of employed population in agriculture and forestry, the Gini coefficient being 0.226 and the Struck coefficient is 0,167, largely due to the importance of Bucharest-Ilfov urban region. It is the same tendency to decrease of concentration employment in agriculture comparatively with 2008.

Different appear in employment of services. The tendency is to growth the employment concentration in services: Gini coefficient was 0,185 in 2010 comparatively 0,139 in 2008 (Figure 2).

Figure 2: Regional concentration of workforce, 2008, 2010
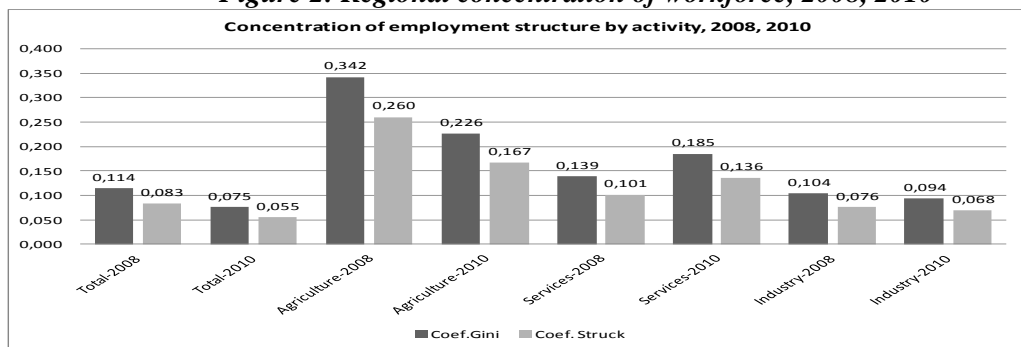
Source: Author's calculation on the basis of The National Statistical Institute data.

At the same time, we cannot say that there is a strong concentration of the number of employees at regional level, their distribution being relatively balanced in the territory, but we can identify the tendency to growth a concentration in services sector.

3.3. Economic potential

To assess the concentration of economic potential at regional level there have been used the following indicators: the number of active firms at regional level, grouped by categories of size and the number of employees.

According to the figures recorded by the Gini/Struck coefficients, there are, at regional level, the following situations (Figure 3):

- Relatively low concentration of the total number of firms - the Gini coefficient is 0,197 and the Struck coefficient is 0,145;
- Relatively low concentration of small firms (0-9 employees) and large companies (over 250 employees); the calculated coefficients record values below 0.20;
- In 2010, the concentration is more or less appropriates for all category of active units;
- Compared with 2008, the values of the two coefficients have recorded significant decreases; in special for medium active units (from 0,490 Gini coefficient to 0,183 Gini coefficient) and active units with 50-249 employees (from 0,346 Gini coefficient to 0,203). The main source of the decrease is the financial crisis..

Figure 3: The regional concentration of economic potential, 2008, 2010
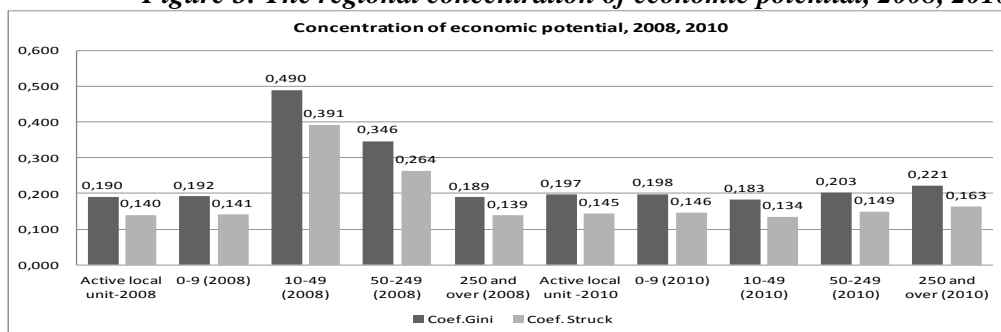
Source: Author's calculation on the basis of The National Statistical Institute data.

3.4. The economic and financial results

The analysis of economic results has been achieved in terms of total turnover. As shown in Figure 4, there is a significant concentration of the total turnover (the Gini coefficient is 0,371 and the Struck coefficient is 0,285). Compared with 2008, it is recorded an increase of the concentration of total turnover, from 0,361 to 0,371 (an increase of about 30%).

Figure 4: Regional concentration of economic and financial results, 2008, 2010
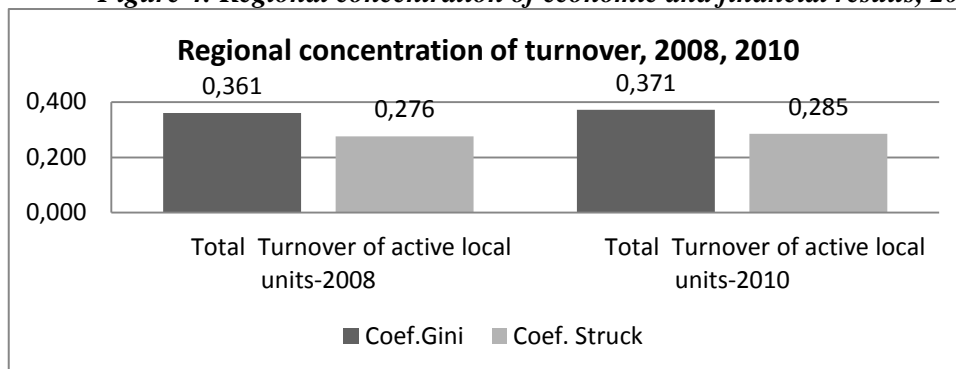
Source: Author's calculation on the basis of The National Statistical Institute data.

3.5. Health infrastructure

The analysis of the concentration in this sector was made using the following specific indicators: the number of hospitals in the region and the number of existing beds.

As shown in Figure 5, there is no significant regional concentration (the values of the two coefficients are below 0,1). Compared with 2008, there is a relatively small decrease of the concentration of health infrastructure at regional level, especially regarding the number of beds (from 0,1801 to 0,1022).

Figure 5: Regional concentration of health facilities, 2008, 2010
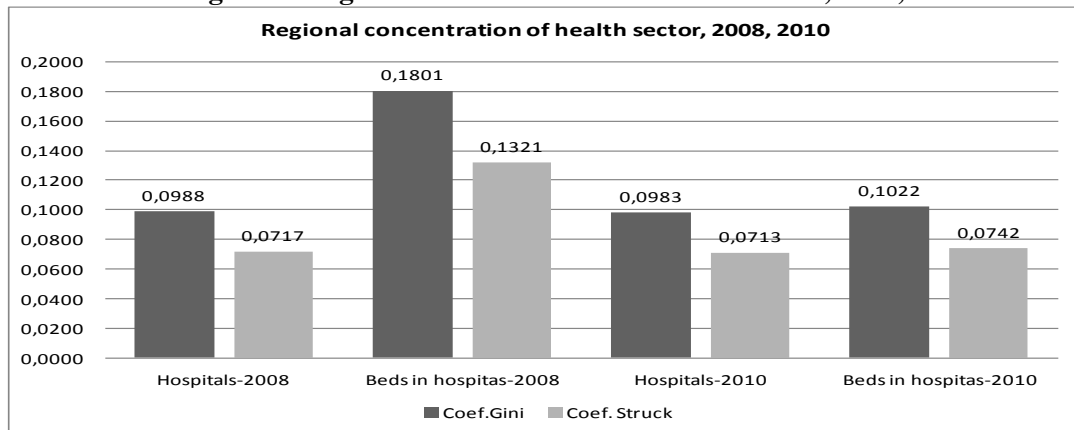
Source: Author's calculation on the basis of The National Statistical Institute data.

3.6. Urban infrastructure

Given the importance and complexity of this area, but also the existence of an increased volume of specific data, for the calculation of the degree of concentration/diversification of the sector on development regions there were used several key indicators:
-    The simple length of gas distribution pipelines;
-    The length of public roads.

As shown in Figure 6, the regional infrastructure has a relatively relative high concentration, with Gini coefficients values 0,1908 for the indicators localities with public sewerage, smaller comparatively 2008.

Slightly lower values are recorded at the total simple length of pubic sewerage pipes (0,0971 – Gini coefficient). Compared with 2010, there is a decrease in the concentration of both examined indicators.

Figure 6: Regional concentration of urban infrastructure, 2008, 2010
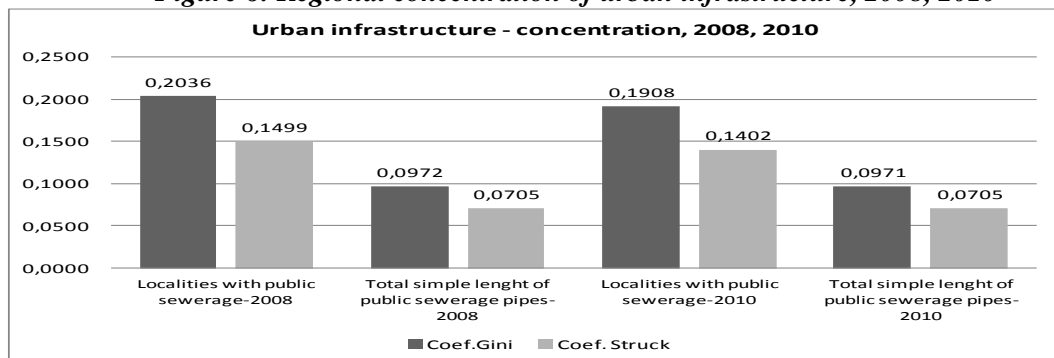
Source: Author's calculation on the basis of The National Statistical Institute data.

3.7. The investments

The analysis of regional concentration of investments was achieved with the help of the indicator: gross and net investments of active local units.

Thus, as shown in Figure 7, both Gini and Struck coefficients indicates that, at regional level, there is a significant concentration of gross investments, implying that, some regions (especially the Bucharest-Ilfov region) have achieved or have attracted a bigger number of investors. We can talk about an important concentration of investments at regional level, the values of the two coefficients being over 0.3 (the Gini coefficient is 0,408).

Compared with 2008, this concentration is increasing visibly and some regions are more attractive in terms of local investors (the Gini coefficient increased from 0.3 to about 0.4 in the period under review). Similar, the net investments has a high contraction at regional level (Gini coefficient – 0,378).

Figure 7: Regional concentration of investments, 2008, 2010
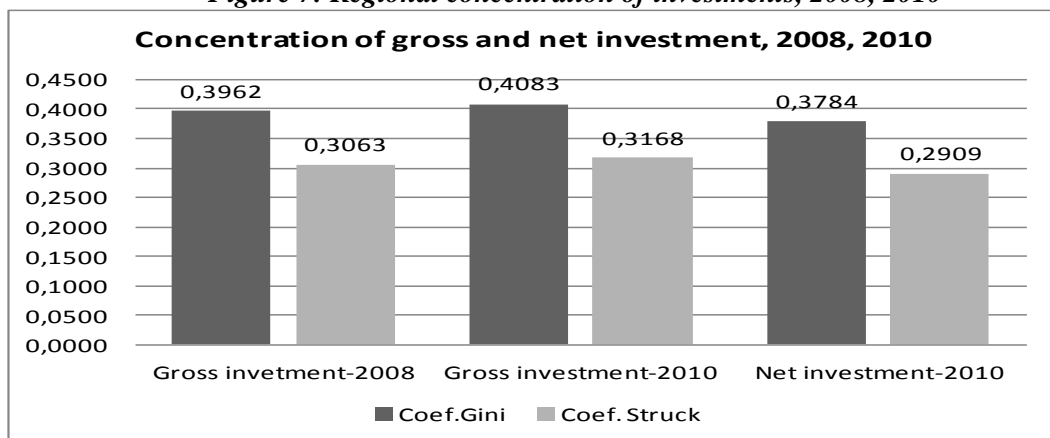
Source: Author's calculation on the basis of The National Statistical Institute data.

3.8. Education

As a result of the fact that the Bucharest-Ilfov region holds approximately 33,9% of total higher education institutions, the values of Gini/Struck coefficients being higher than those registered by other indicators examined so far.

Thus, in 2010, in this area, most indicators that have been analyzed have recorded significant concentrations at regional level, exception being the indicator number of universities, whose coefficient was below 0.3 (Gini coefficient - 0,335) (Figure 8).

Figure 8: Regional concentration in education and research field, 2008, 2010
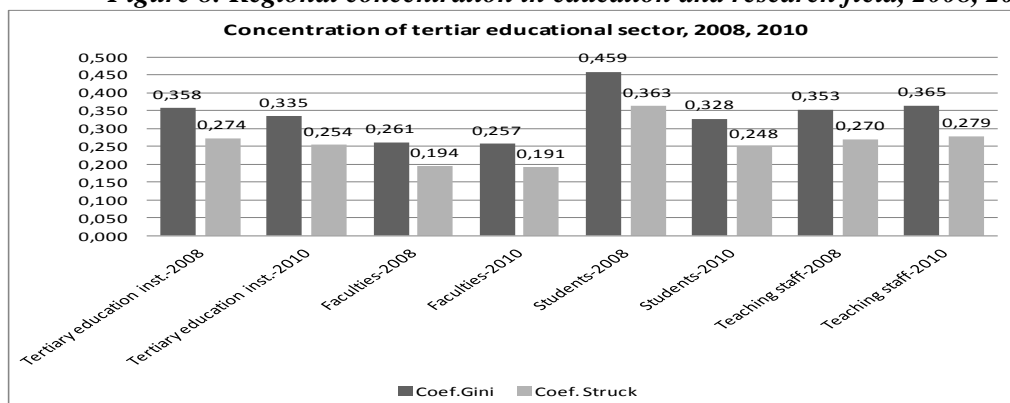
3.9. Regional concentration of GDP

The evolution of regional GDP indicator concentration was calculated for the period 1995-2009. Thus, (1995) regional GDP concentration was very low, the Gini coefficient being 0,066. The difference between the highest and lowest value of the regional GDP was between the South and South-West region, including West (22%). In 2000, there is a first clear trend of increasing concentration, the Gini coefficient reaching 0,142.

Calculated for 2009, the Gini coefficient recorded a value of 0,199 (Struck coefficient – 0,147), which means a relatively low concentration of total regional GDP (Figure 9).

This value indicated a tendency to increase concentration of economic performance in term of PIB regional and reducing of convergence process at regional level, in Romania.

Figure 9: Concentration of regional GDP, 1995-2009
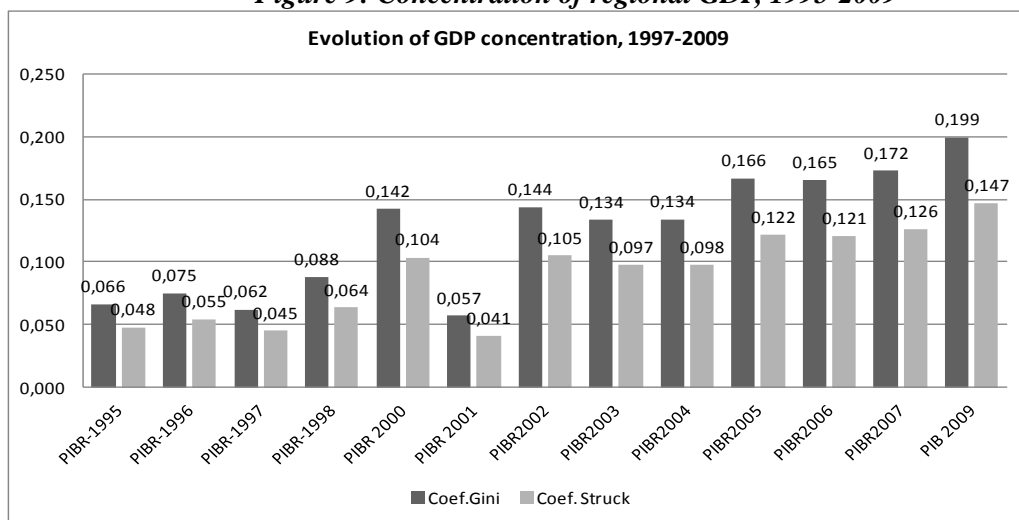
Source: Author's calculation on the basis of The National Statistical Institute data.

The regional contribution at GDP is changing in 2000-2009 period. Thus, the regional contribution of capital-region Bucharest-Ilfov is reduced, in parallel whit growing the contribution of North-West, Center, North East, South East, and South West. Another region is reducing their contributions to the regional GDP (Figure 10).

Figure 10: Evolution of regional contribution of GDP (%)
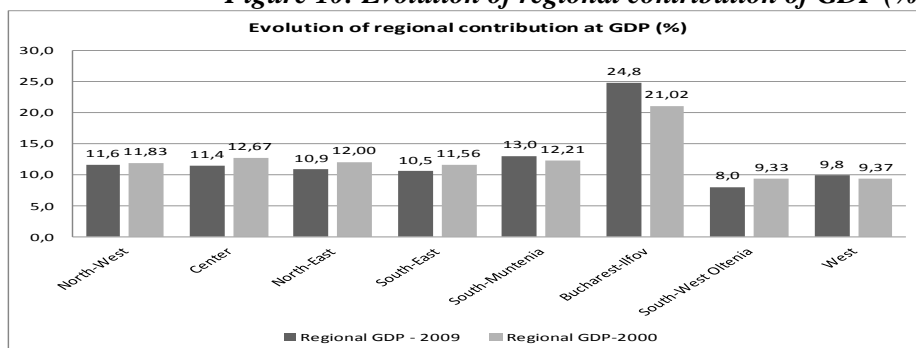
Source: Author's calculation on the basis of The National Statistical Institute data.

Conclusions

Through this article we have sought an analysis of the main types of regional disparities, in 2010 and also in comparison with 2008, based on the Gini/Struck coefficients method and the existing statistical data in the Romanian Statistical Yearbook:

The results obtained after applying the concentration coefficients are the following:

- Most coefficients have values placed in the interval [0-0,3]; this shows a relatively uniform distribution, without too much concentration in those areas;
- After 2010, the analysis of the evolution of Gini/Struck coefficients shows a two relative trend:
- The decrease the concentration of regional disparities in Romania in: population (total, rural), employment (total, agriculture, industry), health infrastructure, urban infrastructure, tertiary infrastructure,
- The increase the concentration of regional disparities in economic performance (Regional GDP, SMEs, turnover).
- The contribution of region Bucharest-Ilfov to national GDP is reducing, in parallel with creasing the contribution of another region. This process may interpret that the possible convergence may be take place, after 2010, in Romania, at regional level.

As a final remark, we underline the necessity to take measures and to sustain the mechanism to promote convergence; taking into account the circumstances created so far, according to, the relatively developed regions are those that access far more Structural Funds than those underdeveloped, which in no case is likely to reduce regional disparities.

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MONETARY STABILITY AND UNEMPLYMENT IN AN EMERGING ECONOMY. THE CASE OF ROMANIA

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A typical feature of an economic crisis, as is the case of the last economic and financial crisis, is the rise in the unemployment. This phenomenon represents one of the most serious aspects of an economic recession implying additional constraints for the policy makers and increased social and economic distress. In this paper we approach the issue of unemployment dynamics for Romanian economy. Modern economies must cope with the challenge of achieving financial stability, given that the globalizing financial environment is becoming more complex due to globalization, to theintersection of the monetary and financial market, and to the financial industry innovativeness. Although this evolution of the markets encourages more efficient allocation of global capital resources, allowing the ways of financing to adapt more quickly to the needs of the real economy, "the financial sector is not exempt from tensions and destabilizing movements, which generate risks not only for the players of the financial sector, but also for the economy as a whole".
Keywords: monetary stability, unemployment, emerging economy, Phillips curve
JEL Classification: E52, E58, E61, G01

I. Introduction
Ensuring financial stability represents a natural concern of central banks, result of some of its specific functions: lender of last resort, regulation and supervision of the banking sector, regulation and monitoring of the economy payment systems and the function of foreign currency center. In the last years, ensuring financial stability became a major concern of central banks, due to the fast propagation of financial crises, their negative effects on financial markets and the macroeconomic perspectives, but also due to the conomic and social costs that they imply. In comparison to price stability, considered easy to define and quantify, financial stability is a complex concept (due to the complexity and dynamics of the financial system) and up today there is no generally-accepted definition or a synthetic indicator for its quantification.

For example, ECB defines financial stability as the situation in which „*the financial system – comprising of financial intermediaries, markets and market infrastructures – is capable of withstanding shocks, thereby reducing the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities"* [European Central Bank, 2009].

II. Data and methodology
For this analysis we looked at statistical data from Romania between 2000 and 2012 – from National Bank of Romania and World Bank Statistics. We have used a generalized linear model – (Quadratic Hill Climbing)-and for estimation of inflation-unemployment correlation we have use the Huber-White method - Huber-White standard errors are standard errors which have been adjusted for specified assumed-and-estimated correlations of error terms across observations.

We have used the Consumer Price Indicator *vs*. F (inflation expectancies [commercial, consumers, industrial and services], Core1, Core2, adjusted Core 2 + unemployment rate + unemployment gap[$t_{n+1}-t_n$]).

Dependent Variable: IPC
Method: Generalized Linear Model (Quadratic Hill Climbing)

Date: 03/04/12 Time: 22:47

Sample (adjusted): 2007M01 2011M12
Included observations: 60 after adjustments
Family: Normal
Link: Identity
Dispersion computed using Pearson Chi-Square
Coefficient covariance computed using the Huber-White method with

    Observed Hessian
Convergence achieved after 1 iteration

Variable	Coefficient	Std. Error	z-Statistic	Prob.
EXPCOMER(-1)	0.121830	0.009802	12.42975	0.0000
SOMAJ(-1)	0.352673	0.055954	6.302853	0.0000

Mean dependent var	6.041167	S.D. dependent var		1.757305
Sum squared resid	93.63233	Log likelihood		-98.50429
Akaike info criterion	3.350143	Schwarz criterion		3.419955
Hannan-Quinn criter.	3.377450	Deviance		93.63233
Deviance statistic	1.614351	Pearson SSR		93.63233
Pearson statistic	1.614351	Dispersion		1.614351

As main results, we have found the following:
In our opinion, there is a transition in Romania from the adjustable inflationist expectations (in which the future value is just determined by its past values, the time horizon used depending on the memory of the individual), by the rationale inflationist expectations.
Furthermore, in Romania, the inflation expectancies are adaptive, based on the past observed realities. They are not made up of around NBR's inflation target, but are heavily influence by the high level of past consumer prices.

III. Empirical results
The Phillips curs, in our opinion, shows a really weak correlation betwenn the unemplyment and the CPI for Romania – specially caused by structural disbalances – to be seen the 2008 october.

For Romania, there is a alomost unexistind corellation between unemplyment and the rate of oinflation – mainly caused by the government decision of reducting the bugetary employers.

2011:

Variable	Coefficient	Std. Error	z-Statistic	Prob.
EXPCOMER(-1)	0.228203	0.029139	7.831435	0.0000
SOMAJ(-1)	-0.145950	0.145098	-1.005873	0.3145

We cab observed in the above graphic the almost unexisting correlation between the unemployment rate and the inflation rate in Romania (stressing the Romanian Government policy of reducing the budgetary employment).

IV. Conclusion
From the standpoint of monetary policy, the reaction of central banks to the financial imbalances that broke out from August 2007 was different, depending on the particularities of the economic

and financial structure of each state. However, the objective was the same and namely, to restore the health of the financial system, in such a way that economic growth and price stability at middle and long term will not be jeopardized.

At the same time, the present financial disruptions highlight the necessity that central banks give more importance to the price of assets, as they represent the main channels, through which monetary policy measures are transmitted onto the real economy.

These results indicate that the National Bank of Romania should change the instruments of monetary policy in order to give a more „eclatant" character to the inflationist anticipations (especially in the services and prices of final consumption) based on previous developments of overall pricess.

Placing rational expectation in a macroeconomic model mai dramatically affect the governemnt (or central bank) ability to aply efficiently the economic policy. As a result, the monetary base increase affect only the inflation rate, without any interfierence in the overall production or employment.

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Acknowledgement

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.

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.
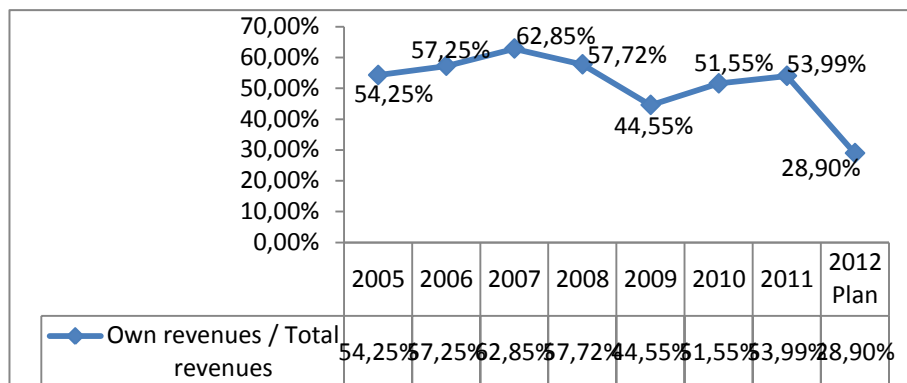
Source: Elaborated by the author according to Oradea City Hall's data
Figure 1. Evolution of Indicator of own revenues

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 2. 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.
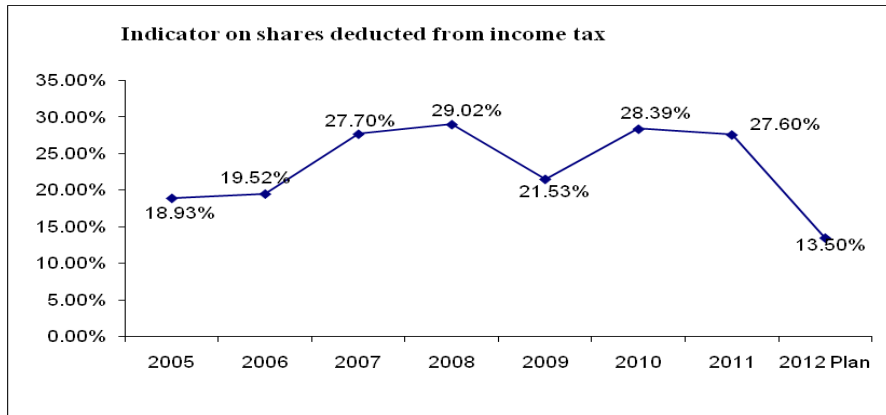
Source: Elaborated by the author according to Oradea City Hall's data
Figure 2. Evolution of Indicator on shares deducted from income tax

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.
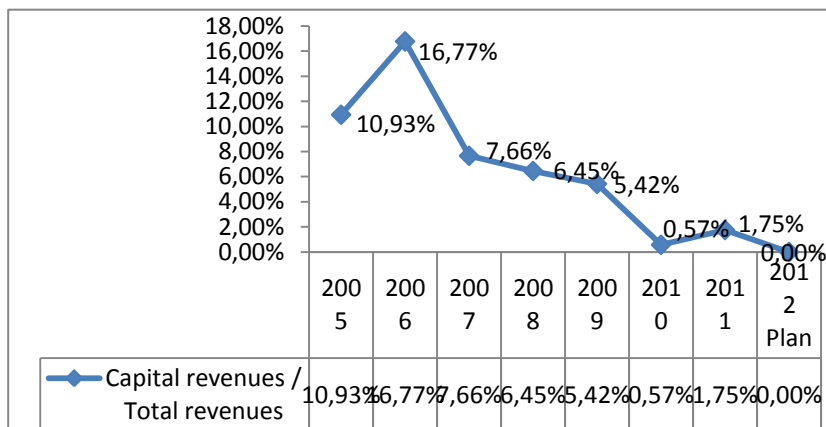
Source: Elaborated by the author according to Oradea City Hall's data
Figure 3. Evolution of Indicator on capital income

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%

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.
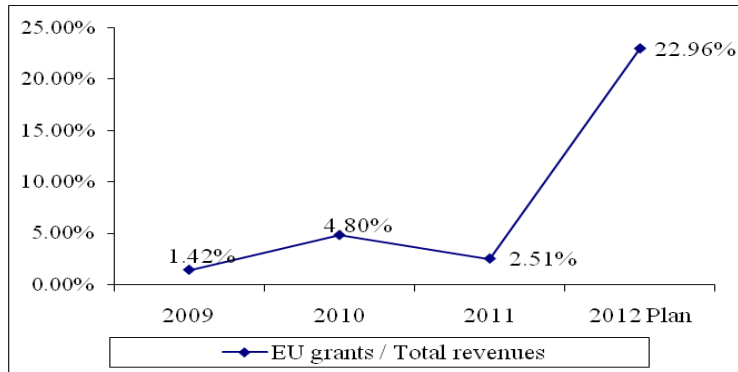
Sursa Source: Elaborated by the author according to Oradea City Hall's data
Figure 4. Evolution of Indicator on the grants attracted

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
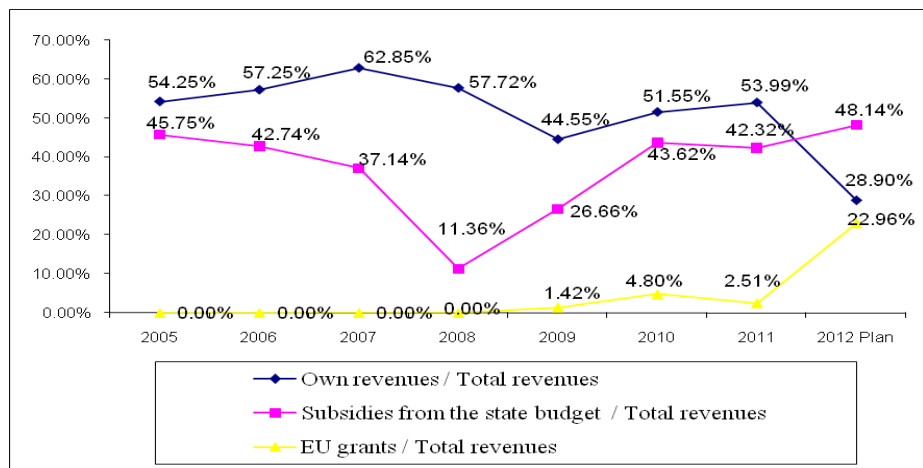
Source: Elaborated by the author according to Oradea City Hall's data
Figure 5. Comparative evolution of own revenues indicator, subsidies from the state budget and European grants

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.

IV. Note: This paper was supported by the project „Doctoral studies and doctoral students for competitive research in the knowledge based society", POSDRU/88/1.5/S/53501, implemented under the Sectorial Operational Program for Human Resources Development 2007-2013 and financed by the European Social Fund and Government of Romania.

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THE EXPENDITURES ANALYSIS OF ORADEA MUNICIPALITY'S LOCAL BUDGET

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The quantity, evolution and destination of local expenses are particularly important in public management because they sustain the local economic development policies supported by the local public administration. In this paper we conducted an eight years analysis on the evolution of Oradea's municipality expenses. The used research methodology was both analytical and empirical, by constructing and analyzing selected indicators. We concluded with observing an improvement in Oradea's expenditures policy efficiency during 2005-2012.

I. Introduction

As a result of the decentralization process from central authorities to local administrative units, in all European Union countries, an important amount of economic activity takes place under the responsibility of administrative, financial and legal local administration (Dafflon 2007: 115).

Local public administration has undergone many reforms following the implementation of the principle of local autonomy and decentralization. In terms of local public expenditure, these reforms were adopted according to the needs of each country. Local public expenditure in the new EU member states registered an upward trend due to the decentralization of local government which generated increase of competence and responsabilities (European Commission 1998: 5). The European Union initiates and implements local tax reforms in order to identify the most efficient form of local government, based on the principles of "European Charter of Local Self-Government".

This paper tackles the topic of local public expenditures, aiming to analyze the efficiency of Oradea's expenditure policy through selected indicators. The research methodology used is both an analytical and empirical, by constructing and analyzing the indicators.

II. The expenditure analysis of Oradea municipality's local budget

Parlagi (2000 in Matthew, Anghelescu and Savulescu 2009: 12) defines local development as a process manifested in a certain region or political subdivision which increases life's quality. The purpose of local economic development, as presented in one of World Bank's documents, is building the economic capacity of administrative units to improve their economic future and to life's quality for all residents. Sizing and execution of local government expenditure is extremely important in order to fundament and finance a municipality's development programs as well as determining the efficient use of financial resources.

According to Article 5 of Law 273/2006 on local public finance, funding, sizing and distributing the local expenses on authorizing officers, on destinations, on destinations, respectively activities, programs, projects, goals, tasks, are performed in accordance with the local government's responsabilities, with priorities set by them, for their operation and for local interest. Substantiation and approval of local budget expenditures are made in strict correlation with the real possibilities of local budget revenue collection, which is expected to be made.

Halpern, Weston and Brigfham (1998: 87) believe that the efficiency costs of economic activities can be determined and monitored through cost-benefit or cost-effectiveness analyses. This requires a clear definition of the objectives to be achieved, identify potential resources and technical means that could be taken into account in the design alternatives.

On the other hand, according to the Council's of Europe Report, "Budget and Budgetary Procedures at Local Authority Level Management", in order to analyze the economic efficiency of local public expenditure there must be established indicators of effective use of resources. By using them, one can compare the results obtained in prior periods and even forecasts with the nowadays situation, identifying the specific causes which led to the results found and providing measures to be taken to improve them.

In terms of cost effectiveness analysis of Oradea's expenditure policy, we chose to study the evolution of a series of indicators used in one of Oradea's City Hall documents, namely the "Mayor's Report 2005".

Indicator of the compulsory expenditure is the main indicator of the rigidity of public expenditure and includes personnel costs, subsidies, social spending and public debts. This indicator highlights the share of compulsory expenditure in total expenditure of Oradea Municipality. There is a downward trend during years 2005 - 2012, from 53.58% in 2005 to 23.84% in 2012.
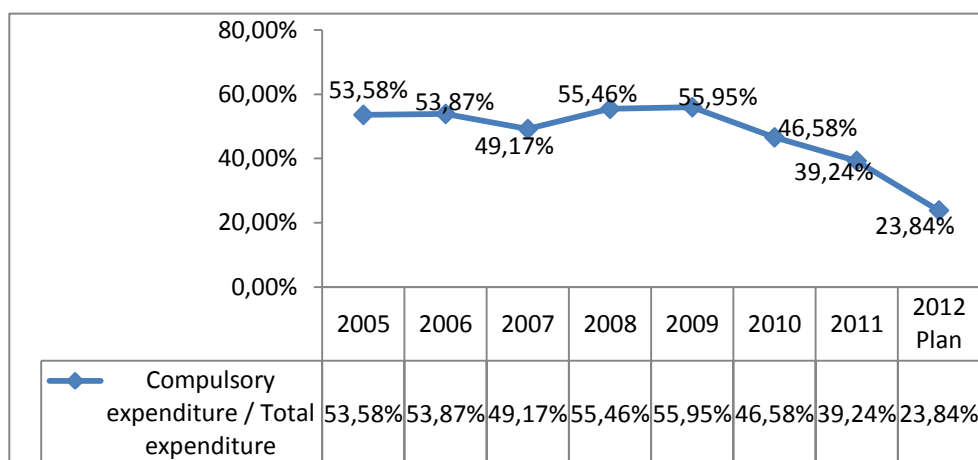
Source: Elaborated by the author according to Oradea City Hall's data
Figure 1. Indicator's of the compulsory expenditure evolution

Indicator of total expenditure with personnel of the city budget reflects the efforts to ensure the necessary funds for paying the salaries financed from local budgets. Throughout the 2005-2009 the salary costs accounted for about half of total local government spending. Their share in total expenditure amount has been constantly declining in recent years, the lowest recorded in the 2012 budget year due to job cuts and public sector wage decreases.

Table 3. Indicator's of total expenses with personnel evolution

Salary expenditure / Total expenditure	2005	2006	2007	2008	2009	2010	2011	2012 Plan
	32.11%	31.60%	31.16%	35.19%	38.45%	33.64%	24.25%	14.65%

Source: Elaborated by the author according to Oradea City Hall's data

Indicator on autonomous personnel expenditure (excluding salaries given for education sector) refers to the amounts allocated by the public authority to pay the administrative personnel and reflects the evolution of their share in total city expenditures. The evolution of this indicator over the period 2005-2012 is a sinuous one, as shown in Table below. According to budget planning, the lowest registration for this indicator will be in 2012, that is 3.16%.

Salary expenditure (no education)/ Total expenditure	2005	2006	2007	2008	2009	2010	2011	2012 Plan
	7.15%	6.65%	8.23%	8.24%	8.38%	7.43%	5.43%	3.16%

Source: Elaborated by the author according to Oradea City Hall's data
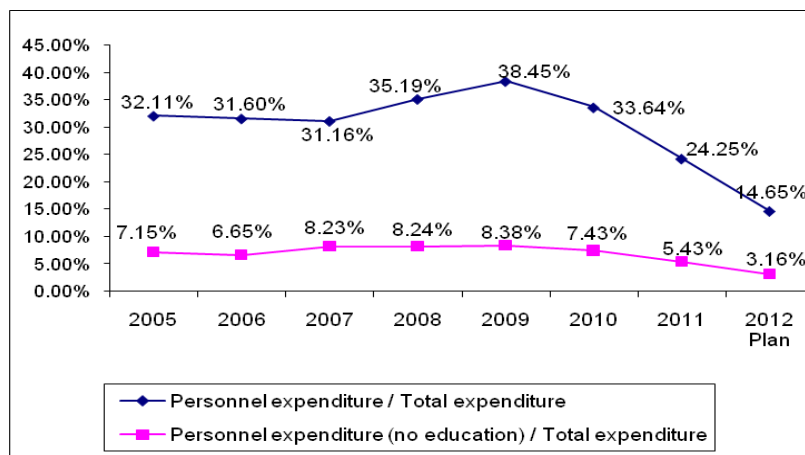
Source: Elaborated by the author according to Oradea City Hall's data
Figure 2. Indicator's of personnel expenses evolution

Indicator on public services expenditure highlights the effort of the local budget to finance public services provided by the city of Oradea, including investments made.
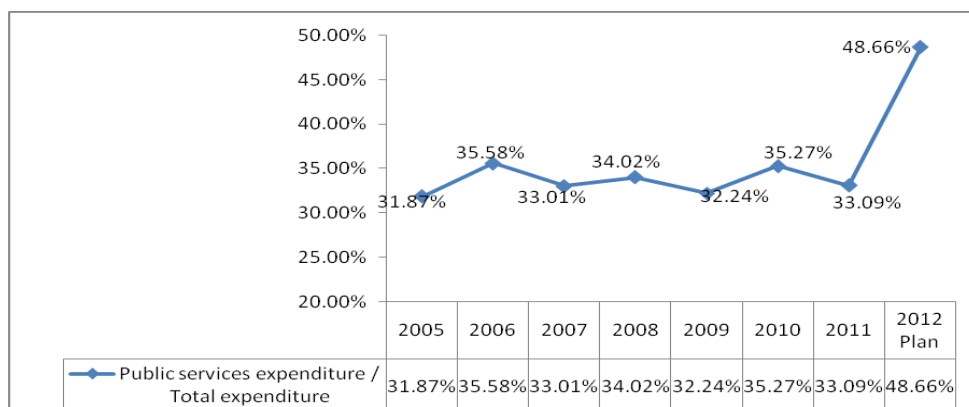
Source: Elaborated by the author according to Oradea City Hall's data
Figure 3. Evolution of public services spending indicator

The share of expenditure on public services in local budget expenditures reached highest levels in 2006 and 2010, with a slight decrease in 2011. In 2012, however, the highest value of this indicator in the years analyzed, of 48.66%, is expected.

Indicator of social protection and assistance costs is a measure of local authority's effort to support social policy and programs undertaken, having as target the disadvantaged groups or persons having social problems. Increasing the share of social expenditure in total expenditure during 2007 - 2009 was due to increased direct spending on social assistance, and also to salaries for those persons, goods and services necessary for the provision of these services. In the last two

budget years, this indicator decreased continuously, recording in 2012 the lowest value of 4.70% from the period studied.
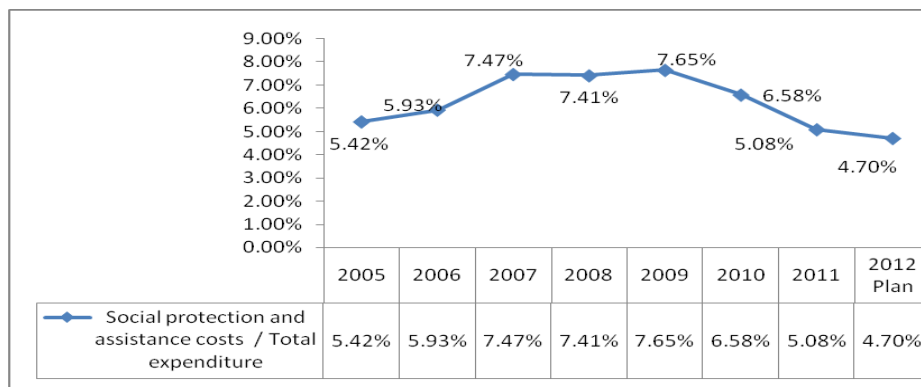
Source: Elaborated by the author according to Oradea City Hall's data
Figure 4. Evolution of social protection and assistance costs indicator

Indicator of operating costs represents the evolution of operating expenditure ratio for operation of public services in all local government spending, eliminating the propensity to invest. It is known that these expenses have greater rigidity than the cost of capital for new investments because if officials may decide to postpone the latter in case of shortage of resources, operational expenses cannot be postponed. Note that this indicator has shown a continuous decrease in the last four budget years, with an estimated value of 47.08% in 2012.
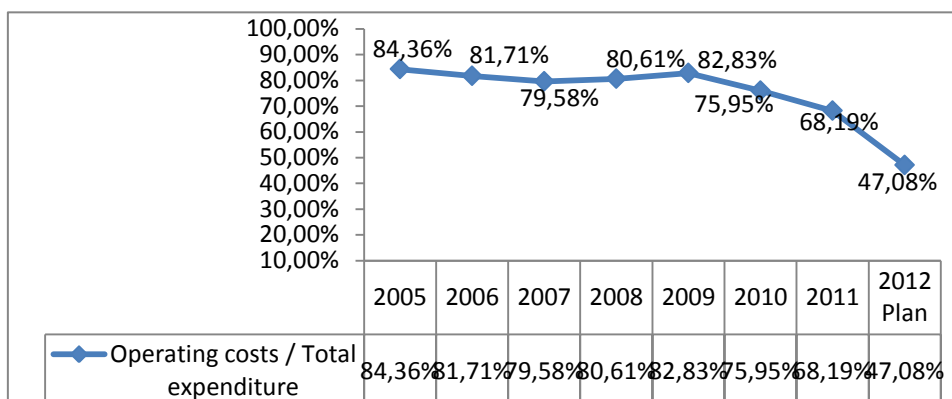
Source: Elaborated by the author according to Oradea City Hall's data
Figure 5. Indicator's of operating costs evolution

As expected, taking into account the evolution of the Indicator of operational expenditure, the share of investment expenditure in total expenditure increased continuously during the last four budgetary years, from 17.16% in 2009 to an impressive estimate of 52.92% in 2012, showing a strong preference of local public administration for development.
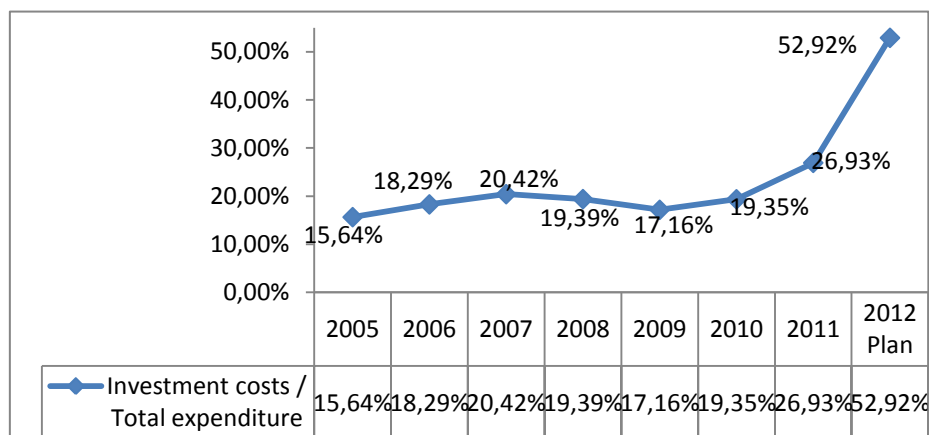
Source: Elaborated by the author according to Oradea City Hall's data
Figure 6. Evolution of investment costs indicator

III. Conclusions

Given the decrease in the analyzed period of the share of compulsory expenditure in total expenditure by almost 37%, the share of personnel expenses by over 54% and the share of operating expenses by over 44%, and the increased in the same period the share of expenditure on public services in total spending by about 52% and doubling the share of investment expenditure in total expenditure, we conclude that the expenditure policy of Oradea was greatly improved in the period 2005-2012. The analyzed indicators show a greater attention of local government to reducing operational costs and increasing development costs, in its attempt to contribute, to a greater extent, to improving life's quality in the studied administrative-territorial unit.

IV. Note

IV. Note: This paper was supported by the project „Doctoral studies and doctoral students for competitive research in the knowledge based society", POSDRU/88/1.5/S/53501, implemented under the Sectorial Operational Program for Human Resources Development 2007-2013 and financed by the European Social Fund and Government of Romania.

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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.
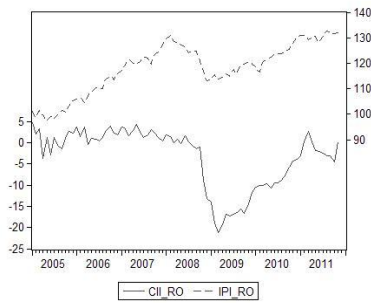
Fig. no 1 *The dynamics for IPI_RO and CII_RO*
Source: Made by the author
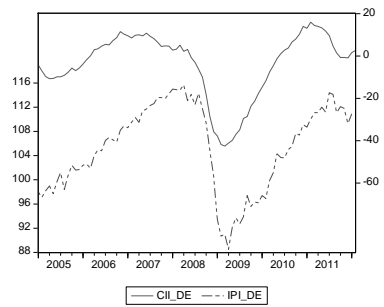
Fig. no 2 *The dynamics for IPI_DE and CII_DE*
Source: Made by the author
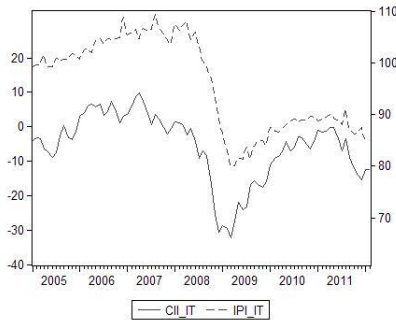
Fig. no 3 *The dynamics for IPI_IT and CII_IT*
Source: Made by the author
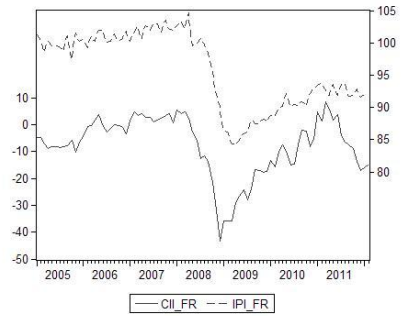
Fig. no 4 *The dynamics for IPI_FR and CII_FR*
Source: Made by the author

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.

Acknowledgements

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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.

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 to 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 variabile type. Here are the three particular situations' graphical representation:
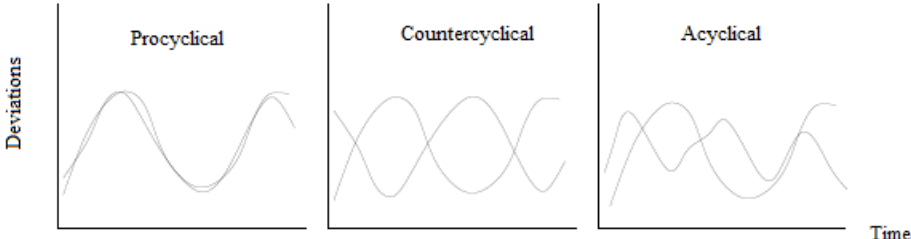
Fig. no. 1. Simultaneous movements of macroeconomic variables
Source: the author

The scatterplot is another graph used for the identification of different correlations between GDP and other significant macroeconomic variables:
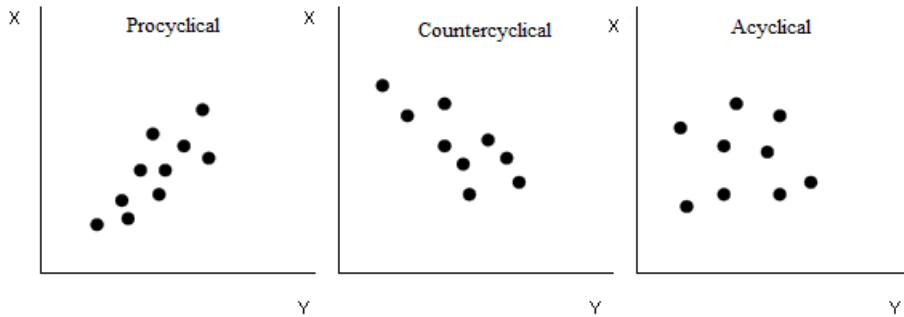
Fig. no. 2. Simultaneous movements of macroeconomic variables – identification using the scatterplot

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.
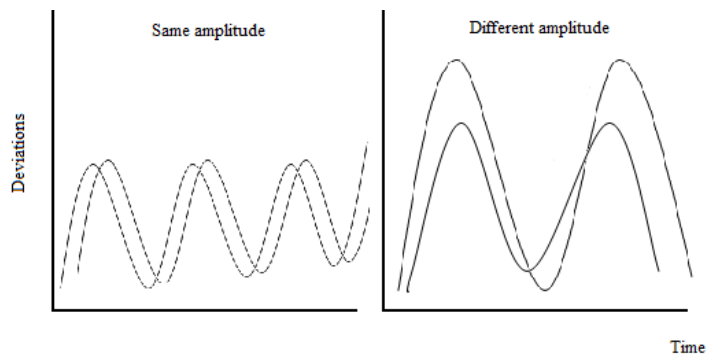
Fig. no. 3. Business cycle amplitude

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 persisance – the longer the cycle, the higher the its persistance, as seen in Figure no. 4.
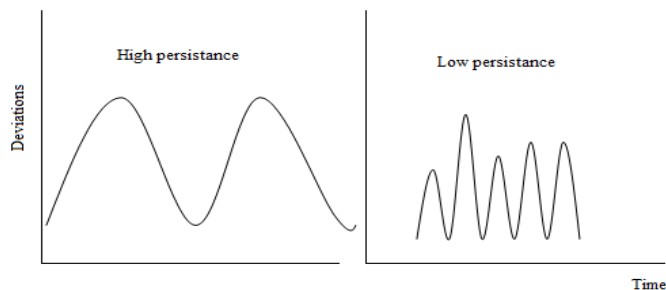
Fig. no. 4. Business cycle persistance

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 intruments 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 persisance 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 variabiles 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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STYLIZED FACTS OF ROMANIAN BUSINESS CYCLE. AN EMPIRICAL INVESTIGATION (II)

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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.

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.

Our paper deals with the stylized facts of Romanian business cycles. In our previous paper we investigated the theoretical aspects regarding the stylized facts of the business cycle. In this second part of our study, we first deal with the most common challenges that economists deal with when handling historical data, we'll present the most common methods to solve these problems. The empirical part of our study begins with an investigation of the stylized facts of Romania's business cycle, then a RBC model is estimated for the same economy. The simulations of the model are compared with the stylized facts of real data.

Keywords: business cycles, stylized facts, comovements, real business cycle
JEL codes: E12

Challenges raised by the use of empirical data

Dealing with real data: in what GDP regards, we can talk about real or nominal data. The nominal GDP is determined using current prices, thus, a rise in nominal GDP might reflect either an increase of price level, or of the consumption. A much more relevant measure of economic activity is real GDP, which is not influenced by prices. Real GDP is determined using constant prices. The same principle can be used when talking about any other macroeconomic variables, except the monetary aggregates, interest rates and, of course, the inflation rate or the consumer prices index.

Dealing with seasonal data: given the fact that we are dealing with the business cycles, it is important for us to identify and separate the different type of frequencies in the hystorical data. Data in december are usually and significantly higher than those in the other months. Statistical techniques are used to eliminate the seasonal component in empirical data. Most of the times, data presented in the official statistics are deseasonalised, but this is not a rule. So before the statistical analysis, seasonality of data should be investigated. The most common used extraction methods of seasonal component are the moving average method, the Census X-11, the X-12 ARIMA as well as TRAMO/SEATS. As Gagea and Ionescu (2008: 356) argue, the last two methods are accepted and recommended, at present, by Statistical Office of the European Union (Eurostat), because they solve the problem of „end points".

Dealing with trends in hystorical data. Another component that has to be eliminated from the hystorical data is its trend. In order to extract the cyclical and trend components several methods had been developped. One that dominates the literature, as Tawadros (2011) argue is the one developped by Hodrick Prescott. Beveridge and Nelson (1981) or Christiano and Fitzgerald (2003), consider the problem of decomposing an observed time series into a sum of its trend component and its cyclical component.

The smoothed trend is the solution to the minimisation problem:

$$\min \sum_{t=1}^{T}\left(X_t - X_t^*\right)^2 + \lambda \sum_{t=2}^{T-1}\left[\left(X_{t+1} - X_t^*\right) - \left(X_t^* - X_{t-1}^*\right)\right]^2$$

where X_t is the initial series, X_t^* is the trend and λ sets the filtering degree of the data. For quarterly data the most common used value for λ is 1600.

An alternative approach is the one proposed by Harvey (1985) – the unobserved components method. The general specification of this decomposition method is:

$$y_t = \mu_t + \varphi_t + \varepsilon_t$$

where y_t is the initial series, μ_t is the trend, φ_t si the cyclical component and ε_t represents the irregular component. The trend is stochastic and linear:

$$\mu_t = \mu_{t-1} + \beta_{t-1} + \eta_t$$
$$\beta_t = \beta_{t-1} + \zeta_t$$

and the cyclical components is

$$\varphi_t = a \cos \theta t + b \sin \theta t$$

Of course, there are numerous developpements and variants of these decomposition methods – for example the non-linear trend-seasonal models or several unobserved components mixed addidive – multiplicative decomposition techniques.

The RBC model – general framework
We will employ the neoclassical RBC model. The representative household maximizes expected lifetime utility given by:

$$U = E_0\left[\sum_{t=0}^{\infty}\beta^t \frac{C_t^{1-\eta} - 1}{1-\eta}\right]$$

where β represents the elasticity of the discount factor with respect to the utility, η - the risk aversion parameter.

The representative agent has to face a budget constraint given by

$$C_t + K_t = Y_t + (1-\delta)K_{t-1}$$

with Y_t – production in t, K - the capital and δ the depreciation rate. The production is assumed to be following the Cobb Douglas specification.

$$Y_t = Z_t K_{t-1}^{1-\alpha} L_t^{\beta}$$

Here L_t represents the labour in t, K_{t-1} - the level of capital in the previous period and Z_t - the level of technological progress. The level of this parameter evolves according to the formula

$$\log Z_t = (1-\rho)\log \overline{Z}_t + \rho \log Z_{t-1} + \varepsilon_t$$

with a ρ coefficient of persistance of technological progress.

There are numerous methods of finding the solution to the model. We will employ Uhlig's (1995) approach, based on the Lagrangian method, in order to derive the First Order Conditions, by computing the first order derivatives of the objective function with respect to the Choice Variables. We derive the steady state solution and then we loglinearise the equations, which will help us obtain the solution to the system.

Data and calibration of the model

Calibration of the model implies the choice of certain parameters in the model. In this regard, we first collected quarterly data for the Romanian economy for 1994 – 2011. We used several of Dobrescu's estimates for the per capita levels of consumption, investments, output and capital stock. Data were first desezonalized using Census X12 and they were expressed in logs. The annual depreciation rate was computed using the level of fixed tangible assets that went out of use during a year, the initial level of fixed tangible assets and the new entries of fixed tangible assets. Our findings confirm Caraiani's (2007: 81) result for the value of depreciation rate of capital of 2,4%.

Empirical analysis

In order to analyze the extent to which our RBC model is consistent with the empirical data we first investigated the stylized facts of Romania's business cycle. For this, we first deseazonalised the quarterly data in logs for selected variables, then we computed the HP decomposition of cyclical and trend components and we studied the standard deviations of variables, the autocorrelation coefficient, as well as the cross correlations (simultaneous and lagged for up to 4 periods ones) between selected variables and GDP. Our results are presented in Table 1.

In order to describe the stylized facts of Romania's business cycle, we first investigated the amplitude of series, taking into account the percentage of standard deviation. Second, as a measure of the degree of persistence of the fluctuations, we have computed the first order autocorrelation coefficient. The lagged cross-correlation coefficient for up to 4 lags were then investigated, in order to identify whether the indicators are leading, coincident or lagged.

	Std. dev.	Autocorr.	Cross correlation with Output								
			t-4	t-3	t-2	t-1	t	t+1	t+2	t+3	t+4
Capital	0,014	0,23	-0,08	-0,04	0,07	0,22	0,32	**0,4**	0,22	0,16	0,06
Consumption	0,015	0,89	0.45	0,54	0,56	0,53	**0,66**	0,43	0,42	0,33	0,26
Interest rate	0,006	0,58	0,09	0,25	0,21	0,57	**0,4**	0,37	0,21	0,22	0,08
Output	0,025	0,64	0,00	0,07	0,14	0,19	1	0,23	**0,33**	0,30	0,29

Table 1. Statistics summary for HP filtered series
Source: author's callculus

In what concerns the amplitude of the movements of selected series, interest rates and capital are the less volatile while consumption is the most volatile variable. The most persistent variable is the consumption, as the first order autocorrelation value is the highest (0,89) and the least persistant is the interest rate. We found that consumption and interest rates are coincident indicators for the evolution of Romania's business cycle, while capital is a lagged one - countercyclical.

These empirical findings are then compared to the simmulations of the RBC model.

	Std. dev.	Autocorr.	Cross correlation with Output								
			t-4	t-3	t-2	t-1	t	t+1	t+2	t+3	t+4
Capital	0,004	0,26	-0,08	-0,03	0,07	0,23	0,3	**0,4**	0,22	0,16	0,06
Consumption	0,011	0,89	0.45	0,54	0,56	0,58	**0,76**	0,53	0,42	0,31	0,26
Interest rate	0,02	0,56	0,08	0,22	0,20	0,45	**0,34**	0,57	0,21	0,25	0,09
Output	0,022	0,63	0,00	0,07	0,14	0,19	1	0,3	**0,43**	0,31	0,28

Table 2. Statistics summary for simulations of the RBC model
Source: author's callculus

The results of the RBC simulation with respect to volatility and cross-correlations are partially valid. Regarding the standard deviations and relative volatility, the model provides very good predictions regarding output and interest rate. Thus, the predicted standard deviation of output is 2.5%, while the real one is 2,2%. The standard deviation of capital stock are not as good, but it is still close to the results for the real data.

Conclusions
This paper had as an objective the presentation of the stylised facts of Romanian business cycle. For this, we first presented the relevant literature review as well as some indicators used to measure these stylised facts and some possible problems that can come up when working with time series. We have presented the most common detrending procedures, Finally we have calibrated and simulated a Real Business Cycle model for Romania, using the neoclassical framework. The simmulations of the models were compared to the real data, with respect to standard deviation, correlations with output.
The results show that the RBC framework can be a starting point in modelling fluctuations in the Romanian economy. While some of the stylized facts of the Romanian economy could not be predicted with the standard RBC, most results are in a close range to those in the real economy.
The RBC offers good predictions regarding the standard deviations of output, capital stock, real return and also regarding the correlations between output and capital or real return. However, it also fails to offer good approximations regarding the consumption volatility or the correlation between consumption and output.

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FORECASTING EXCHANGE RATES WITH BAYESIAN MULTIVARIATE TIME SERIES METHODS

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This paper provides an comparative predictive analysis between the models based on the fundamentals with a relationship between exchange rates and fundamentals variable in time by using Bayesian Multivariate Time Series Methods , like Bayesian VAR's being put in evidence the process of Bayesian Inference . The analysis is realized for GBP/USD exchange rate and the prediction realized for h step ahead direct and iterated forecasting and then compared the results between the considered methods .

1. Introduction

A new question to be answered has been put by Meese and Rogoff (1983 a, b) in their initial work when they obtained that the exchange rate models based on economic theory are strikingly outperformed in the process of evaluation and forecasting by the simple driftless Random Walk Model in terms of root mean square forecast errors and mean forecast errors , specially on short term .

Since this classic and what was to become path breaker in the exchange rates research area article , a considerable series of papers have worked to construct exchange rates models that have the ability to outperform the Random walk in the out of sample forecasting performance (Mark (1992); Chinn (1992); Driskill , Mark and Sheffrin 1992 ; MacDonald and Taylor 1993 ; MacDonald and Taylor 1994 ; Chinn and Meese (1995) ; MacDonald 1999 ; Mark 1995 ; Groen 2005 ; Mark and Sul 2001 ; Sweeney 2006 ; Engel , Mark and West (2008) ;Sarno and Valente 2009) , but the problem of the most accurate model for the out of sample estimation between the structural models based on fundamentals and the random walk model still remains not very clear   (Meese and Rogoff 1988 ; Wolff 1989 ; Diebold and Nason 1990 ; Berkovitz and Giorgianni 1996 ; Kilian 1999 ; Kilian and Taylor 2001 ; Faust , Rogers and Wright 2003 ; Cheung , Chinn and Pascual 2003 ; Engel and West 2005 , Engel , Mark and West 2008) .

For example different results were obtained for the short and long term for different authors . Huizinga (1987), Sweeney (2006)   consider the exchange rate movements on long term and finds that on long run the exchange rate dynamic has a mean reversion component made possible by negative correlation of changes (in the dynamic) of the real exchange rate and that mean reversion models beats random walk model on average , (which doesn't happen on short term where the random walk process have been proved to forecast better than the structural models) and for the short term remaining the known random walk process for exchange rate to forecast better than the structural models (Kilian and Taylor (2001)) .

As well, the long run exchange rate movements were proved to be cointegrated with long run movements of other variable considered by researchers like real exchange rates , stock prices ,

industrial production and real wages , relative national prices levels , which is why , the structural models perform better than the random walk model on long term . In the same time (Shiller) , the speculators will , on short time , conduct their actions as function of the fundamentals as well , fact that will affect the exchanges rates on long term as well .

More than that , a number of papers sustained that the results for the models based on fundamentals that perform better in the out of sample forecasting than the random walk model are not very strong or sensitive to the chosen data , historical or in real time and the data vintage for the last case (Kilian (1999) , Groen (1999) , Berkowitz and Giorgianni (2001) , Faust , Rogers and Wright (2003)) .

Besides the exchange rates models based on economic theory perspective , and economic fundamentals , a new direction in economy has been the models based on simple forecasting per se . These models have been approached in a series of articles (Canova 1990 , Carriero and Kapetanios 2008 ,) , models based on the Bayesian analysis , exactly Bayesian Vector Autoregression (BVAR) .

Vector autoregressive (VAR) were introduced by Sims (1972,1980) as an alternative to the large scale statistical macroeconomic models which he argued could benefit in the forecasting procedure from Bayesian methods (prior information) or other mean square error shrinking means in order to improve the estimates of a large number of unconstrained coefficients (by introducing restrictions) , because of the high level of parameter uncertainty and erratic model predictions of VAR's . As a consequence , ulterior research imposes Bayesian restrictions to increase the precision of the parameter estimation and forecasting results , (prior restrictions and extensions in Doan, Litterman, and Sims (1984), Litterman (1986), Sims (1993), Leeper, Sims, and Zha (1996)) (Kadiyala and Karlsson (1997), Robertson and Tallman (1999) , Banbura, Giannone&Reichlin 2007 for reduced form VARs, Sims and Zha (1998) and Waggoner and Zha (2003b) for structural VARs, Kleibergen and van Dijk (1994), Kleibergen and Paap (2002), Strachan (2003), Strachan and Inder (2004), and Villani (2005a) for cointegrated reduced form VARs, and Villani and Warne (2003) for cointegrated structural VARs.) Banbura, Giannone&Reichlin 2007 proved that the Bayesian VAR is an effective and natural tool for forecasting and structural analysis with a set of large information .

If at the beginning the coefficients of the VAR were considered constant , because of the variations in the economy's conditions , shifts in the economy's regimes made it necessary the allowance of time variation in the coefficients which gave birth to the time varying VAR's (TVP-VAR) , the modeling of the error covariance matrix in multivariate time series models which gave birth to the multivariate stochastic volatility models . The time variance of coefficients or the error covariance matrix arose with the problem of over-parameterization so the necessity of introducing restrictions on parameters or shrinking them toward zero , which is called shrinkage into reducing the over-parameterization problem . This can be done by using the Bayesian methods , prior information being a way to obtain the shrinkage necessary to avoid over-parameterization and higher level of estimation and prediction .

Another way of reducing the dimensionality of the model brought by over-parameterization and large series of data used specially in macroeconomic models , is reducing the models into factor models , where all the information is brought down to a few factors . In the case of VAR's , factor methods is expressed in the Factor Augmented VAR's (FAVAR) . As the common VAR, the FAVAR can be used with time varying parameters as well , known as TVP-FAVAR 's . As TVP-VARs , the usage of Bayesian methods is a way to avoid over-parameterization and increase precision in the estimation process . But this type of models will not be studied in this paper .

This paper will present a different perspective of the exchange rate forecasting as a continuity of the Carriero Capetanios 2008 approach , and forecast the exchange rates by using the Bayesian Vector Autoregressive Analysis combined with the economic theory analysis . Because of the

supreme dilemma : Random Walk or Fundamental analysis , the two of them will be brought together in a Bayesian VAR Analysis that will incorporate in the series of data the exchange rate and the fundamentals as well , and it will be considered a priori that exchange rates follow the random walk movement that will be incorporated in the analysis next to the fundamentals base of data . The BVAR will use in this analysis by shrinking the VAR 's coefficients towards a random walk process .

The analysis is made for GBP/USD exchange rate in relationship with a list of fundamentals , the standard monetary fundamentals commonly used in the literature and also variables suggested by the exchange rate theory : the lagged value of GBP/USD exchange rate change , interest rates , trade balances ,net foreign assets . Because of the unpredictable revisions on the data by the agents , there will be used original release data to increase the forecast ability (Christoffersen , Ghysels and Swanson 2001 ; Faust , Rogers and Wright 2001) . The exchange rate forecasting will be made by using a package of Bayesian VAR Models , like : Bayesian VAR with a set of six priors. (The priors considered are Non-informative , Minnesota , Natural conjugate , Independent Normal-Wishart , SSVS in mean-Wishart , SSVS in mean-SSVS in covariance for the common BVAR). As well there are obtained predictions and impulse responses for each model considered . This way there are brought together the economic theory used in exchange rate forecasting , the statistical theory used in macroeconomic theory and the latest observation made about the utility of the real time data in the forecasting process .

The paper is structured as follows . Section 2 describes the VARs ,the shrinkage priors used and methods of finding restrictions with the same purpose , Section 3 describes the data used in this study and the data analysis , Section 4 the results and the results interpretation and Section 5 the conclusions .

2. The Bayesian VARs
The VAR models were used since 1972/1980 when they were introduced by Sims , with applications in macroeconomics . Carriero and Kapetanios's Bayesian VAR for exchange rate forecasting approach put in light a new perspective of the exchange rate's forecasting methodology by using the task of forecasting the exchange rate per se , without the consideration of economic theory or using the fundamentals in this process .

This paper brings the two approaches together and combines the VAR methodology with the economic one in order to perform the exchange rate forecasting .

The Models
Bayesian VARs
Let's consider the specifications for the VAR model . If y_t , $t = \overline{1,T}$, $t \in \mathbb{N}$ is a vector of N series of variables $y_{1,t}\ y_{2,t} \ldots y_{N,t}$ ($y_{\cdot,t}$: the GBP exchange rate change vis a vis the US Dollar at time t , the first Lag of the GBP exchange rate change vis a vis the US Dollar at time t , the deviation from a canonical monetary fundamentals model (Mark 1995) , the interest rate differential on short and long term , the net foreign asset position NFA_t of the US relative to the foreign country UK , the US trade balance tb_t and the UK balance tb_t^* (Sarno and Valente 2009)) , a_0 an $N \times 1$ vector of intercepts and A_j a $N \times N$ matrix of coefficients , ε_t an $N \times 1$ vector of errors/white noise i.i.d. $\sim Normal(0, \Sigma)$ then $VAR(p)$ process will be :

$$y_t = a_0 + \sum_{i=1}^{p} A_i y_{t-i} + \varepsilon_t$$

The reduced form for this VAR will be: $Y = X * A + E$ with: $Y : T \times N$ matrix of N variables at time $= \overline{1,T}$, $X = [x_1\ x_2 \ldots x_T]' \in T \times (1 + Np)$ matrix , $x_t = (1, y'_{t-1}, \ldots y'_{t-p})$

$A = (a_0\ A_1 \ldots A_p)'$ $E : T \times N$ matrix of errors ε_t ,

and for $\alpha = vec(A) \in (1 + Np) N \times 1 : y = (I_N \otimes X) \alpha + \varepsilon \quad \varepsilon \sim Normal(0, \Sigma \otimes I_T)$

Having the probability density function of the data conditional on the parameters of the considered model , which are contained in the form of the likelihood function , will give the latest one in the following form :

$$L = p(y|\alpha, \Sigma) = |\Sigma|^{-T/2} \exp\left\{-\frac{1}{2}[y - (I_N \otimes X)\hat{\alpha}]' \Sigma^{-1}[y - (I_N \otimes X)\hat{\alpha}]\right\}$$

The conditional posterior distributions for α with Σ known will be : $\alpha|\Sigma, y \sim Normal(\hat{\alpha}, \Sigma \otimes (X'X)^{-1})$ and $\Sigma^{-1}|y \sim Wishart(\sigma^{-1}, T - (1 + Np) - N - 1)$ where $\hat{A}$ is obtained by OLS method and is on the form $\hat{A} = (X'X)^{-1}X'Y$ and $\hat{\alpha} = vec(\hat{A})$ and $\sigma = (Y - X\hat{A})'(Y - X\hat{A})$.

Priors

The considered priors in this model will be The Diffuse Prior , The Minnesota Prior or Normal Wishart Restricted , The Natural Conjugate Prior or Normal Wishart , The Independent Normal –Wishart Prior and the Stochastic Search Variable Selection Prior (SSVS in mean - Wishart and SSVS in mean - SSVS in covariance) .

Prior 1 . The Diffuse Prior

The diffuse or Jeffrey's Prior …for α and Σ is : $p(\alpha, \Sigma) \sim |\Sigma|^{-(N+1)/2}$ which , being used in the VAR model considered will get the posterior distribution which is of the form :

$\alpha|\Sigma, y \sim N(\hat{\alpha}, \Sigma)$, $\Sigma|y \sim IWishart(\hat{\sigma}, T - (1 + Np))$

The prior distribution for the case the unknown parameters are α , Σ will be : $f(\alpha, \Sigma) = f(\alpha|\Sigma)f(\Sigma)$ and the joint posterior distribution will be $f(\alpha, \Sigma|y) = f(\alpha|\Sigma, y)f(\Sigma|y)$ where $f(\alpha|\Sigma, y) = N(\hat{\alpha}, \Sigma \otimes (X'X)^{-1})$.

The values for $\hat{\alpha}$, $\hat{\sigma}$ will be obtained as earlier précised , in the OLS estimation procedure .

Prior 2. The Minnesota Prior

The Minnesota Prior is a common prior used in the Bayesian VAR models introduced in the early literature by Doan , Litterman and Sims (1984) and later Litterman (1986) . This is based on the assumption that the variance –covariance matrix is replaced with an estimate $\hat{\Sigma}$, more than that this was initiated as being fixed at $\hat{\Sigma}$ and diagonal (the elements on the diagonal being brought by the OLS estimates of the error variance , for the first equation the variance from the first line in the diagonal matrix and so on) , lately the assumption of diagonal matrix being relaxed by a simple estimate of the error variance σ/T .

The problem remains the estimation of the vector α with Σ known as considered earlier , problem solved by Litterman (1986) with the assumption $\alpha \sim N(\underline{\alpha}, \underline{V})$ or $p(\alpha) = N(\underline{\alpha}, \underline{V})$ where $\underline{\alpha}$ represents the prior mean and $\underline{V}$ the variance-covariance matrix of the α .

For the purpose of avoiding the over-fitting problem and to ensure the shrinkage of the VAR coefficients to zero , the prior mean $\underline{\alpha}$ will in the case of the Minnesota Prior be set to zero , or in the case of level data will be set to ensure the random walk process of the variables involved in the VAR or for the variables (individual) to follow random walk process .

Because the exchange rate evaluation and forecasting literature implies the random walk/fundamentals choice dilemma , will in this care be considered the second case , where the individual variables follow a random walk process and because there are used fundamental data as well , the prior mean for the coefficient on the first own lag be set to 0.9 <1 (high persistence , no unit root)

Regarding the variance –covariance matrix , the Minnesota Prior assumes for it the restriction to be a fixed , diagonal matrix , ignoring any uncertainty in this parameter .

But , despite this , the considerable advantage that deserves to be mentioned is the fact that the posterior distribution for α that it leads to , will make use only of Normal distribution :

$$\alpha \mid y \sim N\left(\overline{\alpha}, \overline{V}\right) \text{ where } \overline{V} = \left[\underline{V}^{-1} + \hat{\Sigma}^{-1} \otimes (X'X)\right]^{-1} \text{ and } \overline{\alpha} = \overline{V}\left[\underline{V}^{-1}\underline{\alpha} + \left(\hat{\Sigma}^{-1} \otimes X\right)'y\right]$$

Prior 3. The Normal Wishart Prior / Natural Conjugate Prior

The Normal –Wishart Prior is a solution for the restriction imposed by the Minnesota Prior for the Variance-covariance error matrix and relaxes the assumption of fixed and diagonal variance-covariance matrix of residuals and it represents the natural conjugate prior for normal data . It assumes that the prior , posterior and the likelihood function belong to the same family of distributions .

This means that for the considered VAR , The Normal Wishart Prior will be : $\alpha \mid \Sigma \sim N\left(\underline{\alpha}, \Sigma \otimes \underline{V}\right)$ with $\Sigma^{-1} \sim W\left(\underline{\sigma}^{-1}, \underline{n}\right)$ where $\underline{\alpha}, \underline{V}, \underline{\sigma}^{-1}, \underline{n}$ are chosen , the unconditional prior distribution is normal with prior mean $\underline{\alpha}$, variance $\left(\underline{n} - N - 1\right)^{-1}\underline{\sigma}^{-1} \otimes \underline{V}$, where $\underline{n}$ represents the degrees of freedom of the IW and $\underline{n} > N+1$.

Given the Prior distribution for the VAR parameters , the posterior distribution for α will be : $\alpha \mid \Sigma, y \sim N\left(\overline{\alpha}, \Sigma \otimes \overline{V}\right)$ with the one for Σ : $\Sigma^{-1} \mid y = W\left(\overline{\sigma}^{-1}, \overline{n}\right)$ where $\overline{V} = \left[\underline{V}^{-1} + X'X\right]^{-1}$, $\overline{A} = \overline{V}\left[\underline{V}^{-1}\underline{A} + X'X\hat{A}\right]$, $\overline{\alpha} = vec\left(\overline{A}\right)$, $\overline{\sigma} = \sigma + \underline{\sigma} + \hat{A}'X'X\hat{A} + \underline{A}'\underline{V}^{-1}\underline{A} - \overline{A}'\left(\underline{V}^{-1} + X'X\right)\overline{A}$ and $\overline{\sigma} = T + \underline{\sigma}$.

Integrating Σ out of the joint posterior , the marginal posterior for the vector of coefficients α will be a multivariate t-Student distribution with mean $\overline{\alpha}$ covariance matrix $\overline{\sigma} \otimes \overline{V}\left(1/\overline{n} - N - 1\right)$ and degrees of freedom $\overline{n}$ and it's posterior inference can be realized (Kadiyala and Karlsson 1997 , Koop and Korobilis 2010) .

Because the Normal Wishart Prior assumes giving values for $\underline{\alpha}$, $\underline{\sigma}$, $\underline{V}$ and $\underline{n}$, in the literature usually $\underline{\alpha}$ depends on the hyper-parameter responsible for the mean for the first lag of the endogenous variable , $\underline{V}$ is a diagonal matrix ,… the degrees of freedom are chosen in respect to the prior variance of the parameters in the regression . This way , by contrast to the non informative prior which doesn't do any shrinkage needed in VAR procedure , for Normal Wishart Prior it becomes possible , with no posterior simulation methods (for the linear functions) to obtain the Bayesian evaluation and forecasting . Impulse-response will be obtained by Monte Carlo Procedures , by using the posterior distribution for α .

As précised in their monologue , Koop and Korobilis (2010) conclude as properties of the Normal Wishart Prior , the fact that every equation must keep the same explanatory variables , which is an disadvantage for the restricted VAR (in the macroeconomic models) and as well the prior covariance of the coefficients between equations must be proportional , which as well could be restrictive for the researcher , by comparison to the Minnesota Prior . But , the advantages are considerable and able to compensate in different situations , because , the Natural Wishart Prior provides the researcher with analytical results and in not necessary posterior simulation in the evaluation and forecasting process .

Prior 4. The independent Normal –Wishart Prior

In contrast with the Normal –Wishart Prior the Independent Normal Wishart Prior provides an evaluation that repairs the disadvantages of the earlier mentioned , by allowing the VAR coefficients and the error covariance to be independent of one another as well as to have different variables in different equations .

In this case , for any $n = \overline{1, N}$ variables , the VAR is :

$y_{nt} = a_{n0} + \sum_{i=1}^{p} A_{ni} y_{n(t-i)} + \varepsilon_{nt} = x'_{nt} a_n + \varepsilon_{nt}$ for any moment in time/obs. $t = \overline{1,T}$, where x_{nt} represents a l_n -vector of explanatory variables for the l_n'th variable a_n represents a l_n -vector of coefficients

For $x'_{nt} = \left(1, y'_{(t-1)}, \dots, y'_{(t-p)} \right)$, results the unrestricted VAR(p) for any $n = \overline{1,N}$ variables

Considering these , the reduced form for the VAR(p) will be :

$$y_t = X_t\, a + \varepsilon_t = \begin{pmatrix} x'_{1t} & 0 & 0 & \cdots & 0 & 0 \\ 0 & x'_{2t} & 0 & \cdots & 0 & 0 \\ \vdots & \vdots & \vdots & \ddots & \vdots & \vdots \\ 0 & 0 & 0 & \cdots & 0 & x'_{Nt} \end{pmatrix} \begin{pmatrix} a_1 \\ a_2 \\ \vdots \\ a_N \end{pmatrix} + \begin{pmatrix} \varepsilon_{1t} \\ \varepsilon_{2t} \\ \vdots \\ \varepsilon_{Nt} \end{pmatrix} = \begin{pmatrix} y_{1t} \\ y_{2t} \\ \vdots \\ y_{Nt} \end{pmatrix} \quad (\forall) t = \overline{1,T}$$

$l = \sum_{n=1}^{N} l_n$, $N \times l$ $l \times 1$ $N \times 1$ $N \times 1$
$\varepsilon_t\ i.i.d. \sim N(0,\Sigma)$
 and $y = X\,a + \varepsilon$ where $y_t = (y_1, \dots, y_T)'$, $X = (X_1, \dots X_T)'$, $\varepsilon = (\varepsilon_1, \dots \varepsilon_T)' \sim N(0, I \otimes \Sigma$

The independent Normal Wishart Prior will have the form :
$$p(a, \Sigma^{-1}) = p(a)\, p(\Sigma^{-1}) \text{ where } a \sim N(\underline{a}, \underline{V}) \text{ and } \Sigma^{-1} \sim W(\underline{\sigma}^{-1}, \underline{n})$$
It is important to put in evidence the fact that $\underline{a}$ and $\underline{V}$ can be any chosen value , by contrast to the Normal Wishart Prior which is more restrictive and asks a certain form , more than that in the Independent Normal Wishart Prior can be set as the Minnesota Prior or as the Non Informative/Diffuse Prior by setting $\underline{n} = \underline{\sigma} = \underline{V}^{-1} = 0$.

The conditional posterior distributions are :

$a|y, \Sigma^{-1} \sim N(\overline{a}, \overline{V})$ with $\overline{V} = \left(\underline{V}^{-1} + \sum_{t=1}^{T} X'_t \Sigma^{-1} X_t\right)^{-1}$ and $\overline{a} = \overline{V}\left(\underline{V}^{-1}\underline{a} + \right.$ $t=1TX_t'\ \Sigma-1\ y_t$ $\Sigma-1\ |y, a \sim W\sigma-1, n$ with $n=T+ n$ and $\sigma= \sigma + t=1Ty_t- X_t\ a$ $y_t- X_t\ a'$

In this case , the analytical results are not available, being necessary to perform posterior simulation , the estimation and prediction and comparison between models by marginal likelihoods being realized by using the Gibbs Sampler .

The one step ahead   predictive density   conditional on the parameters of the model and the previous data / lags for the dependent and exogenous variables , other way called Filter will be $y_t \mid X_t, a, \Sigma \sim N(X_t, a, \Sigma)$. The role of the Gibbs Sampling is to produce draws $a^{(k)}$ and Σ^k where $k = \overline{1,K}$,   by knowing the distributions for a , Σ . The purpose will be to create predictive inference , for example $E(y_\tau | X_\tau) = \dfrac{\sum_{k=1}^{K} X_t a^{(k)}}{K}$.

By Gibbs Sampling can be done predictive simulation, very demanding computationally .
For forecast intervals bigger than one , the procedure can be done by direct and iterated forecasting .
Prior 5 and Prior 6: The Stochastic Search Variable Selection Prior (5. SSVS in mean - Wishart and 6. SSVS in mean - SSVS in covariance) . for VAR's is realized as it is described in the monograph of Koop and Korobilis 2010 .

3. Data and Data Analysis
The data consists in real time quarterly data , more exactly the income (gross domestic product) , money supply , the interest rate on short and long term , the trade balances , all for United Kingdom and US , the net foreign assets between US and UK ,   and the spot exchange rates for the US dollar vis a vis the UK sterling .
The data chosen is between 1977 Q1 and 2010 Q4 , it covers most of the floating exchange rate regime and we start in 1977 because of the availability of net exchange rate in US Treasury

Bulletin , the others data being available . From 1977 Q1 till 1999 Q2 there are the historical data , from 1999 Q3 till 2010 Q4 there are the real time data . From all this interval, from 1977 Q1 till 1999 Q2 and with the first real time data in 1999 Q3 till 2010Q4   .

The evaluation is made as follow : the interval from 1977 Q1 till 1999 Q2 and with the first real time data in 1999 Q3 , will be split in 2/3 and 1/3 , for the first part of 2/3 it will be made the evaluation and for the last 1/3 will be made the prediction . the same with the other quarters for the historical data from 1977 Q1 till 1999 Q2 will again be taken and with the next two real time data and the interval split in three parts , and for the first two made the evaluation and the next one the forecasting , and so on , until the last real time data . What it is to be considered is that when the split   intervals are not integer numbers , then it will be taken the integer part every time .

The description of the data

The historical (revised) data will be from 1977 Q1 till 1999 Q2 OECD Statistics, the real time data used in evaluation from 1999 Q3 till 2010 Q4 , which means 46 vintages for UK and US , is taken from OECD Statistics Main Economic Indicators , for the quarterly data in the published issues of January , April , July and October , and for the monthly ones , they were transformed into quarterly for the months January , April , July and October , knowing the rule : the flow data is summed for the three months and the stock data is arithmetic averaged at every three months .

The exchange rates for UK and USA are from OECD , quarterly data , seasonally adjusted , 4 quarters a year , we are interested in the US dollar vis a vis the UK sterling , the sate are detrended and transformed in natural logarithms .

The GDP for USA are taken from OECD, the data are quarterly between August 2002 and October 2006 , till September 2002 and from November 2006 the quarterly data are at annual level , so they will be brought at quarterly levels .   The GDP for UK are taken from OECD , the data are quarterly at annual levels prior to September 2002 and after this data they are quarterly at quarterly levels .   The data is expressed in national currency , seasonally adjusted and transformed in natural logarithms   , for both countries.

The CPI for USA are taken from OECD Statistics Main Economic Indicators , the data are monthly and transformed into quarterly data ,   The CPI for UK   the same . In this way there were calculated the real data for the GDP UK and USA by having the CPI data .

The Money Supply for USA   it refers to the monetary base data , the seasonally adjusted data will be obtained from the Federal Reserve Bank of Philadelphia , M1 Money stock , Quarterly Vintages . The Money Supply for UK , there are used seasonally adjusted M1 plus quasi money till 1989 Q4 vintage and M2 after that moment because the lack of M1 for the full sample , and after that , we'll use M3 data , from OECD Statistics . The data is transformed in natural logarithms   .

The interest rates are from the International Monetary Fund Data Base , for Short Term were being used the Treasury Bill Rates for UK and USA , and for Long Term have been used Government Bond Yields for UK and USA , per cent per year , they have been continuously compounded per quarter from 1977 Q1 till Q4 2010 .

The trade balances : the seasonally adjusted data in the national currency of the USA and UK are from OECD Statistics Main Economic Indicators , calculated by the difference between the Export and Import for every country , in real time data , since 1977 Q2 till 1999 Q2 being the historical data and then , since Q3 1999 till Q4 2010 being the real time data . For Imports as well as for exports , the data is at annual levels since 1977 until 2010 Q4 for USA , and for UK since 1977 till March 2003 were at annual levels and since March 2003 until 2010 were quarterly levels . The data are de-trended .

The Net Foreign Assets data , referring to the international capital movements, were taken from the US Department of the Treasury , Treasury International Capital System (TIC) , US

Transaction in long-term foreign and domestic securities using the past issues of the US Treasury Bulletin , published in March , June , September and December since 1977 till 2010 . The data describes the transactions in US by foreigners and in the foreign countries by residents in US . The data was shared in monthly sales and purchases from and to US residents , they are summed up , transformed into quarterly data by summing the data on every 3 months , obtained the vintages purchases and sales per quarter from 1977 till 2010 , de-trended by Hodrick Prescott Filter in logarithms , and obtained the NFA on quarters by making the difference between the sales and purchases after those transformations . We'll have 46 vintages of NFA quarterly data .

The data is used as follow : the regressors are the next ones : the once lagged nominal exchange rate change ; the deviation described by Mark 1995 on the form $mf_t = (m_t - m_t^*) - (y_t - y_t^*)$ where the first bracket is the difference between the monetary base in the domestic country, here US and the foreign country , here UK ; the interest rate on short term differential (uncovered interest rate parity) between the domestic country and the foreign one $(r_t - r_t^*)$; the interest rate on long term differential (inflation) between the domestic and the foreign country $(R_t - R_t^*)$; the US (domestic country) trade balance TB_t ; the UK (foreign country) trade balance TB_t^* ; the Net Foreign Assets position of the domestic country US relative to the foreign country UK NFA_t .

Every regressor is tested for unit root behavior , by using NG and Perron tests with MZ_α and MZ_t and except the exchange rate and NFA they are stationared by differenciating the series already obtained . The stationarity of the date we have now has the signifficance that the change in the exchange rates is stationary and the conclusion of cointegration of the monetary fundamentals and the rest of regressors with the exchange rate dynamics .

The number of lags considered for the model will be calculated by using the VAR Lag Order Selection Criteria provided by Eviews , for each quarter since 1999Q3 till 2010Q4 . The decisive criteria between Sequential Modified LR test statistic , Final Prediction Error , Akaike Information criterion , Schwartz Information Criterion and Hannan-Quinn Information Criterion is Schwarts Information Criterion which will provide us with the smallest lag necessary in the VAR evaluation .

5. Results

The BVAR Models have been a very important source used in the macroeconomic evaluation and for a very short time in the exchange rate evaluation and prediction . Since Meese and Rogoff's seminal work in 1983, the exchange rate evaluation and forecasting was put into question from the point of view of the choice between the best prediction out of sample results between the random walk model and the models based on fundamentals . The exchange rate prediction by using fundamentals developed since 1983 in a very advanced way but the dilemma between choosing an random walk evaluation and prediction of the exchange rate and a model based on fundamentals is still a constant .

The approach of the exchange rate evaluation and prediction in this article implies a model based on Bayesian VARs that has been used with great success in the macroeconomic forecasting , lately , for exchange tare forecasting (Carriero , Kapetanios and Marcellino 2008).

Certain specifications for the considered model need to be précised : the Bayesian VAR is considered to have an intercept (different from zero) , the lags calculated conforming to Schwartz Criterion and the simulation realized 50 times for every quarter .

The forecasting procedure realized as well direct as iterated , the differences between the two types of forecasting put in light . As well , the evaluation was realized for 2/3 of the time interval considered and for the rest 1/3 the forecasting procedure , with the historic data from 1977Q1 till 1999Q2 and real time data from 1999Q3 till 2012Q4 .

The priors used in the BVAR model are : the Non informative , Minnesota , Natural Conjugate , Independent Normal-Wishart , Stochastic Search Variable Selection in Mean –Wishart ,

Stochastic Search Variable Selection in Mean - Stochastic Search Variable Selection in covariance Prior .

For the first three priors , Non informative , Minnesota and Natural Conjugate , analytical posterior and predictive results are available and for the last three , Independent Normal-Wishart , Stochastic Search Variable Selection in Mean –Wishart and Stochastic Search Variable Selection in Mean - Stochastic Search Variable Selection in covariance Prior , predictive and posterior simulation is necessary . For this, 50000 MCMC draws have been used and in these 20000 are discarded as burn-in draws .

There are computed the Impulse Responses to Shocks for the same 1/3 of the time interval that is used for forecasting . Impulse Responses are non linear functions of the VAR coefficients and the variance covariance matrix and they need in evaluation posterior simulation methods for all six priors considered in this exercise . The Impulse Responses are obtained by considering C_0 lower triangular and the dependent variables , in the standard identifying assumption used (Bernanke and Mihov 1998 , Christiano , Eichanbaum and Evans 1999 , Primiceri 2005) are in the order : the exchange rate dynamic , first lag for the exchange rate dynamic , the monetary fundamental , interest rate on short time , Trade Balance US , Trade Balance UK , Net Foreign Assets . This order will allow for the interpretation of the variables shocks on the exchange rate of interest .

The next results are for the first quarter Q3 1999 , the procedure being repeated and the final results put in evidence .

BVAR Model with Non Informative Prior

The coefficients obtained by OLS Estimation for the first quarter for the BVAR Model with Non Informative Prior , even if not an very high interest are , are for the direct and iterated forecasting :

ALPHA_mean	et	et-1	m_gdp	r	tb us	tb uk	nfa
intercept	-0,0014797	0,0800321	-0,0641285	-0,1205609	0,1024898	-0,0356086	0,2759406
et	0,0839461	0,0010349	0,1138214	0,0797046	0,0624649	0,0439296	-0,0579925
et-1	-0,0828135	0,0876799	-0,0189217	0,0563079	0,1118859	0,0056078	-0,2399749
m_gdp	-0,1491883	0,4783359	-0,0128406	-0,0454398	0,1431458	0,0742605	-0,1080811
r	-0,4609823	-0,0553612	0,1612347	0,0346084	-0,0188903	0,1042371	0,1696895
tb us	-0,4669631	-0,1999618	-0,1170406	-1,4064518	0,040887	-0,0024748	0,0018463
tb uk	-0,0133896	-0,0264511	-0,1058192	-0,0616118	-0,4202201	-0,014658	0,0261085
nfa	-0,2385336	-0,1422978	0,2489326	0,5473898	-0,0979568	-0,4468219	-0,0154715

ALPHA_mean	et	et-1	m_gdp	r	tb us	tb uk	nfa
intercept	0,009632	0,1289813	-0,1605612	-0,047382	0,4295631	0,1540343	-0,2273903
et	0,0001208	-0,0009443	0,9901017	0,0032017	-0,0049129	0,0003387	0,0148432
et-1	-0,0029404	-0,0031247	-0,019402	-0,0392036	0,1871186	0,0303804	-0,1609318
m_gdp	-0,1076135	0,6021261	-0,0073593	-0,0051883	0,0054169	-0,0678707	-0,0291782
r	0,8322773	0,0543087	0,246827	0,0037954	-0,0007244	0,1714167	-0,2573014
tb us	0,0752114	-0,0988596	0,9649327	-0,2469503	-0,0118663	-0,0024036	-0,0078444
tb uk	0,0149317	-0,0062427	-0,0838326	0,0028929	0,8045498	0,0026801	-0,0644396
nfa	0,1570221	1,0049242	-0,1634184	-2,2453416	0,0833552	0,5297556	0,5416771

BVAR Model with Minnesota Prior , for the direct and iterated forecasting :

ALPHA_mean	et	et-1	m_gdp	r	tb us	tb uk	nfa
intercept	-0,0019589	0,1152193	-0,0742714	-0,1146726	0,0732764	-0,0424104	0,2793271
et	0,0833612	0,0004309	0,1156487	0,1075473	0,0447298	0,0323067	-0,0681324
et-1	-0,0771812	0,0876552	-0,0179146	0,0454779	0,10256	0,0501889	-0,2287368
m_gdp	-0,1401435	0,431074	-0,0116039	-0,0444518	0,1328632	0,068373	-0,102189
r	-0,4357663	-0,0504525	0,1492042	0,0340421	-0,0185105	0,0954895	0,1486861

tb us	-0,4583915	-0,1922662	-0,1021514	-1,4135486	0,040994	-0,0024248	0,003282
tb uk	-0,0083842	-0,0232104	-0,1070997	-0,0618649	-0,4020314	-0,0141919	0,0248593
nfa	-0,2180035	-0,1199357	0,2436851	0,5167652	-0,1118975	-0,4646108	-0,0115076

ALPHA_mean	et	et-1	m_gdp	r	tb us	tb uk	nfa
intercept	0,0086594	0,1588792	-0,1477325	-0,05310293	0,3885802	0,1423661	-0,1994678
et	-0,0005591	-0,0006171	0,9567356	0,035961495	-0,0025468	0,0072453	0,0151978
et-1	-0,0057321	-0,0029991	-0,0188804	-0,04646866	0,1840691	0,0504911	-0,1561064
m_gdp	-0,1041061	0,566811	-0,0072296	-0,00517663	0,0059474	-0,0647456	-0,0291
r	0,8316357	0,0513543	0,2575903	0,004630838	-0,0011247	0,1641435	-0,2495949
tb us	0,0672292	-0,1042115	0,9633262	-0,2564654	-0,0116953	-0,0023754	-0,0085868
tb uk	0,0100113	-0,0076633	-0,0810849	0,003814948	0,804975	0,0028834	-0,0629309
nfa	0,1485242	0,9450279	-0,1486843	-2,20431919	0,1162403	0,5518345	0,5473236

BVAR Model with Natural Conjugate prior , for direct and iterated forecasting :

ALPHA_mean	et	et-1	m_gdp	r	tb us	tb uk	nfa
intercept	-0,0017657	0,0410569	-0,0316331	0,0076894	0,0240294	-0,0141944	0,0150877
et	0,0766152	-0,0002133	0,0693646	0,0386181	0,0184362	0,017856	-0,0228386
et-1	-0,0137525	0,0820491	-0,0131077	-0,0099167	-0,0031184	0,0359884	-0,0394462
m_gdp	-0,0855489	0,0448571	-0,0141914	-0,0335686	0,0175996	0,0039962	-0,0135664
r	-0,0765314	-0,000387	-0,0247235	0,034481	-0,0087181	0,0488308	0,1077779
tb us	-0,1988967	-0,0360977	-0,0224369	-0,1466597	0,0272845	-0,0001033	0,00366
tb uk	0,006334	-0,0097066	-0,0420539	-0,0381213	-0,0339616	-0,0174536	0,0119173
nfa	-0,0566571	-0,0486163	0,076356	0,0930028	-0,1054964	-0,0326742	-0,0173326

ALPHA_mean	et	et-1	m_gdp	r	tb us	tb uk	nfa
intercept	0,0018767	0,096121	-0,0186852	-0,0381487	0,1115674	0,0995242	0,0112642
et	0,0043689	0,0011645	0,4315516	0,0400078	-0,003348	0,091416	0,0653305
et-1	-0,0223966	-0,0008139	-0,0144992	-0,0248964	0,041043	0,0337143	-0,0032213
m_gdp	-0,0662919	0,0345424	-0,0114229	-0,0217231	0,0682731	0,0266041	-0,0022941
r	0,2110536	0,0265067	0,0331233	0,0134132	0,0005338	0,1103449	-0,0503421
tb us	-0,0206056	-0,0416983	0,6292933	-0,0344266	-0,0045392	0,0009503	-0,0320546
tb uk	-0,0063321	0,0388146	0,0027963	0,0012149	0,0648847	0,0032289	-0,0132381
nfa	-0,1061998	0,2886182	-0,0563295	-0,4263015	0,1977631	-0,0435602	0,5139518

The forecasting results for the direct and iterated methods , for the considered priors are :

NON INFORMATIVE PRIOR							
DIRECT	Y_pred_me	Y_pred_std	true_value	ITERATED	Y_pred_me	Y_pred_std	true_value
	-0,0014296	0,0435748	0,0172189		0,0077757	0,1716341	0,0188002
	0,0019703	0,0428262	-0,004626		0,0090468	0,1387115	0,018538
	-0,0073082	0,0342146	-0,0172803		-0,021893	0,1467421	-0,0150997
	-0,0305703	0,0211227	-0,0174482		-0,0263032	0,1399547	-0,0077253
	0,0274135	0,0614093	-0,0910404		0,1144166	0,8173596	-0,1451119
RMSFE	0,0105448	0,0136695	-0,0235224	RMSFE	0,0015908	0,1463673	-0,0333977
0,0478139	0,0203504	0,0416156	0,0081689	0,1005961	-0,0520361	1,0051723	-0,0113556

MINNESOTA PRIOR							
DIRECT	Y_pred_mea	Y_pred_std	true_value	ITERATED	Y_pred_me	Y_pred_std	true_value
	-0,0015151	0,0397003	0,0172189		0,0208097	0,1419723	0,0188002
	0,002975	0,040044	-0,004626		0,0141809	0,1064228	0,018538
	-0,0083753	0,033283	-0,0172803		-0,0304316	0,1007149	-0,0150997
	-0,0303725	0,0139381	-0,0174482		-0,0101334	0,1351385	-0,0077253
	0,0261911	0,0256865	-0,0910404		0,118301	0,6540934	-0,1451119
RMSFE	0,0104121	0,0084846	-0,0235224	RMSFE	-0,0049719	0,0488656	-0,0333977
0,0473709	0,020747	0,0678308	0,0081689	0,1003454	-0,0164626	0,375205	-0,0113556

Because the results are better for the direct forecasting method , we will continue with the results for this method , for the rest of the forecasting procedures the results being for the direct forecasting method considerable better than for the iterated method , for the next priors as well .

NATURAL CONJUGATE PRIOR				INDEPENDENT NORMAL WISHART PI		
Y_pred_me	Y_pred_std	true_value		Y_pred_me	Y_pred_std	true_value
-0,0031658	0,1392684	0,0172189		-0,0011094	0,1506913	0,0172189
-0,0011321	0,1380282	-0,004626		0,0006643	0,1519817	-0,004626
-0,0078547	0,1375194	-0,0172803		-0,0050254	0,1500163	-0,0172803
-0,032027	0,1353449	-0,0174482		-0,0300094	0,1480243	-0,0174482
0,0018322	0,1445454	-0,0910404		0,0231348	0,1558152	-0,0910404
0,0039789	0,1353003	-0,0235224		0,007038	0,146253	-0,0235224
0,016643	0,1386234	0,0081689		0,0184119	0,1517461	0,0081689
RMSFE	0,0381399			RMSFE	0,0458985	

SSVS IN Mean - Wishart				SSVS in mean -SSVS in covariance		
Y_pred_me	Y_pred_std	true_value		Y_pred_me	Y_pred_std	true_value
-0,0033464	0,1428892	0,0172189		-0,0020081	0,0414442	0,0172189
0,0005919	0,1439962	-0,004626		4,265E-06	0,0456117	-0,004626
-0,0060253	0,1412575	-0,0172803		-0,0063924	0,038531	-0,0172803
-0,0181722	0,1394828	-0,0174482		-0,0206387	0,03724	-0,0174482
0,0125278	0,1494709	-0,0910404		0,0130367	0,0632098	-0,0910404
0,0035653	0,1363146	-0,0235224		0,0063913	0,0246003	-0,0235224
0,0078041	0,1431408	0,0081689		0,0123901	0,0454423	0,0081689
RMSFE	0,0414687			RMSFE	0,0418578	

From the Previous results , the best results for the forecasting procedure , will be for the BVAR with Natural Conjugate Prior , for this quarter .

For only the forecasting ability of the exchange rate dynamic by BVAR , the sum of squared errors are for the first quarter will be the best for the Natural Conjugate , Iterated Procedure . The results for the SSE , for the exchange rate dynamic will be :

SumSqError	Direct	Iterated	
Prior1	0,000348	0,000122	
Prior2	0,000351	0,000004	the best
Prior3	0,000416	870,085592	RMSFE
Prior4	0,000336	6,88E+30	0,002
Prior5	0,00042293	118158534	
Prior6	0,00037	0,128996	

For the following quarters the results will be different from this one , the advantage of using the real time data being the fact that one can use this type of evaluation of each period with the data ones has at the present moment and the best results can obtained with different models each quarter or period considered by the researcher .

For the Impulse Response function, are followed the influence of the shocks for the variables in the VAR on the exchange rate dynamic .

The histograms for the data for the first prior :
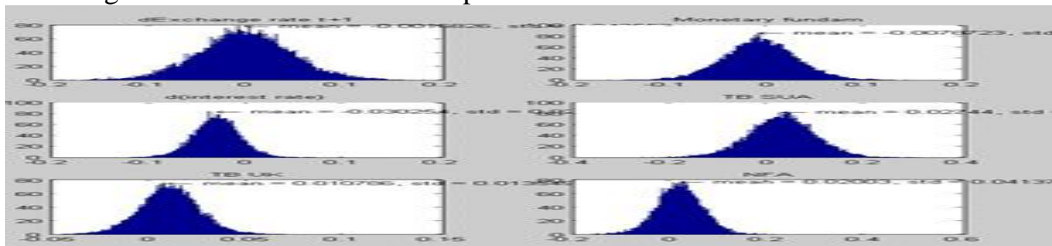
Impulse response graphics :   Non Informative Prior , Direct Forecasting :
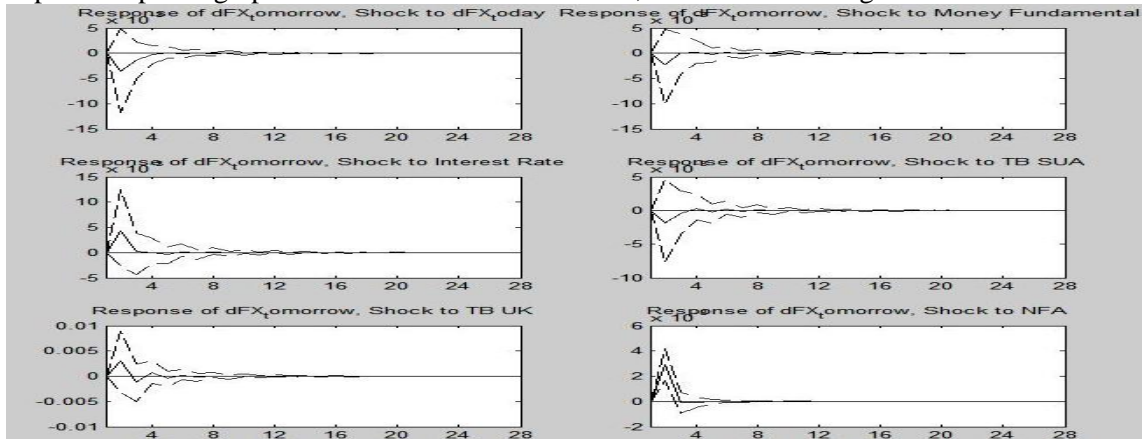
Iterated :
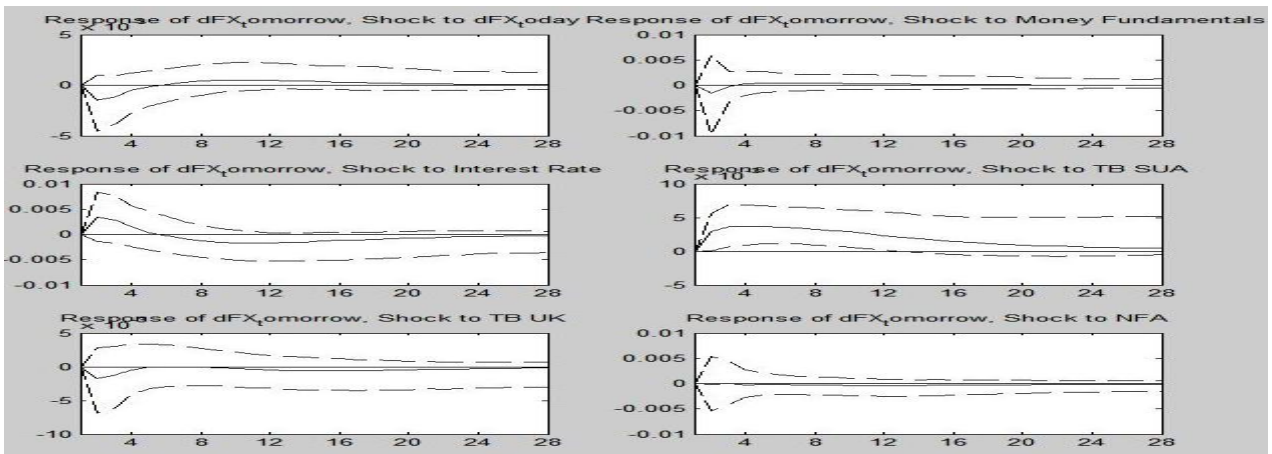
Minnesota Prior will obtain the same results as the Non Informative Prior in the Impulse response function .

For the SSVS in mean –SSVS in covariance, direct forecasting Impulse Response Function :
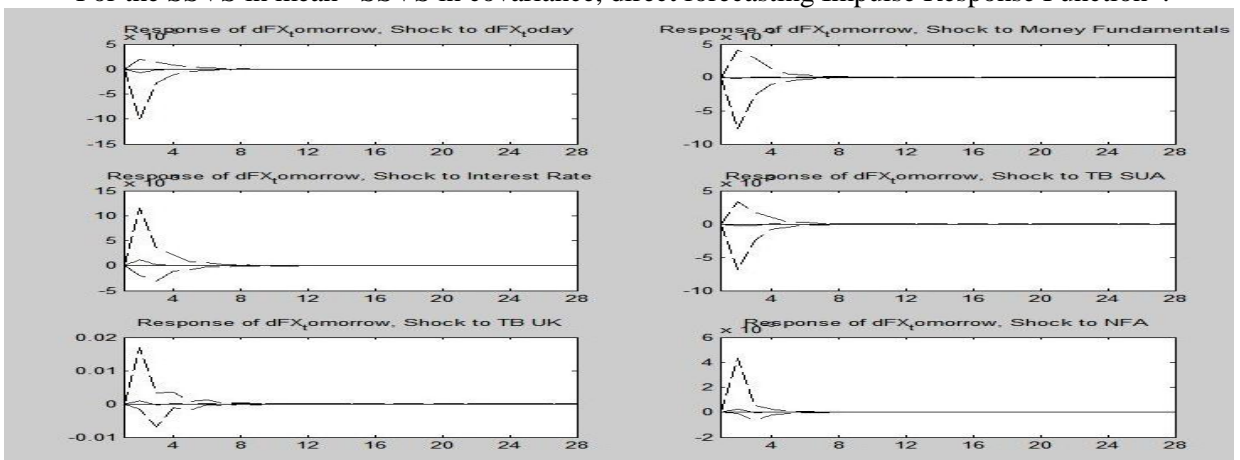
As we can see , the results are different for each BVAR Model considered , with the six Priors : Non informative , Minnesota and Natural Conjugate , analytical posterior and predictive results are available and for the last three , Independent Normal-Wishart , Stochastic Search Variable Selection in Mean –Wishart and Stochastic Search Variable Selection in Mean - Stochastic Search Variable Selection in covariance Prior .

For each quarter different results are obtained , so , the models need to be interchanged with the new information that appears on the market , specially because the agents don't have the ability to predict the modification the data will suffer , and they need to use the unrevised data , that is present on the market .

		RMSFE for e		RMSFE for the whole VAR		log PL
1999/Q3	0,00201	prior 2, iterated forecast	0,03814	prior 3, direct forecast	16,263	prior 1, direct forecast
1999/Q4	0,00652	prior 1 ,iterated forecast	0,04626	prior 3, direct forecast	15,505	prior 1, direct forecast
2000/Q1	0,01236	prior 1 ,iterated forecast	0,01598	prior 5 , direct forecast	15,015	prior 6 , direct forecast
2000/Q2	0,00239	prior 5 , direct forecast	0,04428	prior 3, direct forecast	18,182	prior 1, direct forecast
2000/Q3	0,00368	prior 1, direct forecast	0,04036	prior 3, direct forecast	17,217	prior 1, direct forecast
2000/Q4	0,00798	prior 6, iterated forecast	0,03132	prior 1 ,iterated forecast	16,521	prior 1, direct forecast
2001/Q1	0,00418	prior 1 ,iterated forecast	0,02633	prior 1 ,iterated forecast	15,936	prior 1, direct forecast
2001/Q2	0,00768	prior 6 , direct forecast	0,01318	prior 5 , direct forecast	16,947	prior 2, direct forecast
2001/Q3	0,00246	prior 2, iterated forecast	0,01185	prior 2, iterated forecast	14,403	prior 1, direct forecast

2001/Q4	0,01104	prior 2, iterated forecast	0,01243	prior 5 , direct forecast	17,561	prior 2, direct forecast
2002/Q1	0,00108	prior 2, iterated forecast	0,00801	prior 5 , direct forecast	17,410	prior 2, direct forecast
2002/Q2	0,00626	prior 1, direct forecast	0,01990	prior 2, direct forecast	16,476	prior 2, direct forecast
2002/Q3	0,00726	prior 4 , direct forecast	0,02352	prior 3, direct forecast	18,135	prior 1, direct forecast
2002/Q4	0,00676	prior 2, iterated forecast	0,01516	prior 2, direct forecast	15,722	prior 6 , direct forecast
2003/Q1	0,00022	prior 2, iterated forecast	0,01754	prior 6 , direct forecast	18,132	prior 2, direct forecast
2003/Q2	0,00227	prior 2, direct forecast	0,02377	prior 1 ,iterated forecast	17,674	prior 1, direct forecast
2003/Q3	0,00948	prior 3, direct forecast	0,01887	prior 3, direct forecast	17,477	prior 1, direct forecast
2003/Q4	0,00053	prior 3, direct forecast	0,01241	prior 1, direct forecast	18,560	prior 1, direct forecast
2004/Q1	0,01936	prior 4 , direct forecast	0,01524	prior 2, iterated forecast	17,697	prior 1, direct forecast
2004/Q2	0,01023	prior 1 ,iterated forecast	0,01474	prior 5 , direct forecast	18,174	prior 1, direct forecast
2004/Q3	0,03074	prior 1 ,iterated forecast	0,02636	prior 3, direct forecast	17,731	prior 1, direct forecast
2004/Q4	0,01835	prior 2, iterated forecast	0,01986	prior 2, iterated forecast	17,811	prior 1, direct forecast
2005/Q1	0,00560	prior 1 ,iterated forecast	0,01013	prior 1 ,iterated forecast	17,700	prior 1, direct forecast
2005/Q2	0,00074	prior 6 , direct forecast	0,01055	prior 3, direct forecast	19,108	prior 1, direct forecast
2005/Q3	0,00014	prior 2, direct forecast	0,00915	prior 5 , direct forecast	18,016	prior 1, direct forecast
2005/Q4	0,01493	prior 2, iterated forecast	0,01783	prior 1, direct forecast	16,701	prior 1, direct forecast
2006/Q1	0,00176	prior 2, iterated forecast	0,02307	prior 5 , direct forecast	16,359	prior 1, direct forecast
2006/Q2	0,01441	prior 1 ,iterated forecast	0,01690	prior 1 ,iterated forecast	15,565	prior 6 , direct forecast
2006/Q3	0,00211	prior 1 ,iterated forecast	0,01547	prior 5 , direct forecast	16,671	prior 6 , direct forecast
2006/Q4	0,02228	prior 3, direct forecast	0,02101	prior 5 , direct forecast	16,222	prior 6 , direct forecast
2007/Q1	0,01066	prior 3, direct forecast	0,02316	prior 5 , direct forecast	16,568	prior 6 , direct forecast
2007/Q2	0,00698	prior 5 , direct forecast	0,01582	prior 1 ,iterated forecast	16,453	prior 6 , direct forecast
2007/Q3	0,00782	prior 5 , direct forecast	0,03742	prior 1 ,iterated forecast	14,336	prior 6 , direct forecast
2007/Q4	0,00741	prior 3, direct forecast	0,01460	prior 1 ,iterated forecast	15,456	prior 1, direct forecast
2008/Q1	0,00336	prior 3, direct forecast	0,02548	prior 3, direct forecast	16,181	prior 1, direct forecast
2008/Q2	0,00010	prior 6 , direct forecast	0,02362	prior 2, iterated forecast	12,520	prior 6 , direct forecast
2008/Q3	0,00033	prior 2, iterated forecast	0,03049	prior 1 ,iterated forecast	13,552	prior 6 , direct forecast
2008/Q4	0,00351	prior 4 , direct forecast	0,03822	prior 3, direct forecast	14,287	prior 1, direct forecast
2009/Q1	0,00733	prior 1, direct forecast	0,05532	prior 2, direct forecast	14,136	prior 6 , direct forecast
2009/Q2	0,02996	prior 2, iterated forecast	0,07191	prior 2, iterated forecast	7,653	prior 6 , direct forecast
2009/Q3	0,04296	prior 3, direct forecast	0,05673	prior 1, direct forecast	10,356	prior 6 , direct forecast
2009/Q4	0,03411	prior 6, iterated forecast	0,04678	prior 1, direct forecast	10,773	prior 6 , direct forecast
2010/Q1	0,01822	prior 6, iterated forecast	0,05512	prior 2, iterated forecast	10,155	prior 6 , direct forecast
2010/Q2	0,00123	prior 2, iterated forecast	0,06002	prior 5 , direct forecast	11,901	prior 6 , direct forecast
2010/Q3	0,00055	prior 6 , direct forecast	0,02839	prior 2, iterated forecast	15,008	prior 6 , direct forecast
2010/Q4	0,00354	prior 3, direct forecast	0,02329	prior 6, iterated forecast	13,049	prior 1, direct forecast

Table 1

The RMSFE for the exchange rate , the RMSFE for the whole VAR and the logarithm of the predictive likelihood are presented in Table 1 . The first column represents the quarter for which the prediction error is made , the second column the RMSFE for the exchange rate , the third one represents the best model for that quarter with the RMSFE obtained in the second column , out of the 12 models : VAR with 1-6 priors on direct and iterated forecast . The RMSFE for the exchange rate has the following graphic :
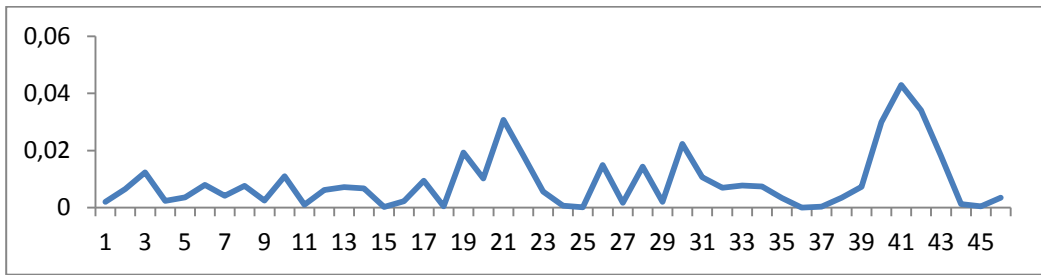
Graphic 1

And the frequency for each model will be :

FREQUENCY	
prior 1 , direct	3
prior 1, iterated	8
prior 2, direct	2
prior 2, iterated	12
prior 3, direct	8
prior 3, iterated	0
prior 4, direct	3
prior 4 , iterated	0
prior 5, direct	3
prior 5, iterated	0
prior 6, direct	4
prior 6, iterated	3
	46

Table 1*

From the Table 1* , we can conclude the most frequent model to have the smallest RMSFE are VAR with prior 2, iterated forecasting followed by VAR with prior 1 , iterated forecasting and VAR with prior 3, direct forecasting .

Column 4 in the Table 1 , show the RMSFE values for the best model for the entire VAR model , and the following one the best model, what VAR prior and forecasting type bring the smallest RMSFE for each quarter . As we can see , the results for The Best Model are different from the Best Model for the exchange rate forecasting .

In this case , the RMSFE graphic will be :
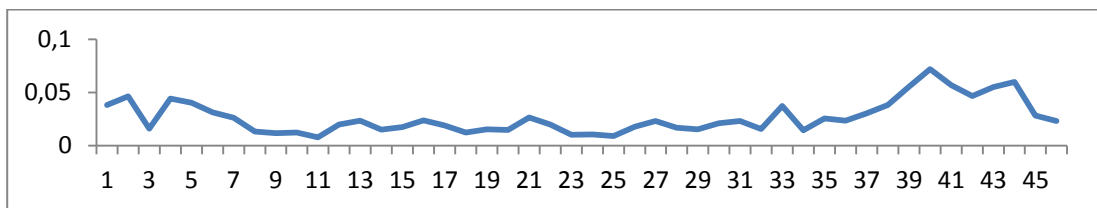
Graphic 2

Where the horizontal axes refers to the quarters (number), being all up to 46 quarters , and on the vertical axes are shown the RMSFE values . As we can see, there is a certain correlation between the RMSFE for the exchange rates and for the whole VAR , of 0.3791 .

The last two columns represent the logarithm of the predictive likelihood , which refers to the category our VAR model has the highest probability to be included in .

The graphic for the logarithm of the predictive likelihood values will be the following :
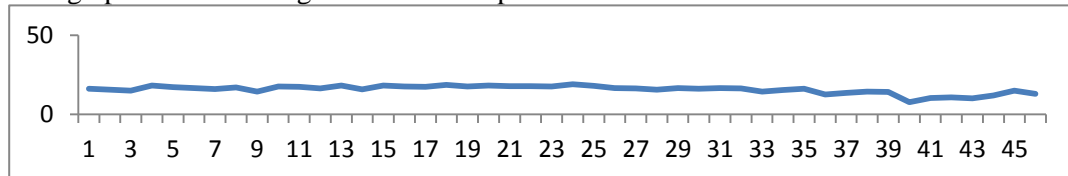
Graphic 3

From Graphic 2 and Graphic 3, we can see the negative correlation between the RMSFE for the whole VAR and for log(predictive likelihood) , the value of this correlation being quite high , of -0.73055 .

As this results suggest , for different statistics , different models are to become the best for different quarters . As well , the same model is not the best one for the whole period of time considered , it is not able to perform better than all the others for a long period of time , once again , this model allowing for swifts and swings in the underlying data , the variability of the parameters values and quality (distribution) between quarters .

6. Conclusion

This study concentrated on an empirical analysis which takes into account the heterogeneity in the market participant preferences , who attach different weights to different fundamentals in different moments in time .

This article allows for a menu of fundamentals more complex than Mark's (1995) standard approach , comprising other variables suggested by the macroeconomic theory as interest rate differential , the trade balance and net foreign assets . The data are considered in real time , with the purpose of presenting the real picture of data that the market participants had at their disposal in the moment the forecasting was done , they being unable to predict the revisions that were following in the data .

The chosen models are a series of BVARs , with : Non informative , Minnesota and Natural Conjugate , analytical posterior and predictive results are available and for the last three , Independent Normal-Wishart , Stochastic Search Variable Selection in Mean –Wishart and Stochastic Search Variable Selection in Mean - Stochastic Search Variable Selection in covariance Prior , for each model different results obtained , as a function of the model , data and time .

Our findings are as follows : the best BVAR   model is chosen by the researcher for every quarter considered , so the models will not predict with the same quality for all the quarters , but they offer to the researcher the possibility to change from one quarter to another the best model as well , as the data on the market changes and the shifts on the market and in participants preferences .

 The Exchange rate forecasting remains as hard today as in the seminal work developed by Meese and Rogoff in 1983 , and well approximated by a driftless random walk for prediction purposes . The models based on fundamentals needed a high level of complexity and developed until today and proved to be successful in certain cases , reason for which new approaches are accosted and new directions are developed in time , that will increase the forecasting quality and precision .

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THE IMPACT OF INVESTMENTS, EXPORTS, AND OPENNESS ON ECONOMIC GROWTH. A COMPARATIVE STUDY ON THE EAST EUROPEAN COUNTRIES

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The study of the economic growth process has old implications. The preoccupation for the study of the economic growth has existed beginning with the representatives of the Classical School and continuing with the Keynesians, Neokeynesians, and Neoclassics. A series of empirical studies have tested the correlation between the dynamics of the different factors and the process of economic growth.
This paper examines the role of investments, export and openness in relation to economic growth for the East European countries using trimestrial data from the Eurostat as well as National Statistical Institute. Also this study has the objective to estimate whith the help of two linear regressions the impact that this 3 variable has on economic growth. The study shows that the most important variable in all the east European countries was the investment from the model that include economic openness as exogen variable.

1. Introduction

The study of the economic growth process has old implications. Starting from the representatives of the classical school – A. Smith, D. Ricardo and Th. Malthus – there have been interests in the study of economic growth. In Malthaus's concept – taking into consideration the limited land available and of the growing population – the balance is achieved when the income is diminished to a level in which the labor force offer rises with a lower rhythm, and the economy is maintained at a stationary status. In their models, the classics omitted the contribution of technological progress to the growth of production per inhabitant. (Socol 2006: 62).

The neoclassic model of Solow represents the fundamental basis in the analysis of the economic growth process. Through this model, the neoclassic show us today the model in which the growth of the savings rate, the population growth, and the technological progress influences the level of production and economic growth in a given time period (Marin and Socol 2006: 122). The neoclassical Solow-Swan model is based on the exogenous aspects of economic growth, based on the attaining of economic convergence between the countries. In his study, Solow starts from the following hypothesis: the capital is submitted to decreasing capacities; the countries with the same demographic growth, technological progress and rate of investments, will have incomes which will converge towards the one from the most developed country; the scale capacities are constant; the technological process is considered to be exogenous; the economy is perfectly competitional as well as the perfect mobility of the production factors (Marinaş 2010: 79-80).

The concept of the inherent unstableness of economy can be found in the Keynesian and Neokeynesian growth models. The element of stability is provided by state intervention. Economic growth is possible, according to these models, through the use of budgetary and monetary policies. The stationary level of economy and its tendency towards complete usage is described in the Neoclassic growth theory. The starting point in the Neoclassic theory is represented by the micro-economic level, meaning that is starts from the preferences of the households, the structure of the market the companies production function. The national income is impacted in the short term by investments, through the aggregated demand. However, long term effects are provided by the growth of the potential national income (Socol 2006: 62). On the long run, the technological modifications represent the main cause of economic growth, together with the capital investments and the new technologies (Angelescu 2006: 89).

The interest for the theory of economic growth reignited with Romer's researches, giving birth to the second generation of models, significantly improving the first ones, as they attempt to explain aspects related to dates which had not been discussed in the neoclassical model, giving a more satisfactory explanation for the differences between the rates of economic growth in different countries, paying a central attention to gathering of know-how as well as they give an increased role to the instruments of the macro-economical policies in the explanation of the growth process (Scarlat and Chiriță: 60 in Meşter and Simuţ 2011: 317).

2. Literature review of economic growth models

This paper presents the relationship between economic growth, investments, export and openness economie in East European countries. A series of empirical studies tested the correlation between the dynamics of the exports and the process of economic growth. Pereira and Xu used the Granger causality in order to identifiy the causal relation between these. According to their model, the exports uphold the economic growth, the estimation of growth being improved by including as an independent variable the lagged exports. In a similar manner, growth causes exports, and the estimation of exports variable is improved by including the delayed growth as an independent variable (Marinaş 2010: 280).

Using Granger causality as well, Sultan and Haque studies the relationship between the growth, investments and exports, trying to identify the long run relation between the variables. Using Johnson's cointegration methodology theirs study found the presence of a long term relationship between investment, exports and the economic growth. The study further shows that only domestic investment significantly contributes to economic growth both in the long run and in the short run. The export, though, has positive relation with economic growth, its contribution has not been found to be significant. (Sultan and Haque 2010: 226).

The fundamental objective from Subasat was to capture the structural characteristics which determine the orientation of exports. He proved that exports are a cause of economic convergence, the countries with a medium level of development and with increasing exports, have a bigger growth rate than those with lower exports (Subasat 2002: 333).

Another analysis of the relationship between growth, investments and exports, was accomplished by Dritsakis. He studied the causality between the three variables for Romania and Bulgaria, with the help of auto-regressive VAR model. The results suggest the existence of a co-integration relationship between the three variables, as well as a positive impact of the exports and of the investments on the real GDP (Dritsakis 2004: 1831). For Central and Eastern European countries - Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, Slovakia - there is an obvious lack of studies that examine the effect of exports on economic growth by using the latest time series techniques. The existing studies on this issue are focused only on one up to three transition countries, Dristsakis (2004) for Romania and Bulgaria, Konya (2004) for Hungary among 25 OECD countries, Awokuse (2007) for Bulgaria, the Czech Republic and Poland (Pop Silaghi 2009: 106).

3. Data and methodology

In order to investigate the relantionship between the GDP (LGDP), direct investments (LFDI), export (LEXP) and economic openness (LEOP), we used quarterly deseasonalized data in log for 2000:1 – 2010:4 collected from the Eurostat and the INSSE Tempo Online series, available online on the Romanian Statistical Institutes website.

4 Model specication and results

The regression between growth, investments and exports, prove a decisive contribution of exports over the GDP. Note that all the variables have been analyzed in the log

$$LogGDP = 0.33LogFDI + 3.07LogEXP - 8.15$$

R^2=0.18 and t-statistic and the assumptions regarding errors was semnificativ.

The elasticity of the GDP is 0.33 reported to investments and of 3.07 in the case of exports. Therefore, we can argue that an increase of 10% of the gross capital formation determined an average growth of 3.3% of the dependent variable for the ten East European countries, and an increase of 10% of exports determined an average increase of 30.7% of the dependent variable.

If in the above mentioned regression the export variable is replaced with the openness, the following result is obtained:

$$LogGDP = 0.20LogFDI + 2.97LogEOP - 9.17$$

R^2=0.47, t-statistic and the assumptions regarding errors was semnificativ.

The elasticity of the GDP in regards to the investments is lower to the previous value with approximately 0.1 percentual points, and that of the EOP is positive, but with a smaller impact over the dependent variable in comparison with the export. Researching the annual elasticity evolutions of the economic growth depending on the other variables for economies of the Eastern European countries, one can notice the increase of the influence of the investments within the model that includes the openness (EOP), from 0.27 in 2000, to 1.09 in 2005, according to the data presented in the following table.

Table 1. The annual elasticity of GDP regards to variable models

	Elasticity of GDP regards to the investment (export-exogen variable)	Elasticity of GDP regards to the investment (economic openness- exogen variable)	Elasticity of GDP regards to the export	Elasticity of GDP regards to the economic openness
2000	0.36	0.37	0.27	0.28
2001	0.23	0.11	0.45	0.37
2002	0.05	0.22	0.66	0.52
2003	0.22	0.20	0.98	0.86
2004	0.97	0.02	1.07	0.97
2005	0.31	0.33	1.09	1.00
2006	0.56	0.61	0.67	0.56
2007	0.28	0.32	0.65	0.64
2008	0.46	0.51	0.55	0.47
2009	0.05	0.35	0.90	0.89
2010	0.17	0.18	0.76	0.82

Source: Authors' calculus

The growth of the openness had a positive impact over the GDP, which generated a growth of the investments rate. This was reflected in the enhanced openness of the GDP in reference to the degree of openness of the economy. One of the integration advantages is represented by growth of the openness towards the rest of the world, with beneficial effects on the flows of foreign received direct investments, bilateral flows of labor force, and work productivity (Ivan and Iacovoiu 2008:91). Therefore, starting from the results obtained regarding the elasticity of the GDP in reference to investments, having as an exogen variable the economic openness, we can appreciate, that the economies of the East European countries will attract higher flows of direct

foreign investments, flows that would accelerate, in turn, through engagement effects, the process of European integration. The GDP elasticity to the export variation registered an ascending trend starting in 2000 up until the middle of the analyzed period, and in 2005 it registered the highest level. An increase of 10% of the export for the East European countries determined a growth rate of 10.9%).

In order to emphasize the reaction capacity of the GDP for each economy in reference to the modifications of the independent variables, we create a regression for each of the two models mentioned above. The free element was not assumed to be identical for the studied countries, because the structural characteristics are different.

Table 2. GDP elasticity for Eastern European countries

	Model LogGDP, Log FDI, LogEXP			Model LogGDP, Log FDI, LogEOP		
	Constant	GDP elasticity/FDI	GDP elasticity/EXP	Constant	GDP elasticity/FDI	GDP elasticity /EOP
Bulgaria	2,85	0,05	0,94	1,62	0,01*	1,06
Czech Republic	-2	0,27	2,44	-1,48	0,30	1,99
Estonia	14,63	0,36	1,53	12,68	0,37	-1,34
Latvia	1,85	0,02*	1,43	-4,77	0,15	2,63
Lithuania	-1,17	0,02*	2,12	-4,52	0,10	2,5
Hungary	4,26	0,02*	0,78	3,79	0,04	0,77
Poland	3,19	0,08	1,19	1,26	0,11	1,44
Romania	11,69	0,23	1,43	10,13	0,34	0,81*
Slovenia	1,38	0,03	1,67	0,5	0,04	1,61
Slovakia	-3,38	0,31	2,58	-5,48	0,34	2,63

Source: Authors' calculus

The results confirm a greater importance over the economic investments within the model which includes the degree of economic openness. The greatest values of the elasticity of the economic growth in reference to the investments are registered by Estonia (0.37), Romania and Slovakia, both having an elasticity of 0.34. Also, Slovakia is characterized through a high degree of competitivity of the openness degree, which leads to an elasticity of 26.3% of the GDP. This is the highest value of all the analyzed countries. For the Czech Republic, Estonia, Hungary, Romania and Slovenia, the variation of export produced a greater impact over the economy in reference to the degree of economic openness.

The degree of openness is one of the optimal criteria that the euro zone fulfills. This is defined as part of the economic activity consecrated to the international commerce, that is the rate between the sum of the imports and exports and the GDP. The majority of the countries in the euro zone are very open and the smaller countries have the greatest openness. This can explain the fact that, traditionally, the smaller countries have been the most enthusiast upholders of the monetary union (Puiu 2010: 9). Therefore, it can be observed that, in the case of Bulgaria, Latvia, Lithuania, Poland and Slovakia, the openness degree of the economy constituted the variable over the economic growth in all the East European countries, except for Esthonia. The GDP elasticities that are statistically significant in reference to the openness are between 0.04, in the case of Hungary and Slovenia, and 0.37 in the case of Esthonia.

5. Conclusions and further implications

This paper examines the role of investments, export and openness in relation to economic growth for the East European countries for the period 2000-2010. Result shows that the growth of the openness had a positive impact over the GDP in all the East European countries, which generated a growth of the investments rate. This was reflected in the enhanced openness of the GDP in reference to the degree of economic openness. One of the integration advantages is represented by growth of the openness towards the rest of the world, with beneficial effects on the flows of foreign received direct investments. Therefore, starting from the results obtained regarding the elasticity of the GDP in reference to investments, having as an exogen variable the economic openness, we can appreciate, that the economies of the East European countries will attract higher flows of direct foreign investments, flows that would accelerate, in turn, through engagement effects, the process of European integration

Starting from the two models that analyze the impact of investments, exports and openness on economic growth in all Eastern Europe countries, the results confirm a greater importance over the economic investments within the model which includes the degree of openness. The greatest values of the elasticity of the economic growth in reference to the investments are registered by Estonia (0.37), Romania and Slovakia, both having an elasticity of 0.34. The majority of the countries in the euro zone are very open and the smaller countries have the greatest openness. This can explain the fact that, traditionally, the smaller countries have been the most enthusiast upholders of the monetary union.

Starting from this paper I would like, in the next study, to estimate the long-run relationship between economic growth, investment and export in Eastern European countries using trimestrial data from the Eurostat. I will used Johansen cointegration test to estimate the nature of relationship and Granger causality test is used to determine the direction of causality in the model.

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7. References

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SOCIAL AND ECONOMIC FACTORS AFECTING 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 Kunihisa, 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.
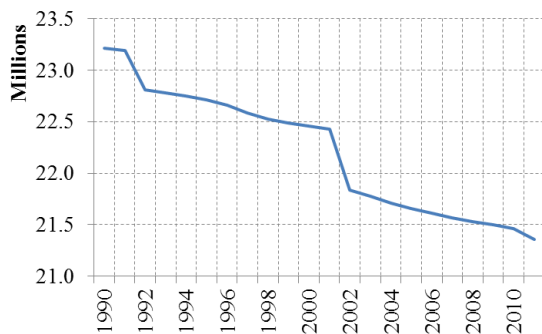
Fig. 1. Population evolution in Romania
Source: realized by the authors using NIS data

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 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.

Fig. 2. Fertility rate and employment (1990 – 2010)
Source: realized by the authors using NIS data

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.
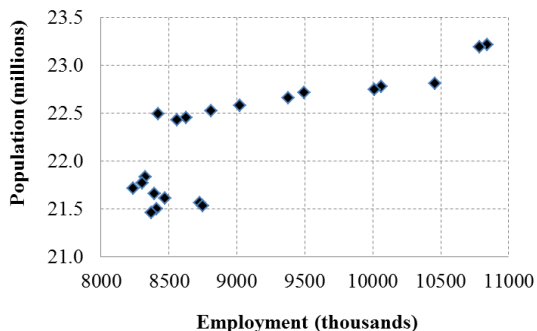
Fig. 3. Population and employment (1990 –   **Fig. 4. Population and employment - county**
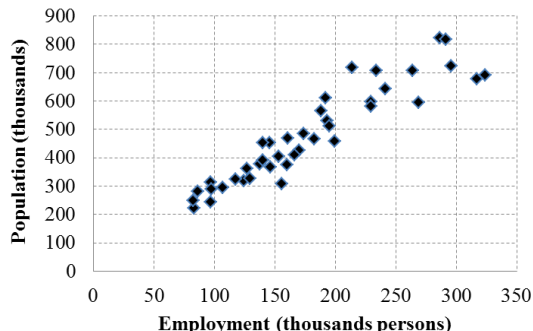
The effects of net wage evolution are different when we analyze time series than cross section data (as we can see in figures 5 and 6).
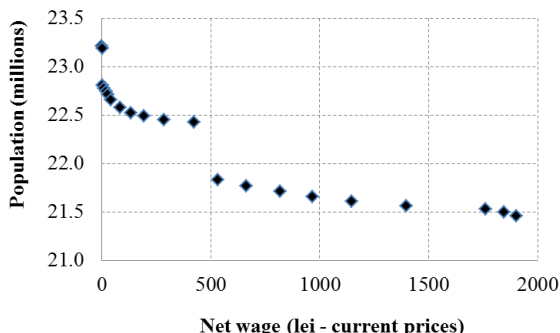
Fig. 5. Population and net wage (1990 – 2010)
Source: realized by the authors' using NIS data
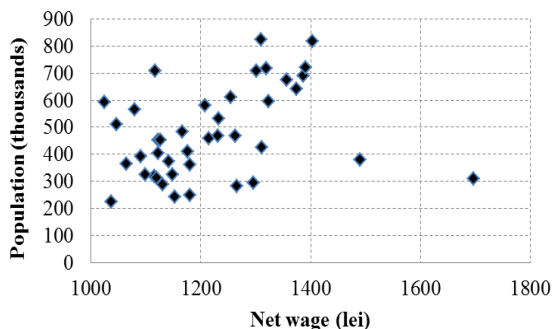
Fig. 6. Population and net wage - county values
Source: realized by the authors' using NIS data

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).
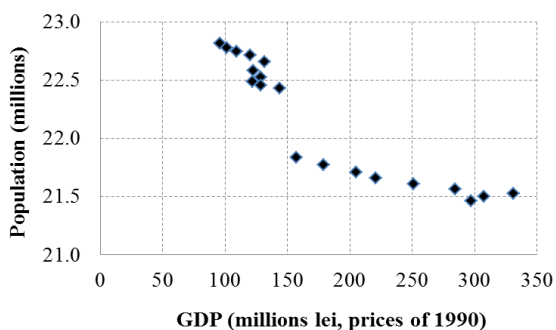
Fig. 7. Population and GDP (1990 – 2010)
Source: realized by the authors' using NIS data
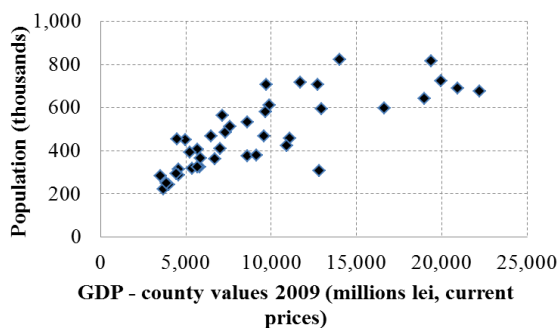
Fig. 8. Population vs. GDP – county values
Source: realized by the authors' using NIS data

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

FINANCIAL ANALYSIS AND THE PREDICTION OF FIRM BANCRUPTCY

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The "new economy" has set new economic and financial development models and consequently new models to predict failure for companies. In this paper we tried a review of risk prediction models based on financial ratios, making classifications by time, space or nature of variables chosen. Although, the studies of prediction failure are extremely large, we note that the developed models are successfully applied in space and time were created, although there are models that have proved their viability over time. Finally, we conclude that for a better accuracy, the bankruptcy risk predictions model based on financial criteria should be supplemented by non-financial criteria (age, market share, the form of ownership, auditor critical comments, etc.)
Keywords: bankruptcy risk, prediction, financial analysis, financial rates, discriminant analysis
Jel Classification: G32, G33

1.Introduction

Unprecedented global economic development culminating in the current economic crisis demonstrates that the results of research studies on the prediction of bankruptcy risk are insufficient. The issue is particularly important for the economies of all countries, regardless of level of development. Need to forecast bankruptcy risk is both the undertaking and the institutions that have dealings with them: banks, which are obviously preoccupied by the quality of the credit portfolios they constitute; different categories of shareholders, who are interested in protecting the capital invested and taking advantage of the benefices provided by the respective enterprise (obtaining dividends); investors, who wish to know the state of the enterprise before investing the capital held; creditors, who are interested in recovering the capital allotted in the form of loan; business partners (clients, suppliers), wish to close agreements with safe enterprises that are able to accomplish their contract obligations

Bankruptcy can be defined as state in which a company is unable to pay its debts to creditors, suppliers, shareholders, state etc. Bankruptcy risk is part of internal business risks and is due to failure to meet timely payments. The term of bankruptcy comes from the Latin verb „fallo-fallere", which means "to miss, to escape" and indicating that debtor couldn't do the payments to its creditors.

The risk of bankruptcy was and is the subject of many research studies aim to identify the time of bankruptcy, competing factors to achieve this state, the financial criteria which expresses best this orientation (the bankruptcy).

2. Predictive models of bankruptcy risk

Bankruptcy risk analysis is performed by several methods, each revealing different aspects of the risk of bankruptcy:
▷Methods based on financial (quantitative) criteria:
    - Economic methods (using the correlation between different indicators calculated on

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[44] See art. 247, paragraph a), Fiscal Code.

Financial statements);
- Statistical method (discriminant analysis, Logit/Probit Analysis and Hazard Model)
▷Methods based on non-financial (qualitative) criteria:
- Management methods;
- Methods of competitive strategy;
- Methods based on sustainable development approach;
- Other methods (based on critical remarks of auditors, based on macroeconomic growth, the law, fiscal policies etc)
▷ Combined methods (used by banks, rating agencies).

Methods based on non-financial criteria experienced a major development in the last 20 years, one of its promoters being Keasey and Watson (1987). Based on their study, conducted on 73 bankrupt companies and 73 non-bankrupt companies, they concluded that the inclusion of non-financial variables increases the predictive power of the model. However, the vast literature in the field, highlight the fact that methods based on financial criteria, are the foundation on which decisions of all partners in the economic life are made, and thus the main bankruptcy risk companies investigation field.

Among the models based on financial criteria, we intend to present those models based on statistical approach, making a evolutionary presentation, as follows:

2.1. Period 1960- 1980

The earlier work of Beaver (1966) indicated that the financial ratios can predict the likelihood of bankruptcy. His univariate study evidenced that the financial ratios of bankrupt firms generally differ from those of no bankrupt firms and pointed out that the cash flow-to-debt ratio. The work began by Beaver was continued by Altman (1968) who introduced multivariate discriminant technique for predicting firms' failure (MDA). Both (Beaver and Altman) are considered pioneers of bankruptcy risk model based on financial criteria aggregates by multiple discriminant analysis technique.

Since 1968, the primary methods that have been used for model development are multivariate discriminant analysis (MDA). In a general approach, scoring method is based on a block rate (indicators) statistically determinated, weighted by some coefficients in a mathematical model which could determine with some probability the future health of entity. Thus, the analyzed entity is assigned a note Z, called "score" which is a linear combination of several installments, as follows:

$$Z = a_1R_1 + a_2R_2 + a_3R_3 + \ldots a_nR_n \text{ , unde}$$

- $R_1, R_2, R_3 \ldots R_n$ - represents the values of discriminant financial ratios;
- a_1, a_2, a_3 – represents selected importance of financial ratios..

Depending on the score value obtained, the entity shall be presumed healthy or bankrupt. Synthetically, multiple discriminant analysis is a statistical technique used to classify an observation in two or more groups, depending on observable individual characteristics.

Concerns development of prediction failure risk models start with gather of financial ratios linked with the health of companies, following the determination of functions that allows estimating the probability that a company to make losses and therefore to become unable to honor customers and banks debts.

After the study made by Altman, this type of analysis has not ceased to grow, creating other discriminant models for assessing the risk of bankruptcy by various schools such as:

a) Anglo-Saxon school (Beaver, 1966; Altman, 1968,2000; Lis, 1972; Diamond ,1976; Yves Collongues, 1976 ; Bilderbeek, 1977 ; Deakin, 1977; Taffler, 1974,1977,1980,1982; Tisshaw, 1976;Springate,1978; modelul Koh şi Killough, 1980; Ohlson, 1982 ; Zavgren ,1983 ; Fulmer,

1984 ; Grammatikos şi Gloubos ,1984; Peel, 1987, Keasey and Watson, 1986; Eidleman, 1995; Lennox, 1999; Christidis, 2010;

b) **Continental European school** (Beerman, 1976; Weinrich, 1978; Conan&Holder (1979); French Central Balance Sheets Model of French National Bank (1977-1979), French Comercial Credit Model; Poddig, 1995; Danemarks National Bank Model (2004), Mateos and López, 2011;

c) **Japanese school** (Ko, 1982; Takahashi et al. 1984; Tsukuda and Baba,[1994; Lee et al. ,1996; Jo et al. 1997; Sung et al. 1999; Lee 2001; Abdullah (2008), Suntraruk, 2009.

d) **Romanian school**

In Romania, authors concerns to predict bankruptcy risk have resulted in development of several statistical bankruptcy risk models: Cămăşoiu Negoiescu's Model (1994), Ivoniciu's Model (1998), Băileşteanu's Model (1998), Anghel's Model (2002), model "C" Model (Craiova) (2005), and recently the model developed by Armeanu et al (2012)

2.2. Period 1980-1990

Logit analysis and Probit analysis began to appear in the late 1970's, but did not overtake MDA in popularity until the late 1980's. Logit analysis and Probit analysis take into account the probability that the firm will go bankrupt. While the MDA model uses a score calculated from bankruptcy by a linear equation to determine the probability of bankruptcy, the Logit model predicts that probability is "a dichotomous dependent variable that is a function of a vector of explanatory variables" (Aziz and Dar, 2006).

Among authors who have used the Logit and probit models to predict bankruptcy risk include: Hanweck, l977; Martin 1977, Ohlson, 1980; Mensah, 1983; Lo, 1984; Zmijewski, 1984; Casey and Bartczak, 1985; Gentry, Newbold and Whitford, l985; Zavgren, 1985; Peel, 1987; Aziz and Lawson, 1989; Hopwood, McKeown and Mutchler, 1989; Bell, Ribar and Verchio,1990, Lee (2001)

2.3. 1990's

In the late 1980's, **neural networks** began to appear and, in the 1990's, became the primary method used in studies. Neural networks "are designed to emulate the human pattern recognition function" (Anandarajan et aI., 2004) There are several different types of neural network methods; however, the details of these methods are beyond the scope of this paper. Basically, neural networks analyze inputs to find patterns and develop a model capable of a decision-making process. Several sample cases are run during the "training" mode, during which the network "learns" the decision-making process. The "testing" mode is used to validate the neural network model using hold-out sample data.

Another model in predict failure, used over time, consist in **Hazard model** used by Lane, Looney and Wansley (1986), George(1991), Luoma and Laitinen(l991), Henebry(1996), Shumway (2001) find three reasons to prefer hazard models for forecasting bankruptcy:

- The static models fail to control for each firm's period at risk. Static models do not adjust for period at risk, but hazard models adjust for it automatically.
- The hazard model incorporates time-varying covariates, or explanatory variables that change with time.
- The hazard model produces more efficient out-of-sample forecasts by utilizing much more data.

A synthetic time evolution of predictive risk failure models is suggestively shown in the table below:

Table no 1. Type of statistical ttechniques used in prediction of bankruptcy

	Discriminant Analysis	Logit Analysis	Probit Analysis	Neural Networks	Others
1960's	2	0	0	0	1
1970's	22	1	1	0	4
1980's	28	16	3	1	7
1990's	9	16	3	35	11
2000's	2	3	0	4	3
Total	63 (36%)	36 (3 %)	7 (4 %)	40 (23 %)	26 (15 %)

Source : adaping by Bellovary et. al., 2007

From the table above, it appears that multiple discriminant analysis is the most common method of predicting the risk of bankruptcy, being used used in 38% of studies investigated by Bellovary et al in 2007. In the 1980's and 1990's, the trend to use the logit was against multiple discriminant analysis models. 90s reflects an explosion of studies based on neural network to predict bankruptcy risk, a quarter of the studies a quarter of all studies investigated being based on this technique.

Although different models are widely accepted, Aziz and Dar (2006) show that analyze multiple discrimination (MDA) and Logit models are very accurate with error rates of 15% each. In this respect, researchers have compared different models of bankruptcy and concluded that, despite some theoretical and practical limits, the Altman method is superior because of its simplicity, practicality and accuracy (Collins, 1980; Mossman et al, 1998). Opposite, some authors (such as Abdullah et al 2008 but not only) find in this study that the estimation sample of the hazard model has given an overall accuracy rate of 94.9 % which is higher than the MDA and logit model which reported 80.8 % and 82.7 % respectively.

3. Discriminant financial ratios to predict bankruptcy risk

The usage of financial ratios has the advantage that, comparing with absolute levels of indicators, they provide a degree of general applicability. Using financial ratios largely removes limits generated by the size firms.

By using financial ratios, the accuracy of the prediction of bankruptcy of a company exceeds 90% (Chen and Shimerda, 1981). Altman, in his model, uses a variety of ratios to examine the seven factors mentioned above. It should be noted that some researchers (that is to say, Morris, 1998) argue that since the bankruptcy was due to unforeseeable events, therefore it can not be predicted.

More than that, it's impose that financial ratios of a specific business **to be best interpreted as a group** (Walton et al. 2003) rather than making judgments on individual ratios because the interpretation of one ratio may be altered by other ratios of the same business.

In this approach to find predictive models of failure risk, various authors have tried to find correlations and causes of production failures. In briefly, we present below some of them:

- ✓ **Beaver** (1966) found that Net Income to Total Debt had the highest predictive ability (92% accuracy one year prior to failure), followed by Net Income to Sales (91%) and Net Income to Net Worth, Cash Flow to Total Debt, and Cash Flow to Total Assets (each with 90% accuracy).
- ✓ **Altman** (1968,2000) in his studies found that financial ratios measuring the company's liquidity position, profitability and solvency predicts potential failure
- ✓ **Ohslon** (1980) finds a negative correlation between the probability of failure and the size, profitability and liquidity of the company. Also, he found that the probability of failure is positively correlated with the company's gearing.

- ✓ **Dugan et Zavgren** (1989) and Chen et Shimerda (1981) identified seven financial factors that may help predict financial distress: the return on investment, leverage, capital turnover, the short-term liquidity, cash position, the back of the back of debtors and inventory.
- ✓ **Lennox** (1999) finds that profitability, leverage, and cash flow have important effect on probability of bancruptcy.
- ✓ In Korea, **Nam and Jinn** (2000) stated that financial expenses to sales, debt coverage and receivables turnover were important to explain bankruptcy.
- ✓ In Malaiezia, **Low et al.** (2001) found that the cash flow ratios were significant in explaining bankruptcy during the period 1996-1998; while Mohamed, Li and Sanda, (2001) found that the leverage ratio and efficiency ratio (total asset turnover) were found to be significant during the period 1987 to 1997. **Zulkarnain et al.** (2001) found in his study that total liabilities to total assets, sales to current assets, cash to current liabilities and market value to debt were significant in explaining financial bancruptcy in Malaysia during the period 1980 to 1996. Later, **Abdullah** et. al (2008) found leverage ratio, net income growth and return on asset to be an important predictor of distressed companies in all the models used (MDA, Logit and Hazard Model)
- ✓ In Denmark, **Lykke et. al** (2004) by using the logit regression, developed an accounting-based model developed in Danmarks Nationalbank to predict failure rates in the Danish corporate sector. The estimated accounting-based failure-rate model contains a number of key financial ratios that are commonly used in strategic ac-counting analysis such as the company's liquidity position, profitability and solvency. Other variables are age and size of the company, form of ownership and critical auditor comments.
- ✓ In Romania, in the bankruptcy prediction models developed for the Romanian space, we find indicators such as: cash-flow/active, debt / assets, turnover of claims / liabilities / current assets etc.

Among the **most popular financial ratios** used often by researchers were:
- **Profitability ratio** represented by return on assets (Beaver, 1966; Deakin, 1972; Libby, 1975; Ohlson, 1980; Lennox, 1999; Abdullah, 2008; Zulkarnain, 2001; Lykke et. al 2004; Siminica, 2005).
- **Leverage ratio** repreyented by total liabilities to total assets (Beaver, 1966; Deakin, 1972; Ohlson, 1980; Zmijewski, 1984 ; Zavgren et Dugan, 1989; Mohamed 2001; Anghel, 2002; Lykke et. al . 2004; Abdullah; 2008).
- **Cash flow ratio**, represented by cash to total assets or cash to current liabilities (Lennox 1999; Zavgren et Dugan, 1989; Low et al. (2001) and Zulkarnain, (2001; Ivoniciu ,1998; Bailesteanu 1998, Anghel, 2002);
- **Size activity** (Ohlson, 1980; Lennox, 1999; Shumway, 2001; Lykke et. al 2004).

Investigating a vast literature (over 170 studies focus on prediction failure problem) Bellovary (2007) found among those 752 factors which are utilized in the individual studies the first ten financial ratio, as follows: 1) Net income / Total assets; 2) Current ratio ; 3) Working capital/Total assets, 4) Retained earnings / Total assets; 5) Earnings before interest and taxes (EBIT) / Total assets; 6) Sales / Total assets; 7) Quick ratio; 8) Total debt / Total assets ; 9) Current assets / Total assets; 10) Net income / Net worth.

4. Conclusions

Walton (2003) concluded that there are no "magic" ratios which somehow encapsulate all that is important to understand about the position of particular company. In this way, although there were quite a number of possible financial variables available to predict bankruptcy, researchers were neither guided nor constrained by the theory for the selection of ratios (Scott, 1981). Therefore, the important criterion would be to choose ratios based on their simplicity and

relevancy to the local environment (Chen & Shimerda, 1981; Mohamed et al., 2001; Soo et al., 2001).

Although these studies which highlight the importance of financial ratios to predict bankruptcy risk by using the statistical methods, the specialists appreciate that these models are not completed and they should be filled and complete the global risk model of failure with non-financial approaches (with reference to age, market share form of ownership, Sector of activity, management team, auditor critical comments etc).

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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 *(nxp)* of rank *r* may be represented as:

$$Y=UDV' \qquad (1)$$

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:

$$Y = AB' \qquad (2)$$

A is a *(nxr)* matrix and *B* is a *(pxr)* matrix, both of rank *r* and

$$A = n_2^{\beta} U D^{1-\alpha} \qquad (3)$$

$$B = n_2^{-\beta} V D^{\alpha} \qquad (4)$$

So $0 \le \alpha \le 1$ 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 β ∈ {0, α}

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:

$$\Sigma = L\Lambda L' \qquad (5)$$

We may set: *U=YLD-1, V=L, D=(nΛ)1/2* so that:

$$A = n_2^\beta YLD^{-\alpha} \qquad (6)$$
$$B = n_2^{-\beta} LD^\alpha \qquad (7)$$

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.

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)
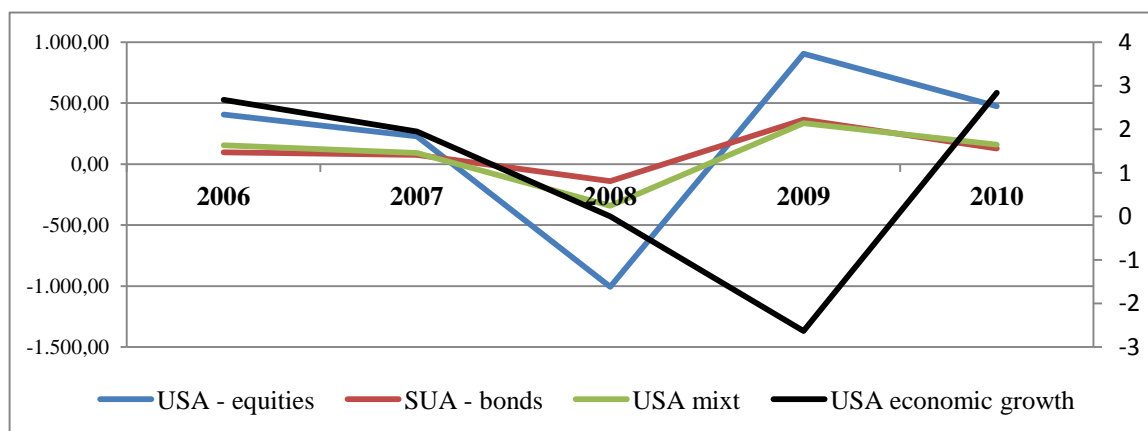
Figure no. 2 Comparative dynamics of performance indexes for U.S.-oriented investment funds and economic growth during 2006-2010

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)
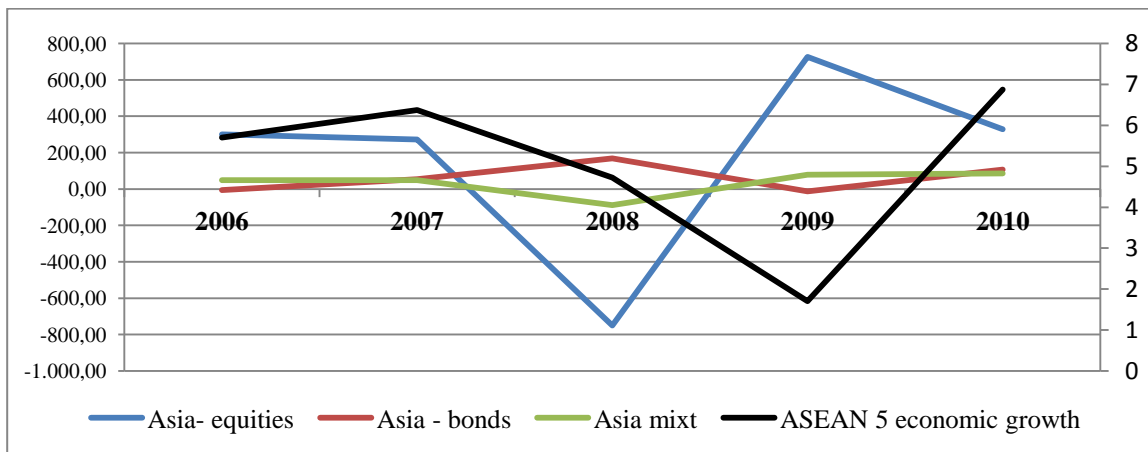
Figure no. 3 Comparative dynamics of performance indexes for U.S.-oriented investment funds and economic growth in 2006-2010

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.
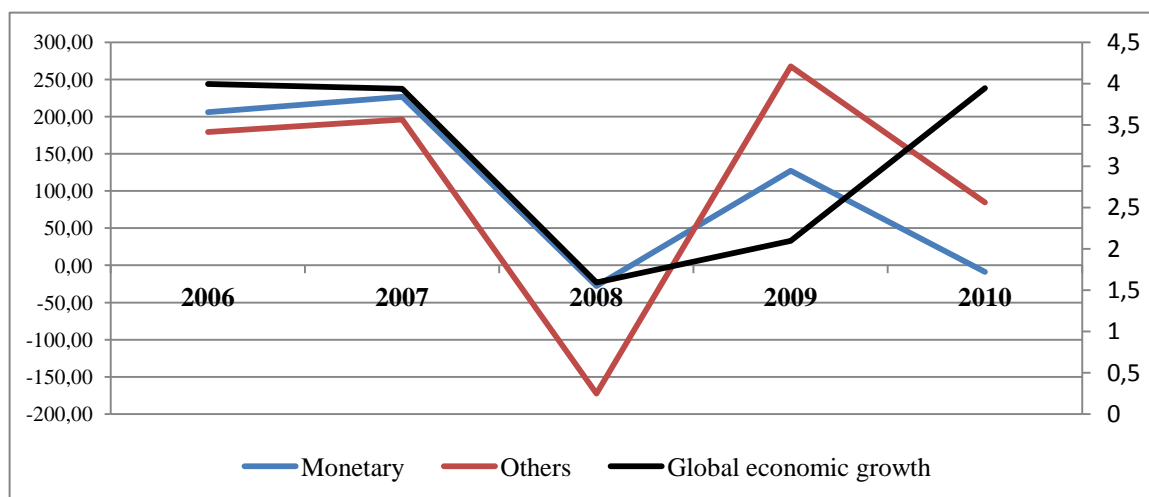
Figure no. 4 Comparative dynamics of performance indexes for monetary funds and other funds and economic growth in 2006-2010

Source: Author's calculations based on data provided by Thomson Reuters - Lipper, IMF database for data on economic growth

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 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-rivaled 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 eco 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 sservices, 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, refering 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 - specificly 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.

Throughouth 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 law[45].

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 amendments[46];

b) The provisions of Law no. 351/2001 concerning the approval of National planning arranje - Section IV - Localities network, published in the Official Monitor of Romania, Part I, no. 408 of July 24, 2001, as amended and supplemented[47].

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[45] See Methodological Norms of Fiscal Code, point 1, paragraph a), regarding Title IX, Fiscal Code.

[46] According to Methodological Norms of Fiscal Code, point 1, paragraph b), regarding Title IX, Fiscal Code.

[47] 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 follows[48]:

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 is[49].

b) **Areas of the city[50]** - 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, D[51].

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 year[52].

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 appropriate[53].

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 Bucharest[54].

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)[55]:

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.

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[48] According to Methodological Norms of Fiscal Code, point 3, regarding Title IX, Fiscal Code.

[49] See art.247, lit.b), Fiscal Code.

[50] See Methodological Norms of Fiscal Code, point 5, regarding Title IX, Fiscal Code.

[51] According to Methodological Norms of Fiscal Code, point 6, paragraph 1), regarding Title IX, Fiscal Code.

[52] Idem. point 6, paragraph 3).

[53] Methodological Norms of Fiscal Code, regarding Title IX, point 7.

[54] Methodological Norms of Fiscal Code, regarding Title IX, point 9, paragraph 1).

[55] 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 follows[56]:

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 follows[57]:

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 follows[58]:

	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

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[56] Idem, point 9, paragraph 3).

[57] Methodological Norms of Fiscal Code, regarding Title IX, point 9, paragraph 5).

[58] 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 2004[59].

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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METHODS OF FUNDS ANALYSIS IN THE SALAJ COUNTY

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In this paper the authors present methods of analysis of budgetary resources in territorial, the example of Salaj County. We analyzed this county revenues and expenditures during 2007-2010, using a system of indicators related
Key words: resource allocation, income, expenses, results
Gel Classification: G18

1. Introduction.

Economic and financial analysis and resource allocation to the counties can be undertaken using a system of indicators of income and expenditure in territorial administration. That is why in this paper we present such an analysis in Salaj County, though this can be generalized to other counties in Romania.

2. Method and results

The first dimension of analysis is to analyze income. Compared to the original budget forecast, Salaj county public revenues in the period 2007-2010 showed an increasing trend in absolute terms, but the actual implementation of these fluctuations occurred late in the period.

Thus, compared to 2007, the estimated total revenue amounted to 93,111.37 thousand, in 2008 they amounted to 128,110.43 thousand in 2009 to reach a value of 156,885.05 thousand, and in 2010 to reach a value of 192,828.30 thousand. The degree of realization of such income has not increased, however, properly so, in 2008 (the estimated revenue was collected at a rate of 98.10%), in 2009 the degree of achieving them collapsed at a rate of 74.07% and in 2010 rose to 85.91%.

After a favorable period, the total income of Salaj county increased 1.39 times (2008 to 2007), a natural consequence of the context of economic and financial crisis that has characterized the national and international economic environment, although initially provided higher revenues in 2009 compared to 2008, actual revenues fell by 8% (from 125,670.53 to 116,209.65 thousand lei). In 2010 revenues were achieved by 28.5% higher than in 2009 (from 116,209.65 to 165,654.90 thousand lei). The structure of local public resources Salad county, is found following main categories of income (the weights for 2010): rates and amounts deducted from income tax (13.69%), amounts deducted from VAT (27.66%), own revenues (1.29%), financing the paving of the roads program and water supply to villages (23.74%), multi-annual program funding Technical Assistance for public investment projects financed by the Regional Operational Program 2007-2013 (0.46%), transfers from the state budget to local budgets for rights of disabled persons (20.40%) and subsidies from the state budget to fund medical and social care units (0.15%).

Rates and amounts deducted from income tax up 13% share of the income tax and the amounts allocated 27% of the share of 22% of income tax to balance the budget of the county steadily increased in volume during analyzed at 15056.59 thousand in 2007 to 20,303.98 thousand in 2008 to 20,996.70 thousand in 2009 and 22,682.00 thousand in 2010.

As one of stable financial resources of the county budget, the share of these shares in the total local revenues declined slightly from 16.67% in 2007 to 13.69% in 2010, experienced a degree of achievement involution, in 2010 was actually received only a percentage of 95.46% of the estimated value, compared to 2007, when revenues were close to 100% (99.94%). The evolution of this indicator is not spectacular, in 2010 recorded an increase of 50% compared to 2007 and only 8% compared to 2009.

VAT deducted amounts consist of: amounts deducted from VAT to finance decentralized spending in the county, amounts deducted from the VAT for county and amounts deducted from VAT to balance the county's own budget.
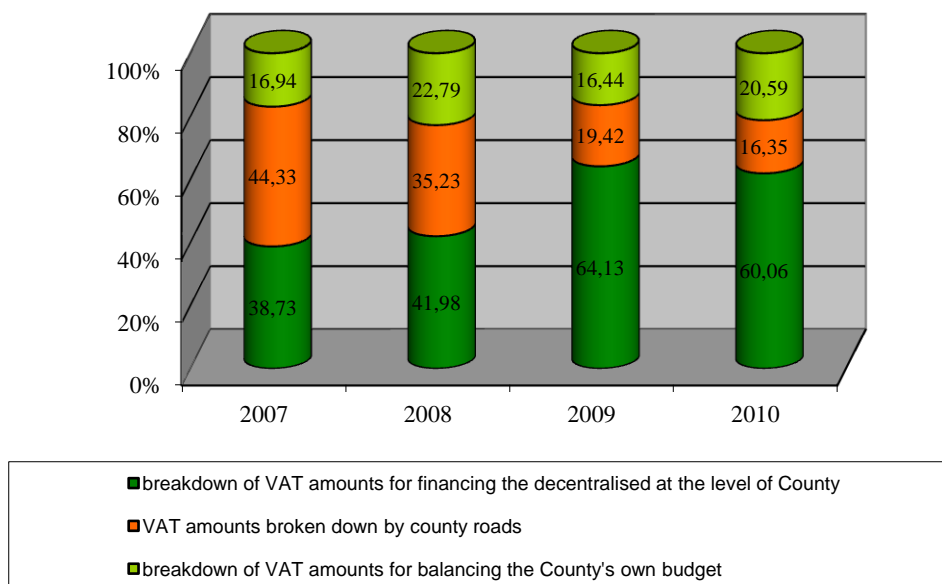
Figure 1 Weights in the amounts deducted from VAT

Decentralized spending refers to the county child welfare system and social centers for persons with disabilities, granting rights of dairy and bakery for students in grades one through eight in public education for preschool children in kindergartens State costs of special education and resource centers and support educational, cultural institutions decentralized contributions to the lay staff employed in the establishments of worship, community public service records of persons under the authority of the county.

Amounts deducted from VAT for county roads are divided into administrative units, depending on their length and technical condition, the decision of the District Council, after consulting the mayors.

Volume amounts deducted from a trend of increasing VAT in 2008 (63,109.72 thousand) to 2007 (49,194.02 thousand and degree of performance 100%), because in 2010 to reduce considerably (45,825, 40 000 lei). This translates into an increase of 1.28 in 2008 compared to 2007, a decrease of 21% growth in 2009 than in 2008 and down 8% growth in 2010 compared to 2009.

The significance of these involutions is to reduce the special purpose funding from the state budget. The causes may be an objective (negative national economic context, whether in allocating funding requirement), and subjective (2008 was an election year, the elections both locally and centrally). In the amounts deducted from VAT, hold the largest share amounts for the financing of decentralized expenditures in the county (38.73% in 2007, 41.98% in 2008, 64.13% in 2009 and 60.06% in 2010.

Determinant indicator for determining the degree of financial autonomy of county revenues included in the budget have, unfortunately, a very small share in all local public funds (2.95% in 2007, 4.85% in 2008, 2.13 % in 2009 and 1.29 in 2010).

This income had fluctuated in the period, increasing from 2665.14 thousand in 2007 to 6110.96 thousand in 2008 (a huge increase, therefore, 2.29 times), because in 2010 to reduce by 19% compared to 2007, by 65% compared to 2008 and by 13% compared to 2008, attaining the amount of 2133.50 thousand. Salaj county's own budget revenues (with weights for 2010) is

composed of: tax on vehicles over 12 tons, owned by individuals and legal persons (6.75%), other direct tax receipts (zoning, building permits, specifications, notices of special structure, unique arrangements, special transport permits) (8.33%), revenues from concessions and leases (25.46%) monthly contribution of parents to cover children in institutions (0.09%) monthly contribution to local councils to cover children in day care centers (4.64%), revenues from fines and other sanctions applied under law (0.28%), other income (Official Gazette of the county plan, photocopying services, the road user charge, feasibility studies, other income), (8.60%), donations and sponsorships (1.84%), income from the sale of goods institutions (1.08%); income from sale of property belonging to private sector (42.93%).

Although absolute and relative volume of their income is not high, a positive aspect is that their level of achievement has risen steadily and substantially in the period from 55.13% in 2007 to 94.04% in 2008 to 98.69% in 2009 and 90.83 in 2010.

Funding program of paving roads and village water supply was established as Salaj county budget income reached in 2010 to 39,344 thousand, accounting for 23.80% of total revenues. This program was established by Government Decision no. 577 of 25 September 1997 to improve social and economic situation of residents in targeted areas. Financing is provided from the state budget through the Ministry of Regional Development and Tourism, the amounts approved annually by the destination and local budgets of administrative unit's beneficiary, external loans and other financing sources legally constituted. Technical maturation to promote investment projects for financing from structural funds, the Ministry of Regional Development and Tourism has developed, implemented and funded in the period 2007-2010 Multiannual Technical Assistance for public investment projects financed by the Operational Program 2007-2013. Through this program, approved by Government Decision no. 1424 of November 28, 2007, Salaj County Council received funding to develop economic and technical documentation of six projects for obtaining structural funds in the following areas: social infrastructure, educational infrastructure and tourism infrastructure. Funding framework contracts ending only at the end of 2007, actual revenue realization occurred only in 2008 (527,420 lei), 2009 (1155.78 thousand - 99.38% level of achievement) and 2010 (759.00 lei - degree of achieving 93.70%).

Subsidies from state budget to local budgets needed to support projects running FEN - accession period were estimated at the beginning of 2009 amounted to 40,000 thousand, then they reach the beginning of 2010 amounted to 23,891 thousand, intended for expenses investment in the "Road Rehabilitation Ciucea-Krasna-Vîrşolţ". Because blocking the project in the bureaucratic procurement procedures, the amounts allocated were not used until 2010, when the contract was signed after the execution of investment works adjudication by open tender.

Transfers from state budget to local budgets for rights of disabled persons had a sustained upward trend during 2007-2009, at 23156.12 thousand (2007), to 35,376.67 thousand (2008), to 41378.89 thousand (2009), following a decline in 2010 to 33,789.00 thousand (18.40% compared to 2009). Subsidies from the state budget to fund medical and social care units remained relatively constant during this period (242 thousand in 2007, 241,780 lei in 2008, 249.50 and 245.00 thousand lei in 2009 2010) the decrease registered in 2010 compared to 2009, with only 1.80%.

Analysis of local government revenue shown above leads to a conclusion with serious negative implications on financial dependence Salaj county to central: an overwhelming proportion of its resources (97.87%) comes from the central level (the rates and amounts broken, financing programs, special purpose transfers and subsidies), being represented only 2.13% of their income. In these conditions, local autonomy can be achieved effectively as financial autonomy is far from being achieved.

Another observation may be the degree of achievement of local revenues, which, although time limits are set as minimum tasks were not completed at 100% or above this percentage always. This finding may lead either to the conclusion that a more reasonable substantiation of such

indicators, or the appreciation of the significant influence of external factors on local public finances.

The second dimension in territorial analysis is the analysis of public expenditure. Planned and actual public expenditure in the budget Salaj county recorded similarly trajectory public revenue fluctuated a corresponding financial and economic context nationally and internationally.

Thus, in the first period analyzed, local expenditures have increased the amount of 85,290.72 lei in 2007, the value of 113,004.68 thousand in 2008 to 157,130.14 thousand in 2010, corresponding to a increase of 45% compared to 2009.

If we consider the year 2007, in 2010 we see an increase of 84% of total public spending (which reached $ 157,130.14 thousand), but if we use as the baseline year 2008, we see an increase of 39 %. These developments are explained by external factors, political (2008/2009 was, as I said, an election year) or economic (domestic and international backdrop economic crisis). Analysis of the implementation of public expenditure as indicators whose upper limit is provided in the initial budget imperative, based on the finding that compliance with legal requirements. Progress in the achievement of declining public expenditure in 2007-2009 shows both a positive, reflecting a strategy for saving the global context Salaj county and national economic and financial crisis (the largest reduction in spending is operated public administrative apparatus). In 2010, total expenditure increased by 18.03% compared to 2009 due to investment costs, essential in difficult economic times, such as this. The motivation behind this latter finding is, however, could not be objective. Unrealized investment costs are related infrastructure projects and local development, "Road Rehabilitation Ciucea-Krasna-Vîrşolţ", and its implementation, as mentioned above, was locked in 2007-2009 due to the rigors of the law in the procurement. With the signing of the executive work in January 2010 this project has been the natural result, the estimated investment works to be completed later this year even. This will result in a spectacular development of local public expenditure county road infrastructure investments, a trend that will be reflected in the budgetary account for 2011.

	2007	2008	2009	2010
Budgetary provisions	6.805,25	9.741,43	9.209,85	6.629,00
Payments	6.167,92	8.217,98	7.120,22	5.407,00
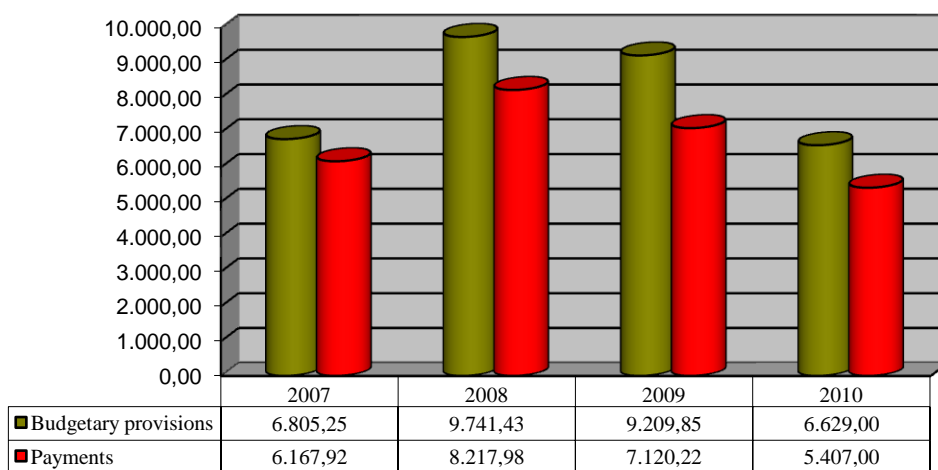
Figure 2: Expenditure on the executive authorities

Public expenditure in the budget include executive authorities Salaj county maintenance costs and administrative apparatus, consisting of: personnel costs, costs of goods and services, other transfers, welfare, capital expenditures and payments made in previous years and recovered this year. The share of these expenditures in total local government expenditure is not negligible,

being 7.23% in 2007, 7.27% in 2008, 6.58% in 2009 and 3.44% in 2010. Within this category the cost of staff ranks first (79.31% in 2007, 63.41% in 2008, 68.90% in 2009 and 77.88% in 2010). In absolute values, the county administrative unit costs have increased the amount of 6167.92 thousand in 2007 to 8217.98 thousand in 2008, before falling to 7120.22 thousand in 2009 and 5407, 00,000 lei (when, despite being set in a higher amount, respectively 6629.00 thousand, has achieved a saving of 18.50%). Dynamic evolution of these costs shows an increase of 1.33 times in 2008 compared to 2007 and decreased by 13% in 2009 and 24.10% in 2010 compared to 2009.

The category of general public services spending includes the costs to the budget reserve fund county expenses Directorate Salaj County for People (public institution subordinated to the County Council) and other public services. They are not found in a significant amount in all local expenditures (2.60% in 2010), but must be mentioned the dramatic increase of the degree of their achievement from 8.70% in 2007 to 9.43% in 2008 to 85.38% in 2009, because in 2010 the percentage of 73.80% is achieved (expressing an increase of 9.01 times and 1.08 times from 2007 to 2008).

3. Conclusions

In the current economic climate, given the direction of evolution of regional development policy promoted and applied by developed countries on the international scene, local public finance gain increasing importance. Their main component is the local budgets, the main lever of the administrative-territorial assertion of local autonomy.

Analyzing the evolution of local revenues Salaj county, it is clear that they were circumscribed economic and financial trends nationally and internationally. Thus, between 2007 and 2008, revenues increased significantly in 2009 for economic and financial crisis to manifest locally. As a corollary to the evolution of public revenues, local budget expenditures had a fluctuating course, upward and downward between 2007 and 2008 and 2008-2009, which reflect a wise savings strategy undertaken at local level, reflected in reduced administrative unit costs. Given that municipal infrastructure (which involves a serious financial allocation, the largest consuming local resources) is in charge of local budgets of municipalities, towns and villages, it is understandable that the largest share in the county budget Salaj is owned social spending, followed by cultural activities and costs only third the cost of county roads and bridges.

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THE ENVIRONMENT OF REGIONAL DEVELOPMENT FINANCIAL ANALYSIS

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The paper presents the difference between the two concepts regionalism and regionalization. It also presents the three types of regionalism analysis depending on the dimension and the nature of the relations: regionalism at national level, transnational regionalism and international regionalism analysis.
Key words: regionalism, development, regionalization
Gel classification: G18

1. Introduction

The State, created as main governing level, goes through a crisis period, being forced to reconsider his part. The State is no longer the only frame for solving the problems that affect the society. The Providence State has appeared after the Second World War, in a moment when the problem of economic reconstruction and relaunching was being discussed, and was synonymous with assuring a general welfare and prosperity. This concept is criticized in the present in the context of the accentuation of the economic crisis, of the raising rate of unemployment, of raising the taxes and duties.

On this accentuation of the globalization process, the States are considered, on one hand, to small in order to cope with the problems that emerge at the global level – economics, security, monetary policy, etc., which leads to creating supra-states (1), and on the other hand are being considered to large in order to be able to efficiently respond to the citizens' problems, problems that can be solved efficiently especially at the regional or local level.

2. Regionalism and regionalization

To understand the movements that took place at the regional level, we must make the difference between *regionalism and regionalization.*

Some authors use the term regionalism with double meaning: seen as a movement from top to bottom thus defining the *regionalization* and the term regionalism also seen as a movement from bottom to top which defines the *regionalism.*

– *Regionalism* seen as a movement *from bottom to the top,* in which the region is seen by the humans that live there as an homogenous territory, represents the awareness of the mutual interests and their aspiration towards the participation at managing theses interests. Thus, we can talk about a "regional conscience" that states that the State is too far away and too big so that it can solve the regional problems. From this meaning, the State is accused to want to impose a unitary model to the regional particularities. Thus, the regionalism corresponds to a profound desire of the local collectivities to be responsible for solving the problems that concern them directly.

– *Regionalization* means an approach *from top to bottom* and regards other purposes and means of application than the ones used by the regionalism. As an answer to the regional movement, the State can recognize a regional identity – the region seen as a territory considered homogenous by the State – and can take the necessary measures so that the regions can participate at managing their own business.

The starring point of regionalization is the regional lack of balances, more exact being aware of them. This awareness is followed by the intervention of the national governmental structures or of some supra-state entities that have as purpose the decentralization or deconcentration at regional level of some activities or competences previously existing at central level. In this case, we are dealing with administrative acts that are the expression of a central political will as regards the local/ intermediary structures.

The regionalization can appear at national level and also at international level. At international level we give as example in Europe: the Scandinavian cooperation, the cooperation between the Benelux States and recently the European Union.

The regionalization and the regionalism are concepts that describe the two movements at regional level between which there is an inevitable interaction. The regionalization mostly wants to reduce the regional economic lack of balance and an harmonious development of the entire national territory, while the regionalism implies a certain power of decision of the region as regards the regional interest affairs and affirming its identity (as regards the culture, the linguistic particularities, the ethnic particularities, the traditions, etc.). The answer to the needs of the regions is made of a State policy that has repercussions over the regional feeling and leads to reactions from the region.

The regionalism, especially in Europe, has become a concept largely accepted as a form of decentralization that reinforces and democratizes the State's power, and also in order to improve the institutionalized forms of international cooperation.

There is an evolution as regards the character of the regionalism at the European level which, from "a movement", has become a "normalized and institutionalized activity", evolving towards the concept of "pacificator regionalism". In the 1990 in the foreground has came a new type of regionalism that that it is shaped partially and under the influence of the globalization phenomenon, being characterized through the apparition of some new regions, sometimes supra-states that are not the result of an organic development and for which are created new institutions.

Some analysts have researched the phenomena as regards the regionalism depending on the dimension and the nature of the relations, and they mention 3 main categories:

– regionalism at national level;

– transnational regionalism – in the case of some spaces that are united culturally and/ or economically – cooperation of Euro region type;

– international regionalism – expressed through structures of OSCE (Organization for Security and Cooperation in Europe) type.

At the same time, we must make the difference between *regionalism* – term used in the political discourse, whose finality can lead to federalization (a territorial complex made on historical and cultural bases, which gains competences in the field of public policies – is the case of the German Lands), and *regionalization* which is an administrative action, that focuses on creating larger space of cooperation and, last but not least, on defining some new administrative-territorial units.

The term of regionalization is, generally, understood as the creation of a new level in the territorial organization of a State; the new institutions can vary as regards the responsibilities and the authorities created, these being always supra-imposed to the local institutions that already exist.

The regionalization is a long term process, through which the State introduces the second level of governing. The regionalization reflects an increasing tendency of identifying some institutions with a certain region, but this idea and those institutions are being extremely heterogeneous from one country to another.

The term regionalization has become larger and presumes a process through which it is created a sub-national but supra-local capacity for actions as regards the development of a specific geographic area. This process can rely on the political-administrative system that already exists

or can lead to the creation of a new territorial organization that could give better support to the social-economic increase and to an equilibrated development.

In the present there is a new relation between the local and the central level. The central and the local administration no longer compete, but have passed to collaboration on the basis of a works and responsibility division (2). The local administration is no longer a simple implementation structure, without own will, but becomes a dynamic entity which, on the bases of the solidarity of a collectivity, promotes local ideas and interests. Thus, it appears the necessity to organize a local administration that unites the important political elements of the center and the ones through which the local communities define themselves.

The continuous economic-social changes lead to the situation when the structures of the local administration take from the central administration more and more tasks, being necessary to create successive administrative reforms (3). In this situation it is necessary to make a compared analysis of the centralization and of the decentralization. The functions of the State can be divided, theoretically, on horizontal and vertical plan.

The horizontal dimension means the division of the responsibilities and the tasks made between the central organs of the State.

The vertical dimension means the existence of different levels of public administration in order to divide the power and the responsibilities.

We must mention the difference between *dividing the power* and *dividing the tasks,* existing cases when the tasks are being delegated at the inferior levels without the corresponding responsibility. In these cases, the central power makes hierarchical structures, having the possibility to control and even to annul the decisions taken at the inferior levels.

The autonomy of the different administrative levels can't be absolute, has as general limits the obligatory character for any structure to respect the existent laws. Existing through the effect of the decisional power of the Parliament, the local/ territorial administrative structures means a new level of power, not structures outside the unitary State.

The division of the tasks can be described through the couple of concepts centralization-decentralization, which underlines the alternation of the centralization periods and of the decentralization periods. The relation between the central level and the local level suffers continuous changes, changes that can be conditions by factors of practical nature.

3. Conclusions

The economic sciences, respectively the economic, investigate the legislation character and the mechanisms that move the components of the economic system, at the world, regional, national, districtual or particular level in order to prevent the economic lack of balance.

The economic-regional analysis wants to underline the mutual efficient economic effort of some States from a certain part of the world, which will assure the economic prosperity of that region, and needs the analysis of a significant number of relevant indicators. The internal gross product is the synthetic indicator that best characterizes the development level of a territory, also being the base for more elaborated social-economic analysis. The present paper wants to make the analysis of the regional internal gross product through the perspective of its level and of its structure, its evolution in the period 2005-2009, the comparison of the North-West region and the national level and also as regards the other development regions, and underlining the intra-regional unparities.

Note

(1) for example the European Union

(2) The first constitution that mentions a unitary decentralized State is the Danish one, from 1848. See: Bodo Barba – "Politica regională şi dezvoltarea teritoriului", Editura şi Tipografia Marineasa, Timişoara, 2003.

(3) France, the model State for a centralized administration, starting with the 70s, has passed to successive reforms, today existing at the local-territorial level, competences and prerogatives that are not according to the centralized State's principles

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HOW CAN ROMANIAN GOVERNMENT BOOST ECONOMIC GROWTH?

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Restoring economic growth is a challenge for the Romanian government that have to apply fiscal and budgetary measures in order to restore the positive path of the GDP without deteriorating the public finances sustainability. Therefore, it is necessary to identify based on historic data the impact of fiscal and budgetary policy on economic growth. The aim of this study is to analyze the effects of fiscal and budgetary policies on economic growth based on Romania case. The results are useful for identifying the instruments to boost the economy and propagation mechanisms of their effects on growth. Therefore, the economic growth is sustained by governmental measures involving increases for taxes on production and imports and cut for current taxes on income and wealth. Meanwhile, compensation of employees, subsidies and interest have significant statistical effects on growth.
Keywords: fiscal policy, budgetary policy, growth.
JEL Classification: E62, H20, H50, O23.

1. Introduction

It is well known and accepted that the state influences GDP and hence economic growth through fiscal and budgetary policies, In public decision making matter understanding the mechanisms by which fiscal and budgetary policies affect economic growth when they have to apply measures to boost the economy. This requires knowledge of: i) the theoretical foundations that led to the formulation of economic theories focus on growth; ii) impacts identified and demonstrated in these theories; iii) transmission channels of fiscal and budgetary policies. All these must be supplemented by quantitative and qualitative analysis and empirical techniques able to indicate the magnitude and the corresponding times of fiscal and budgetary effects on growth.

Descriptive and econometric analysis is based on the best variables able to describe the fiscal and budgetary policies and economic growth. However it remains the question of indicators that best reflects the fiscal and budgetary policies. In this respect, the literature indicates a range of responses taken into consideration that it can be used to express the behaviour of fiscal and budgetary indicators such as: i) budget revenue, per total and by component (direct taxes, indirect taxes, contributions, other income, discretionary income, non-discretionary income, other income); ii) budget expenditure, overall and component (current expenditure, capital expenditure, expenditure productive, unproductive expenses, other expenses, consumer spending, subsidies, investment); iii) budget balance, that is considered to be a linear relationship between income and expenditure, as its classical forms and derived forms (eg primary balance). These variables can be expressed in real terms, real per capita terms and as cyclically-adjusted that not include temporary fluctuations caused by economic cycles.

This paper focuses on analyzing the effects of fiscal and budgetary policies on economic growth using the case of Romania has been hit hard by the economic crisis triggered in 2008. Although governmental measures taken, the Romanian economy return to growth is slow and apparently lasting due to the poor functioning of the engines of economic growth. Research approach is structured into four sections. The second section presents the literature review, so that in section three are given the results. Conclusions are found in section four.

2. Literature review

In economic theories are shown the possible effects of fiscal and budgetary policies for the whole economy. But do these effects are obtained exactly in reality? What is the influence sign, size, and gap effects of fiscal and budgetary policies? These are questions that the paper aims to provide answers. But the starting point is to investigate state of main findings from the literature review.

Generally speaking, fiscal and budgetary policies can stimulate or restrict economic growth in terms of the effect of government decisions regarding revenue and expenditure. Also, it counts the type of fiscal policy (pro-cyclical, acyclic, and countercyclical) and the fiscal regime applicable in each period.

It is also very important for an emerging economy like Romania as fiscal and budgetary policies to act as engines of economic growth. It is showed that Romania is a country with: i) poor economic performance reflected by low scores on the global competitiveness index of 4.08 in 2011 (position 77 from a total of 142 countries) down by 10 positions from 2010; ii) high risk the fiscal and macro-financial risk (about 0.7 according to the European Commission 2010: 222), iii) very high exposure to risk budgetary fiscal and external (Campeanu and Padurean 2011: 486).

The literature outlines a policy dilemma able to drive economic growth. Currently, one can speak of preponderance in the use of fiscal and budgetary objectives for each state (eg the European Union use of fiscal and budgetary instruments for intervention in the economy for more than 62% having to the number of euro area countries that have only their own fiscal policy). Among these goals are always found and ensure the continuation or resumption of economic growth. Thus, it can say that this is a generally economic objective valid regardless of country, period, form of government, political regimes, level of development, etc.. It also is a major objective imposed and monitored by international institutions.

However, the economic growth is influenced by fiscal and budgetary policies?

What can be said about the influence is that it could be positive (desirable) or negative (to avoid), short or long term, temporary or permanent, ex-ante or ex post, scheduled or ad hoc. Also, fiscal and budgetary policies can influence GDP and/or growth. In terms of influence on GDP, the literature indicates that it may be exercised either directly on the level of aggregate GDP or only on some components of GDP such as consumption and investment.

However, fiscal and budgetary policies give their effects on economic growth indirectly by influencing directly to: i) the average level of education of the workforce through public investment in human capital (budget expenditure for education and training, culture) able to lead to social benefits throughout the economy; ii) productivity of the stock of physical capital whereas it should provide basic social and economic infrastructure allowing private sector activities; iii) the quality of physical capital or labour supply so that the public policies have to minimize the gap between supply and demand for capital and labour.

In the literature it is also shown the transmission effects of fiscal and budgetary policies on economic growth through government measures that affect aggregate demand and supply. Influence on aggregate demand is realized through two channels of transmission of fiscal and budgetary policies, namely: i) confidence in government measures; ii) interest rate. Regarding the first channel, confidence in government measures depends on the perception of change regime capable of ensuring the fiscal budget deficit and public debt in the future without resorting to further the costly fiscal adjustments in terms of affecting the disposable income of population.

Influence of aggregate supply is transmitted via the labour market and labour force supply. This channel of transmission of the effects of fiscal and budgetary policies on economic growth is analyzed in the neoclassical theory that economic growth as exogenous. This theory is based on original neoclassical model proposed by Solow (1956) and Swan (1956) that was developed by contributing to major in the field such as Diamond (1965), McGrattan and Ohanian (2008).

Also, growth may be the result of endogenous forces and not external as in neoclassical theory. Endogenous growth models are presented in numerous works including Arrow (1962), Mines and Villieu (2010).

But since the paper does not aim to develop these theories on exogenous and endogenous growth, the next step of the scientific is the indication of the effects of fiscal and budgetary policies as outlined in economic theory. There are three main theories describing the role in the economy, namely neoclassical, Keynesian and Ricardian (Bernheim 1989). In neoclassical theory is considered fiscal and budgetary policies restrict the economic activities of the private sector through the effects of "crowding out" (Buiter 1977) as expansionary fiscal and budgetary policies (reducing taxes or increasing government spending) lead to price increases, decrease in money supply growth rates. On the other hand, Keynesian theory supports the active role of fiscal and budgetary policies targeted tax relief and / or government spending increases that took effect to improve welfare ("welfare effects") in the short term followed by reduction of output ("crowding-out effect") long while the government measures have led to higher deficits and debt.

The Ricardian theory is demonstrated the neutrality of fiscal and budgetary policies which means that any government measure will not affect the economy because the consumers base their consumption decisions on permanent income and not one available income that is sensitive to any change in the budget and fiscal variables.

In addition, the effects of fiscal and budgetary policies on economic growth depend not only on the relevant time horizon but also other factors such as: i) the size and persistence; ii) the financing of budget deficit; iii) public debt; iv) fiscal and budget rules; v) institutional factors; vi) trust in government measures; vii) expectations of the population and businesses.

At the short and long term effects it must be taken into consideration the compromise between economic stabilization to be achieved short-term and economic growth as a long-term goal (Perotti, 2007). Also, in literature there is a consensus that the tax increase affects economic growth, while reducing spending, particularly those for consumption and social transfers, boosts the economy. So governments have to choose between these measures without having a negative impact on economic growth in compliance with requirements to ensure sustainable public finances, further economic development and efficient ("green economy").

Effects of fiscal and budgetary policies are considered in the literature as resulting from shocks to the economy. These fiscal and budgetary shocks can affect economic growth. Problems consist in defining and identifying the issues related to shocks and also to the type of shocks (endogenous, exogenous).

The impact of fiscal and budgetary policies on growth can be studied using macroeconomic models able to capture the mechanisms of propagation effects. These models were developed by extending the techniques applied to monetary policy. These models are described in the paper Campeanu, 2012.

3. The research results

Analysis of the effects of fiscal and budgetary policies on economic growth is achieved following some steps: 1) statistical profile of growth both in Romania and the international context; 2) profile of fiscal variables, the GDP growth; 3) the relationship between budget and fiscal variables and GDP growth; 4) Econometric the impacts of these effects budget and fiscal variables (total and components) on growth.

Table 1. **The profile of economic growth (1990-2010)**

Country	Average	STDV	Dynamic 1990-2010	Max		Min	
				Value	Year	Value	Year
EMU	1.8	1.8	-1.6	3.8	2000	-4.3	2009
EUU	1.9	1.8	-0.7	3.9	2000	-4.3	2009

OEC	2.1	1.7	-0.1	4.0	2000	-4.0	2009
LDC	4.6	2.3	3.9	8.0	2007	0.6	1992
LIC	4.0	2.0	3.0	6.4	2006, 2007	-1.2	1992
LMC	4.8	1.8	3.2	7.9	2007	1.7	1991
OED	2.1	1.7	0.0	4.1	2000	-4.0	2009
WLD	2.7	1.5	1.3	4.3	2000	-2.3	2009
ROU	1.1	6.5	6.5	9.4	2008	-12.9	1991

Source: own investigation based on World Bank database.
Note: EMU = Euro Area; EUU = European Union; OEC = High income: OECD; LDC = Least developed countries: UN classification; LIC = Low income; LMC = Lower middle income; OED = OECD member states; WLD = World; ROU = Romania.

The profile analysis on the global economic growth indicates that the most important economic growth was recorded in 2000 for most developed countries, respectively in 2006-2008 for developing countries and emerging economies. In Romania, there is an alternation of periods of negative economic growth (1990-1992, 1997-1999, 2009) with the positive (1993-1996, 2000-2008, 2010). In these times of economic decline, Romania had the lowest negative real GDP in 1991 (value being -12.9%).

Dynamics of real GDP during 1990-2010 indicates that the most important change has been rising in Romania (6.5 pp), while developed countries there has been downward. Per whole period remains positive growth rate (average of 0.3 pp).

In a world in permanent connection and constantly evolving, is relevant the Romania's position is the relevant groups of countries to see the national economic growth as percent of international. The results are surprising because it enables to keep pace with international context. For example, to the global economy, Romania's economic growth was 41.4% during 1990-2010, only 22.5% respectively in 2010.

Research on the effects of fiscal and budgetary policies on economic growth envisaged first the quantitative analysis of these variables as a whole. Thus, Figure 1 presents the real incomes of the general government with which the real GDP growth. Budget revenues in absolute real had an upward trend throughout the period except in 2009 when they experienced acute financial crisis effects. On the other hand, real GDP had the same trend as actual revenues which lead us to think of a positive relationship between these variables. This is confirmed by plotting the relationship between two variables with a multiplier of 1.1 to 0.9 for actual expenditures. Thus, it appears that GDP positively affects revenues and economic growth noting that the multiplication factor is much smaller than previously indicated.

The actual general government expenditures are observed also a positive effect on GDP was larger than on growth (Figure 2). Spending trends (absolute and rate) and real GDP growth are similar to that observed with the revenues. When analyzing the dynamics between the variables to produce a negative coefficient (-0.025) lower than the revenues. This is due to spending at a pace faster than the GDP rate has been maintained including in 2009 the actual budget expenditures increased by 4.1% while revenues fell by 5% due to negative real rates GDP growth of 6.6%. This attenuates the budget and fiscal adjustment in 2010 that made the growth rate of real revenues to surpass that of real spending by 6.4 pp (rate was 7.9% of budget revenues and expenditures of the 1.5%) while growth reached -1.6%. We can therefore say that the budget and fiscal adjustments in 2010 and reached their goals (deficit reduction, economic recovery).

But, it matter the engines of economic growth fiscal and budgetary policies. For this approach it must be considered the study of the effects on growth of various types of income and expenditure. This will check the case of Romania if valid conclusions from other studies on boosting the economy through productive spending. This investigation indicates that social

contributions and intermediate consumption are not statistically significant. Therefore, these variables were not included in equation. An instant positive reaction comes from the taxes on production and imports whose growth with 1 percent generates a dynamic growth increase with 0.3 percent. On the other hand, current taxes on income and wealth produce a decrease but the reaction is delayed with 3 quarters.

Figure 1 **General government revenue and economic growth**
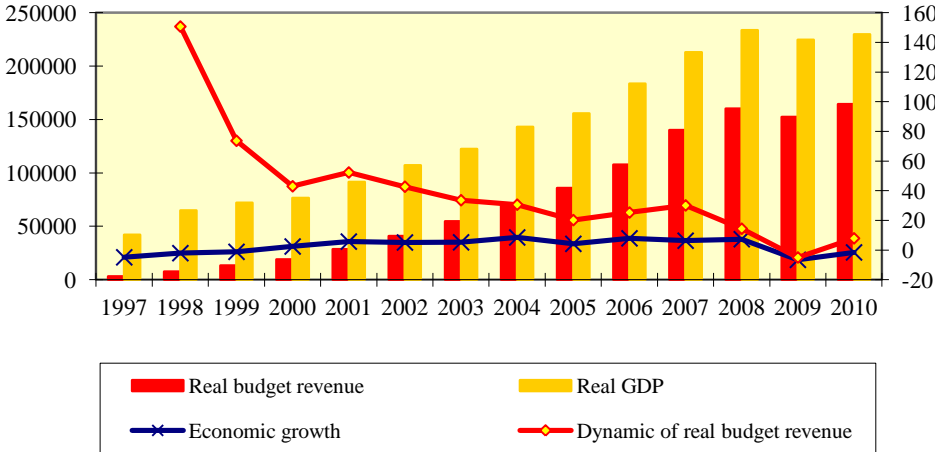
Figure 2 **General government expenditure and economic growth**
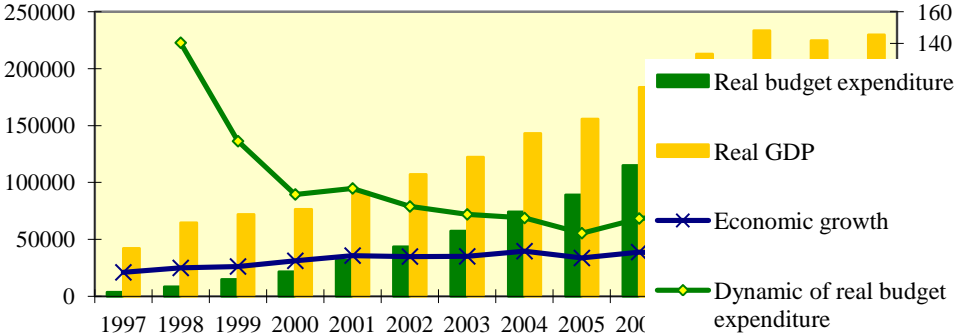
Source: author's investigation based on Eurostat data.

On expenditure side, the results indicate a positive impact on growth that comes only from the subsidies and interest with a delayed of two and three quarters). Compensation of employees has an important effects on economic growth with a delayed of 1 and two quarters as a direct consequences of the wages payment manner in the budgetary system. These results are obtained using data from Eurostat (2000Q1- 2004Q3). All the data are expressed in real terms using HICP and are seasonally adjusted. The series are stationary by applying first differences.

Surprisingly in a year if income or expenditure budget increase at a rate of GDP over the next period when growth will be adversely affected. This finding should be considered when conducting fiscal and budgetary projections for the next three years.

4. Conclusions

This paper aims to analyze the impact of fiscal and budgetary policies on economic growth. Results of research on Romania's case indicate that revenues act to stimulate the economy stronger than budgetary expenditures. This yields a positive influence on both the GDP and economic growth. On the other hand, the dynamics of income and expenditure negatively affects economic growth.

Romanian government can stimulate economic growth by increasing taxes on taxes on production and imports, subsidies and interest and decreasing current taxes on income and wealth and compensation of employees. Also, the growth rate of general government revenue or expenditure must follow closely the GDP rate because there is a negative relationship between the dynamic of fiscal variables and GDP growth rate.

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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 proffesors, 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, ussualy with interest, if the firm ist o 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:
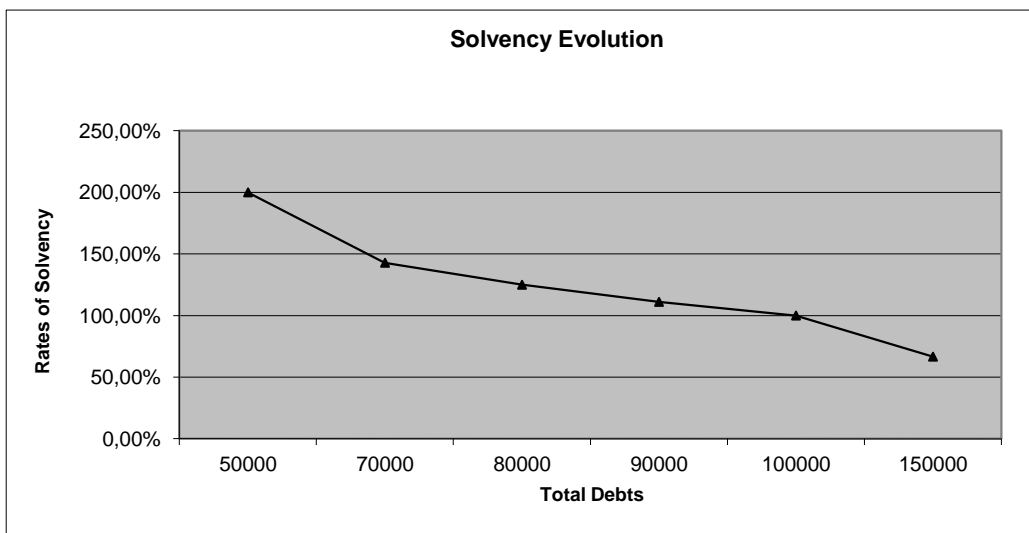
Source :

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

Surce: 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>=120%	120%>S>=110%	110%>S>=105%	105%>S>=100%	S<100%
Chemical	S>=150%	150%>S>=120%	120%>S>=110%	110%>S>=100%	S<100%
Mining and quarrying	S>=150%	150%>S>=120%	120%>S>=110%	110%>S>=100%	S<100%
Computing equipment industry, Electrical	S>=130%	130%>S>=120%	120%>S>=110%	110%>S>=100%	S<100%
Transport industry	S>=130%	130%>S>=120%	120%>S>=110%	110%>S>=100%	S<100%
Textile and leather	S>=140%	140%>S>=120%	120%>S>=110%	110%>S>=100%	S<100%
Agriculture	S>=115%	115%>S>=110%	110%>S>=105%	105%>S>=100%	S<100%
Construction and other branches	S>=130%	130%>S>=120%	120%>S>=110%	110%>S>=100%	S<100%
Metallurgy	S>=130%	130%>S>=120%	120%>S>=110%	110%>S>=100%	S<100%
Wood industry	S>=130%	130%>S>=120%	120%>S>=110%	110%>S>=100%	S<100%
Leasing	S>=125%	125%>S>=115%	115%>S>=105%	105%>S>=100%	S<100%

Own Source: Calculus

ANALYSIS OF PERFORMANCE RATES IN THE IT INDUSTRY

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Abstract.In the paper the authors show a modality of performance analysis based on ratios which are useful tools of analysis that synthesize large amounts of data in a form easier to understand, to interpret and compare. They underline in the same time certain limits to be analyzed for each case. When comparing rates from different periods should be considered the operating conditions of the economic entity and the impact of certain changes to the financial statements such as: changes in economic conditions, the production process, the various product lines or geographic markets served.

1. Introduction

Analysis based on ratios constructed by analysts, from financial statements, should be combined with the investigation of other factors, before they draw relevant conclusions and make recommendations for measures to be adopted by the economic entity's management.

Assessment of the fact that an index is too high, too low or appropriate depends on the interpretation of results by the analyst who is considering on one hand, the type of activity of the economic entity and economic entity's position within the sector and on the other hand, the strategy adopted by the economic entity on a particular market.

The objective of the ratios variation analysis is to determine causes and effects that rates have on the company's ability to repay debt.

2. Method and Results

In the research conducted I've selected from 2178 Romanian IT companies, a sample of 778 companies that were active uninterrupted between 2007 and 2011, companies that I afterwards re-grouped into four sub-areas of activity, namely: Software; Consultancy activities in information technology; Trade activities with IT products; Other activities.

The global crisis was par excellence in its first phase, a crisis of liquidity, which is why it is interesting to see its impact in the IT sector in Romania. The analyzed indicator is current liquidity, whose evolution can be found on the four sub-domains.

Over the period analyzed, on the extremes is the trade specialization - with the least favorable evolution and other activities specialization - with the best evolution and also with the highest values of current liquidity. However, despite these fluctuations, the current liquidity of the companies analyzed fits in the range of financial security around the entire period, except for companies that specialize in trade which beginning with 2009, recorded a significant drop in liquidity.

Another aspect analyzed in this study refers to the most representative statistical values for 10 indicators in the four areas of activity from which a number of issues arise (Table no.1).

Table no1. Evolution of the values of the representative indicators in consulting firms **- 645** *companies*

	2007	2008	2009	2010	2011		2007	2008	2009	2010	2011
	Average	Average	Average	Average	Average		Median	Median	Median	Median	Median
LC	916,81	664,79	510,85	926,01	427,26		170,15	171,37	157,80	158,96	165,68
GI1	172,73	84,93	94,48	101,17	104,74		67,83	71,27	70,37	71,69	70,45
SP	-72,73	15,07	5,52	-1,17	-4,74		32,17	28,73	29,63	28,31	29,55
PR	18,97	26,07	23,53	21,47	22,98		9,56	15,45	14,03	10,47	8,80
SOLV	210,90	87,42	93,57	379,30	179,97		44,35	34,70	36,84	41,42	44,49
LI	887,37	604,17	476,84	894,46	398,01		143,63	137,51	121,13	126,14	138,21
ROE	192,17	801,24	977,14	521,01	100,52		25,01	77,96	71,88	43,18	26,88
ROA	23,00	36,67	31,32	27,76	22,51		10,19	24,53	21,05	14,73	10,11
RRG	53,45	241,14	84,52	82,84	89,72		8,75	15,31	12,77	9,14	7,47
GI2	663,46	1380,67	2270,27	1090,65	926,00		55,06	64,76	85,16	72,99	66,07

Source: Personal Processing

Values recorded by the two indicators of the central tendency, mean (average) and median, confirm the lack of importance of the mean value compared with the median value. Basically, the existence of some extreme values leads to significant displacement of the mean value. The negative impact of the global crisis on the consulting company's sub-domain is obvious in the case of performance indicators ROE, ROA and RRG, their median values recording significant decreases in 2010 and 2011 compared with 2007-2009. In the same time liquidity indicators (LC - current liquidity and LI - immediate liquidity) tend not to differ significantly from one year to another, a fact confirmed by the application of some statistical tests for equality of their median value. Degree of Leverage as a measure of exposure of companies, although doesn't vary significantly from one year to another records high levels.

A similar behavior of these indicators can be found if the software companies sub-domain, according to Table no.2.

Table no. 2.Evolution of the values of the representative indicators in software companies - 49 companies

	2007	2008	2009	2010	2011		2007	2008	2009	2010	2011
	Average	Average	Average	Average	Average		Median	Median	Median	Median	Median
LC	1049,86	492,94	1129,76	1057,75	726,67		143,57	152,83	168,65	150,29	161,89
GI1	89,72	89,81	87,00	82,65	91,62		68,04	64,07	63,05	65,56	60,04
SP	10,28	10,19	13,00	17,35	8,38		31,96	35,93	36,95	34,44	39,96
PR	25,49	25,89	23,83	20,44	20,54		15,96	18,24	15,83	9,30	12,14
SOLV	148,14	114,97	174,41	375,83	516,20		36,71	52,36	44,80	43,38	32,39
LI	1008,89	466,71	1122,68	1049,96	717,33		137,33	149,91	168,65	132,46	157,32
ROE	573,57	569,20	1409,52	708,37	45,96		77,23	71,36	48,24	31,09	27,56
ROA	37,86	35,07	27,53	22,18	24,45		40,92	26,86	14,19	19,10	12,31
RRG	54,35	72,73	54,25	45,09	37,13		14,26	18,63	12,88	8,13	10,35
GI2	3275,75	1161,35	2251,97	1522,45	161,83		83,80	44,87	66,31	57,63	54,69

The performance of software companies is high in pre-crisis period, 2007-2009, but had the same downward trend during the crisis. Indebtedness is also high, but does not reach the levels of consulting companies, while liquidity is kept about the same levels.

Commerce sub-domain performance is higher during the crisis than the first two sub-domains analyzed, according to data in Table no.3. At the same time, perhaps due to the specific of the sub-domain, liquidity indicators recorded lower values. Indebtedness is maintained in this case also at high levels of over 60%.

Table no.3. Evolution of the values of the representative indicators in trade companies -11 companies

	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
	Average	Average	Average	Average	Average	Median	Median	Median	Median	Median
LC	2052,16	291,99	316,84	1767,34	756,88	205,3	167,36	165,19	130,41	105,77
GI1	57,45	67,69	81,17	63,12	65,97	69,79	71,02	49,68	66,03	68,35
SP	42,55	32,31	18,83	36,88	34,03	30,21	28,98	50,32	33,97	31,65
PR	22,08	20,38	29,19	21,37	24,48	11,24	8,95	21,84	11,46	12,23
SOLV	24,31	45,03	55,8	159,87	80,03	19,99	34,04	31,3	39,45	33,24
LI	1791,63	227,72	292,51	1425,2	623,22	135,57	115,79	156,54	101,41	79,96
ROE	631,63	564,75	60,14	42,36	42,97	96,46	71,12	78,56	42,49	25,09
ROA	35,69	21,66	34,22	21,51	20,85	29,99	8,06	40,35	16,29	16,46
RRG	181,15	153,92	150,98	43,05	35,65	10,97	6,78	23,44	9,56	11,12
GI2	3083,06	1504,11	185,02	228,32	487,85	230,96	245,07	95,92	130,66	124,91

Source: Personal Processing

From the sample of over 700 companies only two were declared to be in the Manufacturing equipment sub-domain and their analysis is unnecessary because both recorded loss in all five years examined.

In the category *other activities* can be found 66 businesses whose performance, according to Table no.4 is located in the average of the IT sector. High levels of liquidity indicators and a lower level of leverage are recorded.

*Table no 4. Evolution of the values of the representative indicators in **other activities** companies - 66 companies*

	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
	Average	Average	Average	Average	Average	Median	Median	Median	Median	Median
LC	803,62	620,62	568,47	695,85	707,80	173,80	181,45	197,75	173,40	212,00
GI1	80,84	87,87	90,89	97,00	131,20	76,05	73,95	62,70	69,55	51,05
SP	19,16	12,13	9,11	3,00	-31,20	23,95	26,05	37,30	30,45	48,95
PR	34,75	26,99	25,38	19,74	22,84	28,60	14,50	14,90	9,70	17,75
SOL	64,25	79,28	196,68	186,02	496,40	37,35	54,95	42,75	51,55	34,65
LI	751,78	485,89	532,67	652,84	682,46	170,50	157,65	166,45	154,10	169,90
ROE	4182,86	1995,90	1150,83	44,65	85,28	98,95	68,20	42,60	32,50	21,25
ROA	44,61	28,56	28,73	23,47	26,94	41,85	22,45	18,95	11,85	17,60
RRG	124,25	167,14	83,46	36,17	57,00	37,05	13,95	14,50	8,85	17,10
GI2	13817,15	3744,86	4076,29	1308,76	-7,74	164,10	86,10	50,55	47,25	30,20

Source: Personal Processing

Table no.5 Distribution of the degree of leverage in 2011

	GI Variation Interval			Total cases
	[0 – 30%)	[30% – 60%)	≥ 60%	
Software				
No. of cases	10 (20.41%)	14 (28.57%)	25 (51.02%)	49 (100%)
Median ROE	33.53%	65.91%	0	
Median ROA	31.67%	36.31%	1.81%	
Consultancy				
No. of cases	133 (20.62%)	129 (20.00%)	383 (59.38%)	645 (100%)
Median ROE	56.11%	43.88%	2.40%	
Median ROA	47.12%	23.43%	2.66%	
Trade				
No. of cases	3 (27.27%)	2 (18.18%)	6 (54.55%)	11 (100%)
Median ROE	21.41%	89.35%	17.55%	
Median ROA	21.19%	42.35%	3.02%	
Others				
No. of cases	20 (30.30%)	16 (24.24%)	30 (45.46%)	66 (100%)
Median ROE	53.89%	56.90%	0	
Median ROA	48.23%	32.86%	0	

Source: Personal Processing

The analysis undertaken revealed the distribution of the median value for ROA and ROE, in the four areas based on "three areas" named: green area (0-30%), brown area (30 -60%) and red area (over 60%). Thus, for Software Median ROE for the green area has a value of 33.53%, for the brown area the recorded value is 65.91% and for the red area the value of the indicator is 0%. Median ROA for the green area has a value of 31.67%, the value recorded for the brown area is 66.31% and for the red are at he indicator value is 1.81%.

For consultancy median ROE for the green area has a value of 56.11%, for the brown area the recorded value is 43.88% and for the red area the value of the indicator is 2.40%. Median ROA for the green area has a value of 47.12%, the value recorded for the brown area is 22.43% and for the red are at the indicator value is 2.66%.

For trade median ROE for the green area has a value of 21.41%, for the brown area the recorded value is 89.35% and for the red area the value of the indicator is 17.55%.Median ROA for the

green area has a value of 21.19%, the value recorded for the brown area is 42.35% and for the red are at the indicator value is 3.02%.

For Other Activities median ROE for the green area has a value of 53.89%, for the brown area the recorded value is 56.90% and for the red area the value of the indicator is 0%. Median ROA for the green area has a value of 48.23%, the value recorded for the brown area is 32.89% and for the red are at the indicator value is 0%.

3. Conclusions

The analysis undertaken revealed the distribution of the median value of ROA and ROE, on the four domains based on "three areas" named: green area (0-30%), brown area (30-60%) and red area (over 60 %).

From the analysis of the main statistical indicators of central and variation tendency of the rate of return on assets and rate of return it can be seen that over 50% of firms that are engaged in consulting activities are in the green area not having continuous problems of financial difficulties. For this reason we believe that it is required in the financial theory and practice of the companies to find more and more often the rating models that can prevent a collapse of economic entities.

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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 Mahahbubnagar 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 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 Mahahbubnagar 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 appliable, 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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GLOBAL FINANCIAL CRISIS AND UNIT-LINKED INSURANCE MARKETS EFFICIENCY: EMPIRICAL EVIDENCE FROM CENTRAL AND EASTERN EUROPEAN COUNTRIES

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This paper empirically investigates the impact of the Global financial crisis on the efficiency of four Central and Eastern European emerging unit-linked insurance markets, applying the automatic variance ratio (AVR) test of Kim (2009) and variance ratio tests using ranks and signs by Wright (2000) for entire, pre-crisis and crisis periods. This study contributes to the existing literature on efficient market hypothesis with several distinct features: it provides a systematic review of the weak-form market efficiency literature that examines return predictability of the daily ING unit-linked funds prices; also the article aims at monitoring any improvement in the degree of efficiency in time and also examines the relative efficiency of unit-linked insurance markets in pre-crisis and crisis periods. Unit linked insurance are life insurance policies with investment component. In the literature there are few studies investigating the effects of a financial crisis on the potential of predictability and implicitly on the degree of efficiency of financial markets. The occurrence of a market crash or financial crisis is a possible contributing factor of market inefficiency. Most of the studies are focused on the Asian crisis in 1997: Holden et al. (2005) examined the weak-form efficiency of eight emerging Asian stock markets using VR tests before, during and after the Asian crisis; Kim and Shamsuddin (2008) used three different types of multiple VR tests for nine Asian stock markets; the findings reported by Lim et al. (2008) are consistent with those reported by Cheong et al. (2007), in which the highest inefficiency occurs during the crisis period. Todea and Lazar (2010) investigated the effects of the Global crisis on the relative efficiency of ten CEE stock markets, using Generalized Spectral test of Escanciano and Velasco (2006). Wright (2000) proposes the alternative non-parametric variance ratio tests using ranks and signs of return and demonstrates that they may have better power properties than other variance ratio tests. Kim (2009) found that the wild bootstrap AVR significantly improves the size and power properties of the AVR test. Using the bootstrapped automatic VR test developed by Kim (2009) and Wright's test, the statistical findings show that the degree of the markets' inefficiency varies through time and surprisingly the empirical results suggest that the Global crisis led to a decrease of predictability and hence to an improvement of relative efficiency for five of the eight ING funds.
Keywords: Global financial crisis, unit-linked insurance markets, market efficiency, martingale, variance ratio test.
JEL classification: G22, G23, G14, C58, C87.

1. Introduction

Although the efficient market theory and the random walk hypothesis have been major issues in financial literature for the past thirty years, there are only few studies investigating the impact of the global financial crisis on the potential of predictability and implicitly on the degree of efficiency of financial markets, respectively of Central and Eastern European unit-linked insurance markets.

The global financial crisis has negatively influenced the evolution of European unit-linked investment funds. Unit linked insurance are life insurance policies with investment component.

The insurance premiums are invested into one or more investment funds, managed by the insurance company. Each investment fund has its own unit with individual prices. In case of unit-linked insurance policies the investment risks are on the insurance person's side, but the benefits of the investment depend on the investment funds' evolutions.

The efficient market hypothesis (Fama, 1970:383-417) can be viewed as the cornerstone of modern finance. Since the seminal papers of Samuelson (1965) and Fama (1970), the efficient market hypothesis states that efficient market prices follow a random walk or a martingale. When the market is efficient, all available information is fully and instantaneously reflected in price, and no market participant is able to make abnormal profit. When the information set is limited to past price and return, the market is said to be weak-form efficient and the asset return is purely unpredictable from the past information. Most of the efficient market hypothesis studies on financial markets are tested for the weak-form efficiency through the martingale difference hypothesis MDH, where the current price is the best predictor of the future price and the returns are independent or uncorrelated with the past values. According to Lo (2004), there is no consensus among finance academics and practitioners as to whether stock market is efficient. While most of finance researchers believe the market is weak-form efficient (see Doran, et al. 2009), there are some critics who support the idea of maximum predictability (DeBondt and Thaler 1985, Barber and Ordean 2001). Grossman and Stiglitz (1980) even argue that a perfectly efficient market is impossible. In response to these critics, Campbell et al. (1997) proposed the concept of relative efficiency. With relative market efficiency, it is useful to measure the degree of efficiency or return predictability. The common idea of these studies is the fact that the rejection/acceptance of random walk hypothesis (RWH) is equivalent to the hypothesis of inefficiency/ efficiency. Todea and Lazar (2010) stated that a rejection of the hypothesis of efficiency over the whole sample could either mask subperiods of efficiency, or the fact that markets are becoming more efficient over time, so a more accurate approach would be to identify subperiods of efficiency/inefficiency and to rank the relative market efficiency.

The objective of this article is to empirically investigate the effects of the recent Global crisis on the degree of efficiency or return predictability of four Central and Eastern unit-linked insurance markets using the automatic variance ratio (AVR) test of Kim (2009) and rank-based variance ratio tests by Wright (2000). This study contributes to the existing literature on EMH with several distinct features: this paper provides a systematic review of the weak-form market efficiency literature that examines return predictability from past price changes, with an exclusive focus on the unit-linked insurance markets. Moreover, the article aims at monitoring any improvement in the degree of efficiency in time and also examines the relative efficiency of markets in pre-crisis and crisis periods.

The structure of the article is as follows. Section 2 discusses some previous research on the issue. Section 3 and 4 describe the sample data and provides descriptive statistics and outlines the methodology. Empirical results are presented in Section 5. The conclusions are drawn in Section 6.

2. A review of related literature

The globalization of financial markets broadcasted the interest of most of the contemporary empirical tests for the Efficient Market Hypothesis in individual or regional markets from Latin America (Urrutia 1995, Grieb and Reyes 1999, Charles and Darne 2009 etc.), Africa (Smith et al. in 2002, Magnusson and Wydick 2002 etc.), Asia (Huang 1995, Groenewold and Ariff 1998, Kim şi Shamsuddin 2008 etc.), Middle East (Abraham et al. 2002, Al-Khayali et al. 2007 etc), Europe (Worthington and Higgs 2004, Smith 2009, Charles et al. 2009 etc).

The occurrence of a market crash or financial crisis is a possible contributing factor of market inefficiency. This is because investors are generally swamped by panic in that chaotic financial environment, and thus causing a decrease in the degree of efficiency. Thus, Holden et al. (2005)

examined the weak-form efficiency of eight emerging Asian stock markets using VR tests before, during and after the Asian crisis. For most markets, there is no improvement in the degree of efficiency in post-crisis period, except for Taiwan. Using three different types of multiple VR tests for nine Asian stock markets, Kim and Shamsuddin (2008) divided their sample into sub-sample I (1990–1996) and sub-sample II (1998–2005) in order to separate the effect of the 1997 financial crisis. The results of this study show that the stock markets of Hong Kong, Japan and Taiwan remain efficient even after the crisis. The findings reported by Lim *et al.* (2008) are consistent with those reported by Cheong *et al.* (2007), in which the highest inefficiency occurs during the crisis, followed by the pre-crisis and post-crisis periods. Todea (2010) investigated the effects of the Global crisis on the relative efficiency of ten CEE stock markets. The results of the Generalized Spectral test of Escanciano and Velasco (2006) show a decrease of predictability and an improvement of relative efficiency for seven of the ten investigated markets in the crisis period.

3. The data and its properties

The present paper focuses on four Central and Eastern European unit-linked insurance markets and the closing values of ING unit-linked funds at daily frequency for these markets are collected as follows: Czech Republic (Bond Fund, Junior Fund), Hungary (Bond Unit Fund, Balanced Unit Fund), Poland (Bonds Sub-Fund, Balanced Sub-Fund), Romania (Bond Fund, Mixt 25 Fund). All four ING Bond fund portfolios invest 100% in domestic instruments with fixed income. And the rest of ING fund portfolios invest 15-50% in shares issued by companies from the European Union, in particular Romania, Hungary, Poland and the Czech Republic, and instruments with fixed income denominated in national currency**.** All the closing prices of these funds collected from ING database are denominated in their respective local currency units. The data starts from 21 July 1999 and ends at 12 April 2012.

(Table 1) provides the descriptive statistics for the continuously compounded percentage returns, computed as $Y_t = \ln(P_t) - \ln(P_{t-1})$ (1), where P_t and P_{t-1} denote the closing price of the unit-linked fund on two consecutive trading days. To address the impact of the Global financial crisis on market efficiency, one has to first identify the crisis period. The downward trend started in most cases in the middle of 2008.

Table 1. Descriptive statistics of returns for pre-crisis and crisis periods

Market	Czech Republic		Hungary		Poland		Romania	
Pre-crisis	Bond	Junior	Bond	Balanced	Bond	Balanced	Bond	Mixt 25
Mean	0.000130	0.000162	0.000302	0.000335	0.000287	0.000394	0.000568	0.000608
St. Dev.	0.001520	0.002213	0.003245	0.006215	0.001619	0.006526	0.001620	0.004417
Skewness	0.245899	-0.473242	-1.451530	-0.24874	0.271131	-0.24251	6.569553	2.298665
Excess Kurtosis	8.999322	7.620678	27.274590	5.988092	9.712003	5.576193	58.933100	42.661400
Crisis	Bond	Junior	Bond	Balanced	Bond	Balanced	Bond	Mixt 25
Mean	0.000093	-0.000033	0.000226	0.000053	0.000214	-0.00005	0.000249	0.000249
St. Dev.	0.002457	0.003000	0.006730	0.009986	0.001937	0.008674	0.000929	0.004181
Skewness	-1.303614	-1.036878	0.165583	-0.16966	-0.42613	-0.27038	-2.857740	-0.228594
Excess Kurtosis	17.589080	14.280630	13.150470	7.372269	8.999322	5.538333	73.990120	7.851020

Test is performed by the authors using software Eviews.

The Global crisis had a significant impact on the markets' performance, the highest decreases in prices were recorded for the Czech Republic Junior Fund and Poland Balanced Sub-Fund. During

the crisis period the highest increases of volatility are found in the case of Hungary funds and Poland Balanced Sub-Fund. In general, the daily returns are negatively skewed, which means that large negative returns are more probable than the higher positive returns. The excess kurtosis is positive for all indexes which indicates an increased number of returns around the average, comparative to the normal law.

4. Methodology. Automatic bootstrapped VR test developed by Kim (2009) and Variance Ratio Tests Using Ranks and Signs developed by Wright (2000)

The variance ratio test has been used widely as a mean of testing for the weak-form efficiency of financial markets, and of evaluating predictability of financial return. Since Lo and MacKinlay (1988) proposed its original form, the test has undergone a number of improvements, including the multiple variance ratio test of Chow and Denning (1993), sign and rank tests of Wright (2000), wild bootstrap test of Kim (2006), power-transformed test of Chen and Deo (2006) and bootstrapped automatic VR test of Kim (2009). The test is based on the property that, if an asset return is purely random, the variance of k-period return is k times the variance of the one-period return. The VR test evaluates the hypothesis that a given time series or its first difference (or return), is a collection of independent and identically distributed observations or that it follows a martingale difference hypothesis. Wright (2000) proposes the alternative non-parametric variance ratio tests using ranks and signs of return and demonstrates that they may have better power properties than other variance ratio tests. First, his tests often allow for computing the exact distribution. As it is not necessary to appeal to any asymptotic approximation, size distortions can be neglected. Second, tests based on ranks and signs may be more powerful than other tests if the data are highly non-normal.

When returns are subject to an unknown form of conditional heteroscedasticity, Kim (2009) proposes to employ the wild bootstrap of Mammen (1993) to improve small sample properties, as in Kim (2006) who applied the wild bootstrap to the Lo-MacKinlay and Chow-Denning tests. The wild bootstrap for $AVR(\hat{k})$ can be conducted in three stages as follows: form a bootstrap sample of T observations $Y_t^* = \eta_t Y_t$ (2) (t=1,…,T), where η_t is a random sequence with $E(\eta_t) = 0$ (3) and $E(\eta_t^2) = 1$ (4); calculate $AVR^*(\hat{k}^*)$, the AVR statistic obtained from $\left\{Y_t^*\right\}_{t=1}^T$; and repeat the previous stages B times to form a bootstrap distribution $\left\{AVR^*\left(\hat{k}^*; j\right)\right\}_{j=1}^B$. The two-tailed p-value of the test is obtained as the proportion of the absolute values of $\left\{AVR^*\left(\hat{k}^*; j\right)\right\}_{j=1}^B$ greater than the absolute value of $AVR(\hat{k})$.

5. Empirical results

We investigate the weak-form EMH for ING Czech Republic Bond Fund and Junior Fund, ING Hungary Bond Unit Fund and Balanced Unit Fund, ING Poland Bonds Sub-Fund and Balanced Sub-Fund, and ING Romania Bond Fund and Mixt 25 Fund by testing the MDH from wild bootstrapped AVR test and Wright's test. The (Table 2) displays the AVR test statistics for entire, pre-crisis and crisis periods. Bold letters indicate significant value at a 5% level of significance.

Table 2. The AVR test statistics for the entire, pre-crisis and crisis periods

Period	The entire period	Pre-crisis	Crisis	The entire period	Pre-crisis	Crisis
	ING Czech Republic Bond Fund			**ING Hungary Bond Unit Fund**		
Period	7/21/99-4/12/12	7/21/99-9/17/08	9/18/08-4/12/12	7/21/99-4/12/12	7/21/99-7/31/08	8/1/08-4/12/12

Period	The entire period	Pre-crisis	Crisis	The entire period	Pre-crisis	Crisis
AVR	**8.163652**	**4.100492**	**5.546805**	**4.05785**	1.780431	**3.006886**
p-value	**0**	**0**	**0.002**	**0.038**	0.359	**0.031**
	ING Poland Bonds Sub-Fund			**ING Romania Bond Fund**		
Period	7/21/99-4/12/12	7/21/99-2/4/08	2/5/08-4/12/12	7/21/99-4/12/12	7/21/99-10/7/08	10/8/08-4/12/12
AVR	**9.995314**	**10.7963**	**2.974359**	**5.402333**	**4.927309**	-1.737583
p-value	**0**	**0**	**0.027**	**0**	**0**	0.388
	ING Czech Republic Junior Fund			**ING Hungary Balanced Unit Fund**		
Period	7/21/99-4/12/12	7/21/99-9/17/08	9/18/08-4/12/12	7/21/99-4/12/12	7/21/99-7/31/08	8/1/08-4/12/12
AVR	2.70222	-0.2343008	3.387348	**3.847812**	1.853926	2.854542
p-value	0.091	0.753	0.041	**0.014**	0.061	0.058
	ING Poland Balanced Sub-Fund			**ING Romania Mixt25 Fund**		
Period	7/21/99-4/12/12	7/21/99-2/4/08	2/5/08-4/12/12	7/21/99-4/12/12	7/21/99-10/7/08	10/8/08-4/12/12
AVR	**3.739357**	**3.156231**	1.728902	**3.764244**	**3.502065**	1.366356
p-value	**0.002**	**0.005**	0.067	**0.001**	**0.002**	0.197

Test AVR is performed by the authors using software R.

Over the entire period, we observe that the martingale hypothesis is clearly rejected on the vast majority of unit-linked insurance markets, except for ING Czech Republic Junior Fund, at 0.05 significant level. In general, the high degree of predictability and implicitly of inefficiency of the four CEE unit-linked insurance markets is observed also in the two subperiods, except for ING Czech Republic Junior Fund, ING Hungary Bond Unit Fund and Balanced Unit Fund in pre-crisis period and the ING Czech Republic Junior Fund, ING Poland Balanced Sub-Fund, ING Hungary Balanced Unit Fund, ING Romania Bond Fund and Mixt 25 Fund in crisis period. Also the Wright's variance ratio test rejects the null hypothesis at a 5% level of significance, for all of the unit funds at most of the aggregation levels. The test statistics R1, R2 and S1 are using the following k aggregation values: 2, 5, 10 and 30. The Wright's test statistics suggest a surprising increase of the degree of efficiency in the crisis period, exceptions being ING Czech Republic Bond Fund and ING Romania Mixt25 Fund for all aggregation levels.

6.Conclusions
The efficient market hypothesis (Fama, 1970) can be viewed as the cornerstone of modern finance. One implication of the efficient market hypothesis is that when purchasing a security, you cannot expect to earn an abnormally high return, a return greater than the equilibrium return. Many studies shed light on whether investment advisers and mutual funds beat the market.
This study investigates the effects of the Global crisis on the relative efficiency of four CEE unit-linked insurance markets, an issue which is surprisingly understudied in the literature. Using the bootstrapped automatic VR test developed by Kim (2009), the statistical findings show that the degree of the markets' inefficiency varies through time. Only in the case of ING Czech Republic Junior Fund, the martingale hypothesis is accepted for the entire period and for the two superiods. Both of the tests suggest that the ING unit values that register an increase of predictability, correspond to ING less risky funds that invest 100% in domestic instruments with fixed income.
Surprisingly the AVR and Wright's empirical results suggest that the Global crisis led to a decrease of predictability and hence to an improvement of relative efficiency for five of the eight ING funds. On the other hand, an opposite result, that of a decrease of efficiency's degree in the

crisis period, was observed by AVR statistics for ING Czech Republic Bond Fund, ING Poland Bonds Sub-Fund and ING Hungary Bond Unit Fund and by Wright's test statistics for ING Czech Republic Bond Fund, ING Hungary Bond Unit Fund and ING Romania Mixt25 Fund.

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LOCAL BORROWING AUTONOMY AS PART OF FISCAL DECENTRALIZATION PROCESS

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Beside the usual fiscal instruments like taxes and intergovernmental grants, sub-central governments have access to additional revenue through borrowing. When assessing the fiscal decentralization process, a key issue is the local borrowing autonomy, even though the fiscal decentralization literature has devoted surprisingly little attention to this topic. This paper examines the implications of sub-central government borrowing and the reasons behind the borrowing constrains they face. Based on the methodology developed by IADB, we have calculated a Borrowing Autonomy Index for Romania and compared the results to other countries providing a valuable insight on the fiscal decentralization specific features.
Keywords: fiscal decentralization, sub-central government, local borrowing, borrowing autonomy.
JEL codes: H71, H77

Introduction

In the setting of worldwide increase in the degree of fiscal decentralization and urbanization, local authorities are placed in a position to make important investments in areas such as infrastructure, water supply or transport. Thus, at the sub-national government level, the capital public expenditures tend to have a larger fraction of total expenditure, than for the higher levels of government. These public investments involve a high level of fiscal resources, which usually cannot be provided through current own revenues, being financed by capital transfers from central government. Unfortunately, when central governments are forced to implement measures to limit the budget deficit, public spending cuts usually operate among investments (Peterson, 1997). For this reason, local authorities are placed in a position to find alternative ways of financing investment projects, their access to capital markets becoming essential.

Besides the possibility to finance capital expenditure, local government loans can also serve to cover temporary cash flow deficits resulted from different timings in collecting receipts and making payments. Also, local authorities' access to the financial resources supplied by the capital markets, under certain conditions, can promote a responsible behavior and may increase local officials' accountability. Financial institutions may penalize, by increasing interest rates or refuse funding, local authorities with poor performance, and thus provides an independent mechanism for assessing the quality of local public policies (Ahmad, 2000).

For these reasons, institutions like the World Bank, EBRD, Inter-American Development Bank or Asian Development Bank are among the biggest supporters of increased autonomy regarding local public borrowing, as an essential component of financial decentralization.

On the other hand, the theory of fiscal federalism (Oates, 1968) has identified and potential hazards associated with liberalization of access to public loans at local level. Also, Jonathan Rodden (2002) showed that if there are some significant vertical fiscal imbalances, high local borrowing autonomy can lead to fiscal indiscipline by local authorities because they are expecting the intervention of central government to bail them out and to cover their deficits in case of fiscal distress. Therefore, a legal framework that allows local governments' access to public loans must be adopted, but one that prevents excessive local indebtedness. Thus, most countries have imposed certain restrictions on accessing loans by sub national governments.

In addition, due to the high degree of capital mobility within a country, financial securities generated by sub central government borrowing (such as, municipal bonds) will be, most likely, held by nonresident individuals or legal persons in the issuing jurisdiction. Thus, local government debt tends to be a greater degree than government debt, external debt for the local jurisdiction. For repayment of local government debt all community residents will pay higher

taxes in future, but from the interest on loans will benefit, to a greater extent, citizens of other communities. To prevent this transfer of income from the community to other communities and also to limit the size of total public debt (as the local government debt is part of the public debt), most states have instituted various restrictions, limiting, in one form or another, local governments' access to public loans. Ter-Minassian and Craig (1997) provide an extensive debate over the borrowing restrictions faced by sub central governments. They group these constrains into four categories: market discipline, co-operation, rules-based controls and administrative control by the central government.

Subnational governments borrowing autonomy
Local authorities' permission to borrow on the capital market is an important step in the process of fiscal decentralization. Borrowing autonomy can enhance the efficiency effects and quality of governance associated with fiscal decentralization.

To assess the possibilities of public borrowing of local and regional governments, Inter-American Development Bank (1997) has developed a Borrowing Autonomy Index. It is built according to legislative requirements concerning the possibilities of local authorities borrowing and their relations with banks and state owned companies, as shown in Table no.1.

Table 1 The Borrowing Autonomy Index (1)

No	Criteria	Score
1.	*Ability to borrow* If the sub central government cannot borrow	2 points
2.	*Loans authorization* - If all borrowing by sub central government require authorization from higher level of government - No authorization required	1 point 0 points
3.	*Borrowing constrains* - If there are numerical constrains on borrowing (such as maximum local debt service/revenue ratios)	Up to 0,5 points depending on constrains
4.	*The use of debt* - If local debt can not be used to finance current expenditure	0,5 points
The first part of the index is given by: 2 - sum of score for criteria 1. - 4.		
5.	*Subcentral governments relation to banks* - If subcentral governments own banks - If these banks have substantial importance - If subcentral governments have special relation to banks, but don't actually own them	1 point 0,5 points 0,5 points
6.	*Public enterprises* - If subcentral governments own important public enterprises, and these have liberal borrowing practices	0,5 points
To obtain the final index for each country the scores from criteria 5. and 6. are added to the first part of the index. O ne is added so that the final index varies between 1 and 5.		

Source: Inter-American Development Bank, "Fiscal Decision-making in Decentralized Democracies.", Latin America After a Decade of Reforms, Economic and Social Progress in Latin America Report, John Hopkins University Press, Washington D.C., 1997.

The index takes into account institutional features, such as whether every new loan requires authorization by the upper level of government, whether numerical constrains are in place, and whether sub central governments own banks and public enterprises. The major advantage of this approach is the ability to compress information about sub central governments' borrowing autonomy into a single index being suitable for international comparisons.

Based on the domestic legislation provisions we calculated the value of this index for Romania and for comparison with several EU Member States, we used the values calculated by Rodden (2002). The values of the index can range from 1 to 5, where 1 indicates no sub central government is able to borrow and 5 indicates full autonomy in borrowing, which is neither limited nor require any approval from central government. It can be argued that the values computed for the other countries refer to other periods of time and may induce a distorted image. However, the legislation regarding local borrowing powers changes rarely, especially in old Member States, that represent the bulk of the analysis.
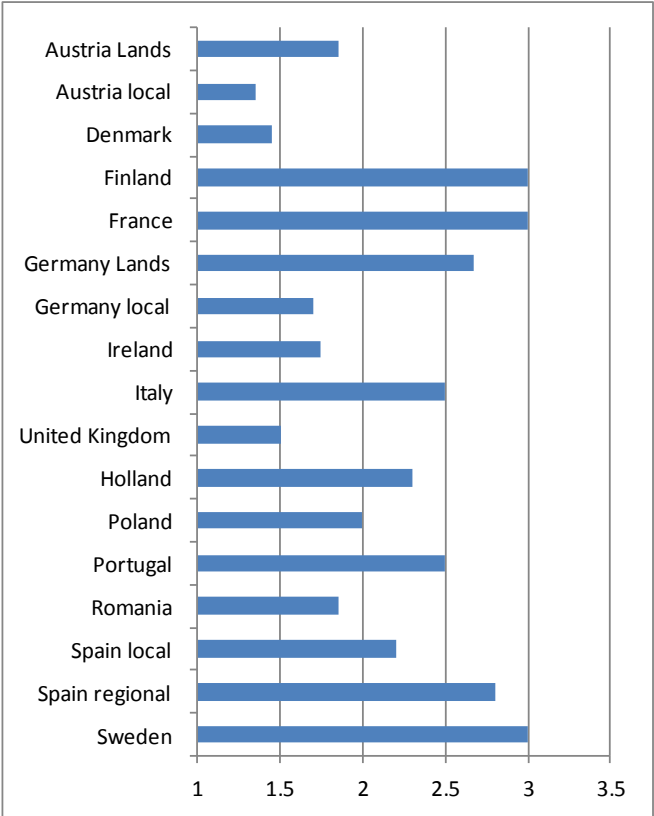
Figure 1 The Borrowing Autonomy Index for selected EU Member States
Source: Own calculations, Rodden (2002)

As shown in Figure 1, Most EU member states have restricted access to loans to local authorities, as the index recorded a maximum value of 3. These restrictions are a normal consequence of assuming the nominal convergence criteria stated in the Maastricht Treaty and subsequently enforced by the Stability and Growth Pact.

States where local authorities are required the fewest restrictions in accessing public loans are Sweden, France and Finland. In the federal states, generally, regional governments tend to have a greater freedom than local governments regarding access to loans. Regional governments in Spain are able to borrow even to cover temporary cash deficits by short-term loans, unlike Germany, where they can borrow only to finance medium and long term public investments.

In Romania, local authorities may borrow only to finance investments or refinancing local debt. The legislative framework that enabled local authorities to access loans was developed by Law no 189/1998 regarding local government public finance. Under the current legislation, local authorities are not allowed access to loans or to guarantee any loan, if the total annual debt service from loans and/or guarantees is exceeding the limit of 30% of own revenue from taxes,

fees, contributions and other payments, other revenue and also revenue sharing from income tax. Moreover, any local public loan must be approved by the Commission for local government debt authorization and local debt must be repaid exclusively from own revenue.

Conclusions

When analyzing the fiscal decentralization process, an important component is the local governments' autonomy, which can be described by spending and tax autonomy, as well as by borrowing autonomy. To avoid excessive local public debt, all the EU Member States have imposed some restrictions for local governments in accessing loans. In the context of the current sovereign debt crisis, the control over sub-national borrowing becomes increasingly important. Romania, scoring 1,85 points on the Borrowing Autonomy Index granted local governments limited borrowing power, yet higher than some more developed countries such as Ireland, United Kingdom or Denmark. In the case of the EU Member States considered for our analysis we observe that between sub-national tax autonomy (Crâşneac, Heteş and Miru 2011) and borrowing autonomy is a strong connection observed among some Member States like France and Sweden. However, between the degree of decentralization, expressed by sub-national governments share in total public spending, and borrowing autonomy there is no direct relationship, some states with high degree of decentralization giving local authorities limited borrowing autonomy.

Notes

(1) The index was used by Anderson (2006) as part of a decentralization measure, but only the first part of the index, the values ranging from 0 to 2.

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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 all, 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 SC.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.

1. 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.

Scheme of laundering funds illicitly obtained from substituting petrol products

**Payment of products A and B for the
value within the refinery's documents**

		REAL COMPANY

Excised product A → REAL COMPANY

REFINERY

Non-excised   product →

A   B

GHOST (FICTITIOUS) COMPANY

Cash

Excised product A + B

FINAL CONSUMER

Loan granted to the company

**Deposits in cash in the account of
the refinery's administrator**

**Cash withdrawl ½ countervalue taxes
for product B**
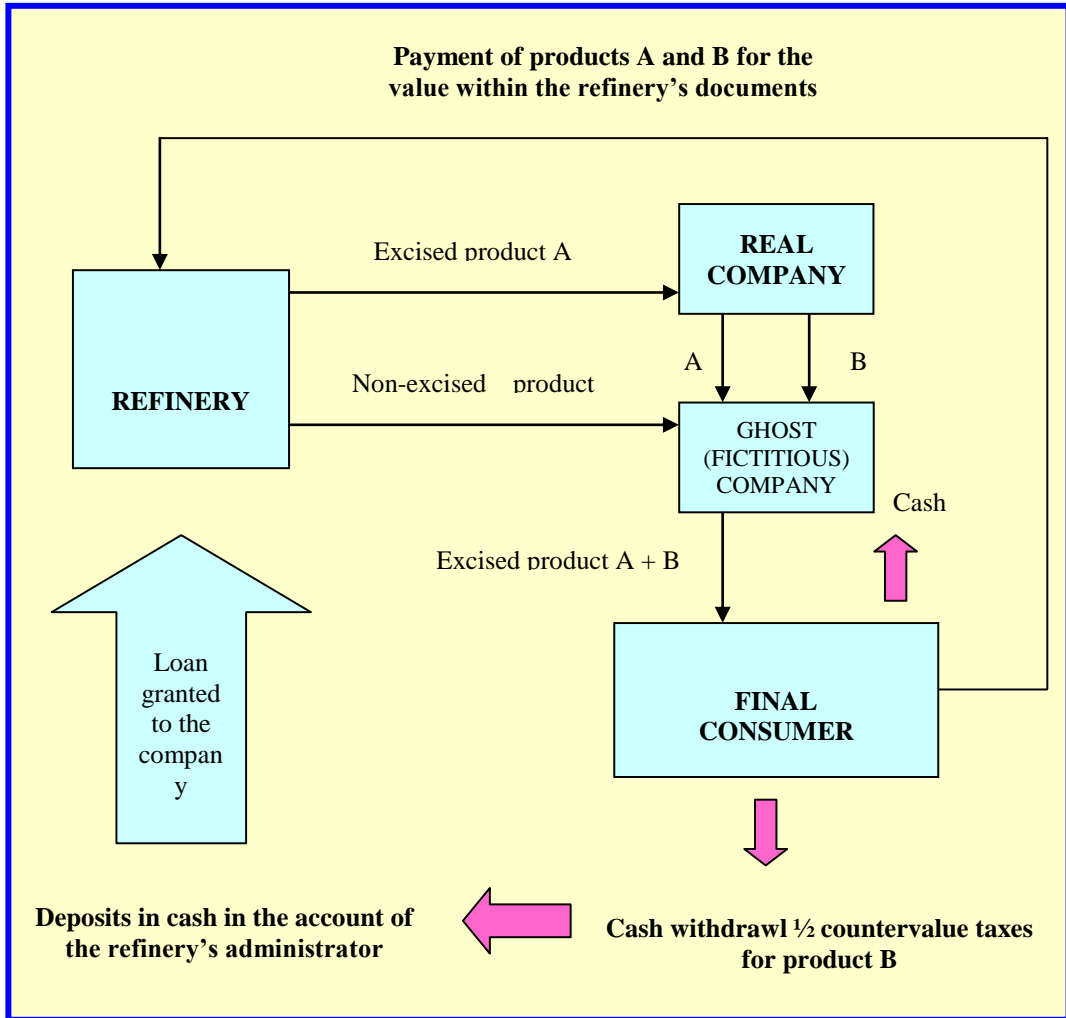
It is important to mention the fact that the payment of the fuels' counter-value to the refinery is performed for the values written within the accounting documents concluded between this and the real company, but the payment is performed directly from the gas station, without following the track of 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.Concluzions

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 launderingFrom 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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THE UNDERGROUND ECONOMY,THE CORRUPTION .
A WAY OF MANIFESTING THE FISCAL EVASION

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Fiscal evasion is mainly found within the underground economy, came to the specialists' attention within the 1960s, moment in which it took a great extent. The main cause which leads to activities within the underground economy is represented by the increase of direct taxes, which has the largest influence, followed by the intensity of the regulations and the complexity of the fiscal system. The imposed taxes determine more and more countries to act within the underground economy, as long as there is not a proper offer of public goods and infrastructure. In his study, Vito Tanzi indicated as the main cause of the underground economy the level of taxes.(Tanzi,1983:11-15) He adds the instability of the legislative framework, legislative restrictions imposed within certain states, corruption and bureaucracy. Corruption and the activities specific to the underground economy are realities all the states confront with. Gathering information about the dimensions of corruption and the connection with the underground economy proves to be a task which is impossible to achieve, because all the people involved within these mechanisms prefer not to be identified. Even if the underground economy and corruption are considered as being twins, the questions which appear are: who needs them and who fights against them? Theoretically speaking, corruption and the underground economy can be complementary or substitutable.The anticorruption efforts have to focus on a real reform of the administrative system, whereas the citizen's perception on corruption is mainly based on his personal experiences in direct connection with the state institutions. Both the public sector as well as the private sector should become more responsible, so that the public institutions to be able to carry out their obligations under integrity conditions and without external pressure or implication. Corruption attracts the economic agents to the underground economy, which leads to a reduction of taxes collected by the state, finally materialized in the increase of the fiscal burden for a less and less number of tax payers.
Key words:fiscal evasion, underground economy, corruption, taxes, fraud .
J.E.L.cassification:G0,G15,G33,H26,H3

1.Introduction

The difficulty to define the underground economy, generated by the diversity of the activities it combines, the fact that it varies according to the particularities in space and time, specific to this type of economy, determined a multitude of definitions within the speciality literature. According to the definition adopted by the countries within the European Union, **the activities** which refer to the underground economy's field of activity are classified into:

-undeclared legal productive activities (black economy), including activities which are not recorded at the state's level through the national accounting system (domestic activities, voluntary work, activities for the community's benefit etc.) and those which are not declared within the financialadministration (fraud and fiscal evasion, illicit work etc.);

-undeclared illicit (illegal) productive activities which produce goods and services (drugs production and trade, traffic in firearms etc.).

 Lippert and Walker make another classification of the activities assimilated to the concept of underground economy, based on the monetary criterion and the legality of the respective activities. Within the developed countries, the undeclared legal activities, in order to avoid payment of fiscal obligations, represent the most important part of the underground economy, whilst within the developing countries, due to the fact that auto-consumption is very powerful and the possibilities to statistically record all the activities are reduced, the production which is

not recorded conventionally is very important, often exceeding the official economy. Among the *possible causes* of the underground economy there are:

- fiscal pressure exercised by the direct and indirect taxes;

The empiric results of the influence of tax growth on the underground economy are emphasized in Schneider(Schneier1994:137-152) and Johnson(Johnson,Kaufmann 1998:387-392), Kaufmann and Zoido-Lobatón (Schneide 1986:643-668)]researches, who have found an evident statistic connection with regard to this matter. This strong influence of direct and indirect taxes on the underground economy is proven in the case of Austria and Scandinavian Countries. Similar results were discovered by Schneider in 1986 for the Scandinavian Countries (Denmark, Norway and Sweden).(Jonson,Kaufmann,1998)

- intensity of the regulations;

Intensity of the regulations is another important factor which e reduces the freedom to choose of the individuals involved within the official economy. We may include regulations regarding labour market, commercial barriers and restrictions within labour work for foreigner. Johnson, Kaufmann and Zoido-Lobatón have empirically proven empiric the influence of the regulations within the labour market on the underground economy, their impact being analysed in the case of Germany. Generally, regulations lead to substantial increase of the work force costs within the official economy. But, when most of these costs are transferred to the employees, an orientation towards the underground economy takes place, where they may be avoided. The analysis carried out in order to support Johnson, Kaufmann and Shleifer's model - which stipulated that the countries with a higher intensity of the regulations tend to have a higher weight of the underground economy in the GDP – is found in their empiric studies.(J,K.,S.,1997)The conclusion is that the intensity of the regulations is the key factor which influences negatively the companies and the population, and not the general legislative framework. In this context, the governments have to focus on the improvement of the laws and not on the increase of their number.

-public services.

The increase of the underground economy's dimensions may lead to the reduction of the budgetary incomes, which in its turn leads to the decrease of the goods and public services' quality and quantity. It may also lead to an increase of the tax rate for the economic agents and the population within the official sector, which combined with a deterioration of the public goods' quality (for example the public infrastructure)and administration's quality, determines a strong orientation towards the underground economy. Johnson, Kaufmann and Zoido-Lobatón (Johnson,,Zoido,1998)present a model of these relationships.The study shows that the underground economies of small dimensions appear within the countries with incomes from higher taxes, if these are obtained by smaller tax rates, regulations and reduced restrictions.The countries with a more restrictive legislative framework, which are financed by incomes from taxes, also have small dimension underground economies. Transition countries have higher levels of regulation, taxes from large official activities and a wide legislative framework and, consequently,a higher level of the underground economy.

2.The underground economy and the level of taxation

It is found that the 20-25 percents which represent the increase of taxation in the European states within the last decades were annihilated by the 12 percents of the GDP in the same countries, representing the percentage of the underground economy within the states member of OECD at the end of the last century. The increase of the taxes imposes, even if not proportionally in all the cases, the increase of prices. This affects everybody, especially the final consumers. This way, the underground economy registers supplementary profits because:

-it offers cheaper products of lower quality, because by avoiding the taxes, the clandestine producer can ask prices which fraudulently compete with the prices within the real economy;

-it attracts new activities to its domain because many tax payers overwhelmed with supplementary taxes, choose the underground economy as an exist option;
-it creates the possibility of illegal work, of obtaining different non-taxable incomes.

Numerous specialists have studied the impact of taxation increase on the level of the underground economy, stipulating different increase figures, as a consequence of increasing the taxation by a percent. For example, the results of a study carried out based on the data regarding the underground economy in the USA show that for the increase by a percent of the marginal rate of the income tax the increase of the underground economy is of 1.4 percents. (Cebula,1997)In another study it is shown that the value of the undeclared incomes increases by 0.05% only, for each increasing percent of the value of the incomes from taxes, drawing up the conclusion that, it is questionable whether the increase of incomes achieved by reducing evasion could be high enough in order to cover the loss generated by tax reduction.(Clotefelter ,1983)With regard to the relationship existing between the level of the pressure of taxation and the one of the underground economy, Norman Loayza, a well-known analyst of the underground economy phenomenon, demonstrates in a recent study for countries within Latin America that in the economies where the pressure of taxation is higher than the optimum one, and the application of regulations has a low level, the increase of the relative dimension of the unofficial sector leads to a reduction of the economic growth.(Dinu,2003) His results indicate the following: for an increase of the underground economy by a percent of the GDP a reduction of GDP by 1.22%.

3. Conclusion

The general conclusion is that the developed countries member of OECD and different Eastern European states maintain a stable balance between the relatively low level of taxes and regulations, adequate mobility of the incomes, corruption control and generally they have a low level of the underground economy. At the opposite pole, there are countries within Latin America and former Soviet Union, which have characteristics which place them in an instable balance: high level of taxes, inadequate regulations, a great weight of activities in the unofficial economy. The decision to choose the underground economy is based on cost-benefit analysis in which the illicit work and fiscal evasion are a lot more attractive because of the slight possibility of being caught.(Iceg Ec,2006) One of the main *negative effects of the underground economy* is represented by the way in which the underground economy may affect the fiscal health of a state. There are theories which state that, if the governments were able to control the forms of the underground economy, many of the fiscal issues of the public sector might be reduced.

On the other hand, the underground economy absorbs a part of the labour force dismissed from the official sector and it may compensate the lack of products on the market, thus acting in the direction of balancing the labour market, goods and services market etc. There is an opinion according to which, with the existent taxation and legislation, it is better to carry out a part of the economic activity outside the official market and so get rid of the constraints.(Craiu,2003) There are situations in which the underground economy turns into official economy; they are separated by a fine, artificial, line, formed of regulations and interdictions(Hoanta,2000)Cancelling different restrictions may determine the passage of different illegal activities into the official sector.Poor countries suffer the most due to corruption. The low IPC scores indicate the fact that the public institutions are severely compromised. The government should focus on improving transparency within the financial management, from tax collection to public expenses, as well as on improving the monitoring and control mechanisms. The high scores of the rich countries and territories, mainly from Europe, Eastern Asia and North America, reflect the existence of relatively clean public sectors, based on political stability, solid regulations with regard to conflict of interests and free access to information of public interest, as well as a civil society free to exercise monitoring activities.Despite all these, corruption at high level within the poor countries has an international dimension, which involves the countries situated on the first places

in IPC. In most of the cases the money for bribe comes from the multinational companies within the rich countries of the world. The position of these countries is unacceptable; they consider bribe on the export markets as a legal business strategy. Moreover, the world financial centres have an important role, creating the possibility for the corrupt officials to transfer, hide or invest fortunes illegally obtained. Off-shore financing, for example, played a central role in the misuse of enormous amounts of money from developing countries, such as Nigeria and Philippines; they facilitated violation of the law by the corrupt leaders and poverty of the population. In many cases, pursuit and recovery of the stolen goods are difficult to be carried out due to money laundering by means of different off-shore banks, situated within jurisdictions where the bank secret still represents a general rule. According to the stipulations of the UN Convention against Corruption, the following objectives should be priorities: improvement of the international cooperation and mutual juridical assistance, acceleration of the actions to recover goods and development of the legislative and technical expertise within those countries which request return of the stolen goods. For many states, funds repatriation will mean long and complex processes.

Being a global issue, *the fight against corruption* requires a large range of *measures.*

-Developing countries should use the funds received from donators in order to reinforce the public institutions and thus, to increase the quality of the govern, by using diagnosis studies and development strategies elaborated at the internal level; these countries should include improvement of public integrity and corruption prevention into the poverty reduction programmes.

-Public independency, integrity and liability within the juridical system have to be improved in order to increase its credibility within the poor countries. In order for the justice to operate properly, the juridical procedures should be protected by the influence of the politics. A clean and capable justice is essential in order for the developing countries to be able to process requests of mutual juridical assistance in connection with the recovery of stolen goods

-According to the stipulations of the UN Convention against Corruption, the governments have to introduce measures against money laundering to determine disappearance of those places where the stolen goods are stored. The large bank centres should focus on development of certain rapid procedures to identify, freeze and repatriate the funds and goods obtained from corruption activities. It is essential to have clear stipulations regarding the custody exercised by the third parties on funds involved in disputes.

-Rich countries have to proceed to a stricter regulation of their own financial centres. Some of the important measures these countries can take with regard to corruption facilitators are: a greater attention given to the role of the trusts, better knowledge of the real beneficiaries and intensification of the provisions regarding money laundering.

Corruption Perception Index launched by Transparency International uses a scale from zero to ten, where zero indicates a high level of corruption, and ten indicates a low level of corruption. With regard to Romania, Corruption Perception Index was of *6.7 points* in 2011, increasing by 0.6 points compared to the previous year. The perception of the public regarding the corruption within the business environment, mass-media and civil society is also worrying, the three elements registering high values.Despite all these, Romania continues to be perceived as the country with the highest level of corruption within the European Union.

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FINANCIAL PERFORMANCE ANALYSIS BASED ON THE FINANCIAL STATEMENTS FOR THE COMPANIES LOCATED IN THE BIHOR - HAJDU BIHAR EUROREGION

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This paper will be later used within the Doctoral thesis: "The Mechanism of Financing Investment Projects by Usage of European Structural Funds", which is currently under development at the University Babeș Bolyai Cluj Napoca, Faculty of Economics and Business Management, under the coordination of the prof. univ. dr. Ioan Trenca. This paper comes also as a result of the European Funded project PERINPRO "Cross-Border Research Programme - Performance Indicators of the Economic Entities from Bihor-Hajdu Bihar Euroregion". The goal of the project was to identify of a set of common indicators that characterizes companies in the Bihor-Hajdu Bihar Euroregion and which will be used to analyze the financial health of the economic entities in the Euroregion of Hajdu-Bihar- Bihor.
The first chapter of the paper will introduce the research and also will present the literature review and the methodological framework: by establishing a common set of indicators for the financial analysis of the companies located in the Bihor-Hajdu Bihar Euroregion. Seven of these indicators considered to be highly important will also briefly described and defined. Some of these indicators are used for the first time in a trans-national analysis over companies located in the Romanian-Hungarian cross border area. In the second chapter the research will be focused over establishing a common ground for usage of the financial reporting documents as basis for the analysis. Several characteristics which differentiate the financial reporting documents from Romania and Hungary will be identified and measures for correction of the values of the indicators will be proposed. This comparative study can be considered an innovation, as well, in the cross-border area since in the past no other studies of this types were performed between Romania and Hungary. The third chapter will be focused over the application of seven identified common indicators to companies based in the cross-border area. In the last part of the paper these results will be analyzed and presented.
Key words: G30, G32, O16, C63, C61
JEL Codes: Corporate finance, Financial Statements, Performance Analysis, Performance Indicators

1. Introduction

The project PERINPRO *"Cross-Border Research Programme - Performance Indicators of the Economic Entities from Bihor-Hajdu Bihar Euroregion"* was developed under the framework of **Hungary-Romania Cross-Border Co-operation Programme 2007-2013** by a joint team of scientists from University of Oradea- Faculty of Economics and University of Debrecen – Faculty of Applied Economics and Rural Development. The goal of the project was to identify of a set of common indicators that characterizes companies in the Bihor-Hajdu Bihar Euroregion and which will be used to analyze the financial health of the economic entities in the Euroregion of Hajdu-Bihar- Bihor.

The methodological approach for the determination of a common set of indicators was based on the requirements of local companies located in inter-connection areas of the Romanian-Hungarian border, to establish a set of criteria, jointly accepted, for the analysis of private companies' performances. Based on this was tried to identify a set of indicators jointly accepted both from the academic point of view, but also which can be used in practical life and which can be transferred for usage in the real economy by the companies within the region.

The set of indicators have been selected based on various criteria which are presented below:
- the relevance of indicators for the subject
- their potential of usage in the economic-financial analysis carried out in the two countries
- their potential of transferability to their real economic use
- the possibility of usage of the financial - accounting databases on both sides of the border.

In this work, the author focused on the presentation, from a theoretical point of view, of the set of indicators used in performance analysis. Also practical application of the proposed indicators was realized and briefly presented in the case study. The proposed indicators were: solvability, liquidity and return indicators and will be described in this chapter and briefly presented from the theoretical point of view. For their determination, national and international specialized economic literature has been studied and the main opinions on the subject have been used to establish the analysis indicators: especially Stancu (2006), Trenca (2006), Pierre(2004), Lezeu (2004), Chirila and Droj(2010) and Brealey et. all(2004). In this study from the 18 selected common indicators were used only 7 indicators. The methodology for calculating these indicators will be presented below. The case study will be generated and presented in the 3rd chapter of this study. The indicators used in the case study are:

- **Global financial autonomy rate (RAFG)** - shows how much of the company's assets are financed from their own resources. By reflecting the weight of the shared capital in total financing sources, it is desirable that the rate is as high as possible.

$$R_{AFG} = \frac{Equity}{Total\ liabilities} x100 \quad (1)$$

- **General liquidity rate (RL)** compares the current assets with short-term debts. This rate reflects the capacity or incapacity of the company to pay its short-term debts only from the current assets possessed in its patrimony.

$$R_{LC} = \frac{Current\ Assets}{Short\ term\ debts} \quad (2)$$

-**Fast or reduced liquidity rate (RLR)** - If the value of the rate is higher than 1, than the rate highlights the fact that stocks are not financed through short-term debts.

$$R_{LR} = \frac{Receivables + Cash\ and\ bank\ accounts}{Short\ term\ debts} \quad (3)$$

- **Immediate liquidity rate (RLI)** reflects the capacity of the company to pay current debts only based on its current cash and bank accounts. The value of this rate provides little relevant information because of the unpredictability of its cash flow management; usually additional information is needed regarding its activity (Trenca, 2006).

$$R_{LI} = \frac{Cash\ and\ bank\ accounts}{Short\ term\ debts} \quad (4)$$

- **Solvability rate(RSV)** - shows the extent to which total debts are covered by total assets, and reflects the security enjoyed by creditors, as well as the creditworthiness of the company.

$$R_S \equiv \frac{Total\ assets}{Total\ debts} \times 100 \quad (5)$$

- The **Return of Assets** reflects the difference between an economic result: net profit, known in specialized literature as EBIT and the assets used for its achievement (Pierre, 2004).

$$ROA = \frac{Net\ Profit}{Total\ Assets} \quad (6)$$

- The **Return on Equity**, also known in French economic literature as "financial return rate", and abbreviated in the specialized literature as ROE. This indicator shows the efficiency of the capital

invested by shareholders. ROE constitutes one of the most important return indicators, being used by company owners and potential investors in the investment decision-making process.

$$ROE = \frac{Net\ Profit}{Equity} \qquad (7)$$

2. Comparative practical study on the profit and loss account used by companies in the Bihor–Hajdú-Bihar Euroregion

The need for comparing the two documents occurred after deciding to realize a joint research over the performance of companies within Bihor–Hajdú-Bihar Euroregion on the basis of the financial statements. For the most effective and equivalent comparison of economic performances of companies present in the study set, the first step was the comparison and the transformation to same standards of the evaluation data contained in the two annual financial reporting documents: from Romania and from Hungary. This approach has been used by other European authors such as: Cole & Branson (2011), Nobes (2006), Roberts et all (2008) and even Nobes (2008), authors which brought to attention the main issues of the comparative analysis of data contained in financial documents in various countries, caused particularly by practices or customs carried out at national level before the adoption, starting from 2005, of the IFRS standards in all EU Member States (Commission of the European Communities, 2007).

In addition, these studies is also highlighted the impact of national subsidies or tax deductions in various Member States as having a key importance on how the economic performance was reported (Christensen et al., 2008). The different practices in the taxation and accounting fields, were also analyzed in a study presented by KPMG & von Keitz (2006) and were later mentioned by Cole & Branson (2011). Thus, by following the same analysis phases, and based on the methodology presented in the specialized literature was observed that both the profit & loss account in Romania and the models currently used in Hungary, have been created and developed based on the IFRS standards, as they were introduced and applied all over the EU, starting from 2005. Otherwise were observed several differences, although they may seem insignificant, but which can lead to the degradation of financial results and later, in distorsion at the level of financial analysis indicators. When analyzing the case of Romania, it can be discovered that the profit & loss account uses only one standard model, while in Hungary, as shown by several studies in the field such as the one carried out by Deloitte Magyarország (2009), there are frequent changes in the way the elements of profit & loss account are introduced and analyzed, and two models exists: Model A and Model B. Several critics highlighted that the frequent changes in the legislation regarding accounting report in Hungary, have been caused by observations made by the World Bank and European Union regarding the differences between the Hungarian legislation and IFRS standards. Also these organizations provided Hungary suggestions and the method for modifying them, according to IFRS.

Therefore, as presented in the Deloitte Magyarország (2009) study, in Hungary two models for profit and loss account are being used:

- *Profit & loss account - Model A - "Total costs"*- where the operating result is determined using costs accounts from the 5th category accounts, according to the Hungarian Chart of Accounts. In this case, the determination of costs is based on their nature and destination: raw materials costs, payment of wages, etc.

- *Profit & loss account - Model B - "Turnover costs, sale costs"*- where the operation results are calculated using category 9th category cost accounts, according to the Hungarian Chart of Accounts. In this case, are used principles corresponding to internal management accounting: costs are classified in 2 important groups – direct costs and indirect costs.

As regarding the operating result, reflected in the profit & loss account, it must be identical, whatever the document model used. The usage of model A or B depends on the organization

form of the company, its size and its type of activity. In general, model B is used by small companies or in those carrying out trading activities. While the model A is used in medium and large companies, in multinationals or in manufacturing companies. Often, such categories of companies require additional financial information regarding costs; production centres costs, activity categories or production phases.

In order to make a better comparison between the data entered in the two financial reporting documents, especially regarding companies located in the Hajdu Bihar County, model A of the profit & loss account was used, which is comparable to the Romanian one. In terms of how the performance of profit & loss accounts is reflected on the Romanian side and on the Hungarian one, there are two major differences: the distinct reflection of operating incomes and the different calculation method of the net income. In the analysis of operational incomes, we observe that this is more detailed in the model used in Romania, but in the case of Hungarian companies, the source of internal or external income are specifically identified. Thus, in Hungary, according to both forms of profit & loss accounts, net incomes from sales are differentiated according to their source, i.e. from internal or external-export sources. Operation subsidies and commercial discounts enforced by the Romanian O.M. F. P 3055 from 2009, which in Romania are considered to be part of the operational income, have no equivalent in the case of the profit & loss account used in Hungary. The organization of operation costs in the two documents is different, but without notable impact on the final result: the operational costs at the level of companies. The main important distinction, which directly influences the analysis of financial performance in the Bihor – Hajdu Bihar Euroregion, consists in the determination of net result in the balance sheets, where, in Hungary - Mérleg szerinti eredmény – MSZE – is obtained after taxation and shareholder payouts.

The net result within the balance is determined through the increase of net profit obtained after the payment of the profit tax, with the sum or dividends granted by using the rolled-over result, and through the decrease of the sum obtained with the value of approved dividends. The sum thus obtained will be shown in the balance. In the case of Romanian companies, the net result is modified only by the profit tax; the amounts corresponding to dividends/shareholders payout would be decided afterwards. Therefore, it is recommended to use performance indicators which take into account the elements mentioned above or to correct them during the numerical analysis phase. The second stage of the analysis constituted in construction of a case study based on limited set of companies and just several relevant indicators.

3. Applied Case study – Application of the performance indicators results analysis
The case study presented in this paper is focused on analysing the sets of companies which have a specific activity in the industrial fields of industry and food processing. These companies were analysed based on the common set of indicators presented in chapter one. The period of analysis is 3 years. The results seem to be surprising especially when comparing the same results of the Romanian with the Hungarian companies. As observed several differences occurred between the financial indicators of the companies from different fields of activities. It was noted that from the point of view of values obtained in the areas studied, the best values in terms of liquidity rate indicators have been obtained in the light industry, the processing industry and service sector, following the trend of consolidation of these sectors in the Euroregion's economy and in particular in the Bihor county.

Figure 1 Financial Performance Analysis for companies operating in manufacturing industry

MANUFACTURING INDUSTRY

	$RLe=\frac{ACIRC}{DTSC}$	$RLR=\frac{CB+DD}{DTSC}$	$RLI=\frac{DISP}{DTSC}$	$RSV=\frac{DATT}{AT}$	$RFAG=\frac{CPR}{P}$	$RREC=\frac{EDE}{AT}$	$ROA=\frac{PN}{AT}$	$ROE=\frac{PN}{CPR}$
I. PLASTOR S.A.								
2008	1,78	0,99	0,09	0,23	0,77	0,1569	0,0606	0,0792
2009	2,05	1,49	0,03	0,20	0,80	0,1874	0,1127	0,1422
2010	2,58	2,08	0,70	0,19	0,81	0,2097	0,1221	0,1519
II.SINTEZA S.A								
2008	3,42	1,78	0,98	0,03	0,96	0,0075	0,0028	0,0029
2009	7,16	4,81	2,25	0,01	0,99	0,0040	0,0003	0,0003
2010	4,27	3,19	0,78	0,02	0,98	0,0069	0,0028	0,0029
III. EDITURA AQUILA								
2008	1,21	0,50	0,13	0,59	0,41	0,2657	0,1940	0,4751
2009	2,25	0,64	0,05	0,57	0,43	0,2332	0,1215	0,2851
2010	1,89	1,23	0,04	0,47	0,53	0,3694	0,0525	0,0985
IV. METALICA S.A.								
2008	1,80	0,76	0,00	0,37	0,63	0,0741	0,0060	0,0096
2009	1,64	1,02	0,01	0,43	0,57	0,0570	0,0031	0,0055
2010	1,74	1,24	0,00	0,44	0,49	0,0190	0,0033	0,0068
V. PREMAGRO S.A.								
2008	7,13	3,95	2,68	0,07	0,93	0,0311	0,0295	0,0317
2009	18,18	10,10	7,46	0,03	0,97	0,0070	0,0064	0,0066
2010	5,00	2,61	1,05	0,10	0,90	0,0231	0,0057	0,0063

Source: Made by the author

Thus, the general liquidity rate indicator has recorded the highest value, of 20.25% in the light industry and 17.17% in tourism, and in sectors such as the building materials, the highest values have been situated around 2%. As regards the minimum values, as seen in the above-mentioned analysis as well, the lowest values were obtained in the furniture industry, building materials industry, transport services and agricultural products processing.

Figure 2 Financial Performance Analysis for companies operating in the food industry

FOOD INDUSTRY

	$RLe=\frac{ACIRC}{DTSC}$	$RLR=\frac{CB+DD}{DTSC}$	$RLI=\frac{DISP}{DTSC}$	$RSV=\frac{DATT}{AT}$	$RFAG=\frac{CPR}{P}$	$RREC=\frac{EDE}{AT}$	$ROA=\frac{PN}{AT}$	$ROE=\frac{PN}{CPR}$
I. ZAHARUL S.A.								
2008	1,59	0,51	0,27	0,44	0,55	0,0943	0,0450	0,0822
2009	1,76	0,41	0,02	0,40	0,58	0,0734	0,0318	0,0549
2010	1,67	0,48	0,008	0,47	0,51	0,1044	0,0722	0,1412
II.PRO AQUA S.A CEFA								
2008	1,03	0,14	0,01	0,50	0,50	0,2540	0,0604	0,1209
2009	1,24	0,10	0,00	0,47	0,53	0,1815	0,0368	0,0702
2010	1,48	0,18	0,00	0,42	0,58	0,1715	0,0210	0,0364
III. DORBOB PROD S.R.L.								
2008	0,94	0,83	0,12	0,22	0,78	0,2641	0,1662	0,2142
2009	2,21	2,09	0,39	0,13	0,80	0,2470	0,1630	0,2045
2010	1,62	1,47	0,14	0,16	0,78	0,1599	0,0965	0,1234
IV. PROLACTA S.R.L. COPACEL								
2008	0,83	0,67	0,15	0,87	0,13	0,0599	0,0428	0,3283
2009	2,80	2,35	0,05	0,56	0,23	0,0432	0,0029	0,0125
2010	0,39	0,28	0,04	0,76	0,24	0,0484	0,0014	0,0060
V. RUBINKING S.A.								
2008	1,24	0,52	0,00	0,83	0,17	0,1397	0,0149	0,0896
2009	0,89	0,43	0,00	0,83	0,17	0,1279	0,0137	0,0829
2010	0,93	0,44	0,00	0,83	0,17	0,0900	0,0005	0,0031

Source: Made by the author

In these sectors, the values of this indicator were a lot lower than the advised values, situated between 0%-1%. As regards solvability, we observe that the processing industry recorded the most positive rate values, followed by companies in the services sector and light industry. As regards the sectors where this rate records negative trends, are those of furniture industry, commerce and agricultural products processing, whose high degree of debts generates these concerning results. In terms of profitability, largely dealt with in the studies carried out, we

observe that the rates of profitability (return) are generally low, but extremely low for companies in the services field, following the trend of the national economy, but also internal fiscal strategies of the companies.

4. Conclusions

The current paper dealt in its first chapter with establishing a common set of indicators for the financial analysis of the companies located in the Bihor-Hajdu Bihar Euroregion. Seven of these indicators considered to be highly important were also briefly presented and defined. These were used for the first time in a transnational analysis in the Romanian-Hungarian cross border area. In the second chapter the research was focused over establishing a common ground for usage of the financial reporting documents as basis for the analysis. Several characteristics which differentiate the financial reporting documents from Romania and Hungary were identified and measures for correction of the values of the indicators were proposed. It also can be considered a novelty as well in the cross-border area since in the past no other trans-national studies of this type were performed comparing the differences of financial reporting documents of these two countries. The third chapter dealt with the application of the seven identified indicators over companies based in the cross-border area. These results were analyzed and presented.

Since this is a preliminary study it will be continued further by development of an integrated indicator which will be also included in the Doctoral thesis: "The Mechanism of Financing Investment Projects by Usage of European Structural Funds", which is currently under development at the University Babeş Bolyai Cluj Napoca, Faculty of Economics and Business Management, under the coordination of the prof. univ. dr. Ioan Trenca

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USAGE OF ACB-MININD SOFTWARE IN THE CBA ANALYSIS FOR FINANCING INVESTMENT PROJECTS THROUGH EUROPEAN FUNDING IN CORRELATION WITH THE FINANCING FROM THE BANKING SYSTEM

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The extension of the European Union with the first "wave" of new members in 2004 and later with the second "wave" of members in 2007 brought new opportunities for the countries in Eastern Europe, being obvious that "effective utilisation of EU support can foster the success of their economic performance". Financing investment projects proposed by the SMEs can be realized through several financial sources internal and external, from which two of the most common external sources constitute from subsidies-grants and through banking system. One of the most important financing programme present in Romania, available for SMEs is SOP IEC, which awards grants for investments proposed by production companies. This financing program encourages its beneficiaries to combine the European grant with private funds mostly provided through the banking system. The paper analyzed the methodology used in Cost Benefit Analysis and also The ACB-MININD software which is compulsory to be used for the CBA analysis of these investment projects links for the first time elements of analysis used by the European Commission with elements of analysis used by the banking system. In this context the present article tries to analyze how the ACB-MININD software links the main elements of Cost-Benefit analysis such as NPV or IRR with elements of the bankability software which are mainly used by the banking system such as: cash-flow analysis, loan/interest payment and financial sustainability. Also are presented the links between the banking sector and the external financing sector in the field on investment projects. As final conclusions of this paper we will demonstrate the theoretical and practical role of cost-benefit analysis - financial component to select the best applications that will be proposed for funding under the European grant programs and to link them to the banking system in order to ensure a proper co-financing for these investment projects.
JEL Codes: G17, G21, F35, O16, H43, C63, C61
Key words: Banking, Loans, Grants, Cost Benefit Analysis, NPV, IRR

1. Introduction

A notion which is under debate in the recent years, from economical, social and political point of views: the non-reimbursable funding/grants is quite ignored by the scientific economics community. The grant concept, which is called also external financial assistance, developed initially from free transfer of specialized goods and services to fund transfers (Moger, 1999 and Kanbur, 2003). In the same time Stiglitz (2003) observes that for a long period of time and even now the World Monetary Fund and the World Bank link their strategic grants to reimbursable funding: loans provided by the banking system. Other studies especially Lerick and Meltzer(2002) in Quarterly International Economics Report, Carnegie Mellon - Gailliot Center for Public Poverty, draw attention that in case of loans contracted through World Bank or other institutional banking lenders some of the loans were transformed into grants since some of the beneficiary countries were not able to pay them back, so their debts were finally erased.

The extension of the European Union with the first "wave" of new members in 2004 and later with the second "wave" of members in 2007 brought new opportunities for the countries in Eastern Europe, being obvious that "effective utilisation of EU support can foster the success of their economic performance" as it is considered in a KPMG(2011) report from 2011. Moreover the integration of Romania into European Union brought new opportunities for the Romanian

private enterprises both concerning the accession of their products and services to the single market and also accession of additional co-financing for funding their business infrastructure investments (Droj, 2010).

Under these circumstances most of the specialists consider that access to European funding and its efficient absorption constitute a key issue in these years both at the level of state level decision makers, at the level of financing institutions and at the level of the decision makers within the companies. Financing investment projects proposed by the SMEs can be realized through several financial sources internal and external, from which two of the most common external sources constitute from subsidies-grants and through banking system. In the recent years a very close relations seemed to be established between the banking sector and the financial aid sector.

In the same time the banking sector evolved and created specialized services which are dedicated to the above mentioned beneficiaries with the goal of supporting development, carrying out or co-financing projects implemented under the European Structural Funds. Lack of experience in this field shown by both at the level of the applicants for Structural Funds, at the level of the management authorities and, finally, at the level of the banking system which is requested to ensure additional funding creates serious obstacles to achieving a higher absorption capacity of EU structural funds in Romania. (Fundația Șoros Romania, 2009 și Departamentul pentru Afaceri Europene, 2009)

Also can be noticed the lack of a methodology for implementation of funding programs adapted to the Romanian realities. Another major problem is that most financial programs lack correlation of economic and financial indicators of the European Commission to those requested by the banking sector, so that the beneficiaries of European structural funding are finding themselves in the situation where they are unable to access bank credit which is needed to secure co-financing or fund its cash-flows required to implement the proposed investments.

In this context the current paper is dealing with analysing the linkages between the cost benefit analysis requested by the EU management authorities and the credit analysis, performed by the banks. This constitutes a topic of major interest for both potential beneficiaries and the management bodies, and the banks so they can prepare specific to banking products. From the vast field of study concerning structural funds we proposed to approach as the main themes in this research paper the following: identification of a European funding programme operating in Romania, realization of a correlation between the performance indicators within the benefit-cost analysis requested by European and those requested by the banking sector.

2. Considerations over the Cost Benefit Analysis and its linkage with the banking sector– Literature Review and Research methodology

One of the main goals of these European Funding programmes are to implement the European Union Cohesion policies. As its main instruments and for improvement of the competiveness of the "weaker" regions were established the European Regional Development Fund (ERDF) and the European Social Fund (ESF), otherwise known as the Structural Funds, as well as the Cohesion Fund. Through these instruments European Commission invests in thousands of projects across all of Europe's regions to achieve its primary task: to promote economic and social cohesion by reducing these disparities between Member States and regions (European Commission, 2009).

In this context, the private companies benefit of increased opportunities for accessing European Funding which gives them a better chance for increasing their competitiveness and for extending distribution of their products and services on the entire European market and beyond. The most important production infrastructure financing programme for the Small and Medium Enterprises(SME) operating in Romania is considered to be the Sectorial Operational Programme "Increase of Economic Competitiveness" (further referred to as SOP IEC) which offers financial

support for the consolidation and modernization of productive sector through investments(Guvernul României, 2009).

Even in 2008 edition of the "*Guide to COST-BENEFIT ANALYSIS of investment projects - Structural Funds, Cohesion Fund and Instrument for Pre-Accession*" edited by the European Commission(2008) is highlighted that cost-benefit analysis can help public decision makers to identify projects that will maximize net social benefits and thus determine the order of priority infrastructure works will be made and how public policy decision making.

As it is mentioned in the above referred document the investment decisions are at the core of any development strategy, all other elements such as: economic growth and welfare depends on productive capital, infrastructure, human capital, knowledge, total factor productivity and the quality of institutions (European Commission, 2008).All these elements involve – in a certain measure – decision making regarding investing financial sources at present time in the hope of obtaining future uncertain benefits.

In order to take the decisions, the decision makers need appropriate tools for comparing costs and benefits of various types: economic, social or ecological investment projects that are ongoing over several years. Cost-benefit analysis is not an exact science, is seen as having many limitations which are generally based on approximations, working hypotheses and estimates due to missing data or due to inability providing all possible situations. The financial analysis is considered the key element of the Cost Benefit Analysis both by the financing organization and the banks (Trenca 2006, Trenca 2008 and Stancu 2006) or by other financial institutions which will ensure the co-financing of the investment. The goal of the financial analysis is to use the predictions such as cash-flows to calculate relevant indicators especially the Financial Net Present Value (FNPV) and the Financial Internal Rate of Return (FRR), respectively in terms of return on the investment cost, FNPV(K) and FRR(K).

While Cost-benefit analysis goes well beyond financial ratios considering the project, most project data on costs and benefits is provided by financial analysis. This analysis provides decision makers information on inputs and outputs, their prices and the structure of income and expenditure over the analyzed period (European Commission, 2008).

The methodology used for the determination of the financial return is the Discounted Cash Flow (DCF) approach. This implies some assumptions as are mentioned in the methodology:

- Only cash inflows and outflows are considered;
- The project cash flows it should be based on the incremental approach;
- After the aggregation of cash flows occurring during different years it is adopted an applied an appropriate financial discount rate in order to calculate the present value of the future cash flows.

According to the methodology (European Commission, 2008) the Net Present Value of a project is the sum of the discounted net flows of a project. The NPV is a very concise performance indicator of an investment project: it represents the present amount of the net benefits flow generated by the investment expressed in one single value with the same unit of measurement used in the accounting tables.

$$(1) \ NPV = \sum_{t=0}^{n} a_t S_t = \frac{S_0}{(1+i)^0} + \frac{S_1}{(1+i)^1} + \cdots + \frac{S_n}{(1+i)^n}$$

The Internal Rate of Return (FRR) is defined as the discount rate that zeroes out the net present value of flows of costs and benefits of an investment, that is to say the discount rate of the equation below(European Commission, 2008:212):

$$(2) \ NPV(s) = \sum [S_t/(1+IRR^t)] = 0$$

Since the goal of this study is to use the ACB-MININD software in CBA analysis for financing investment projects through European funding in correlation with the financing from the banking

system in the following chapter we will set a case study using a project proposed by a Romanian production company which tries to access SOP IEC funding in 2011.

3. Case study – Usage of ACB-MININD Software in the CBA analysis for financing investment projects through European funding in correlation with the financing from the banking system

As mentioned above we selected a test company, which intended to access European funding to co-finance its infrastructure investments. The company is a market leader in its field of activity: plastic manufacturing and intends to increase its production capacity and to improve its competitive advantages on the Romanian market. In order to realize this an ambitious investment programme was started to build a new production facility and to increase the quality of their products. The project was proposed to be financed under SOP IEC and was based on the data provided by a detailed the technical project and by the price offers. The company performed a financial analysis using the official software provided by the management authorities within the programme: ACB-MININD Software which is available online at: http://acb.minind.ro/ACB/index.php (Guvernul României, 2012). These results were later compared with the bankability analysis, in order to ensure future bankability of the project. The particularities of this software is that it requests and processes information which is delivered by the banking institutions regarding proposed co-financing or implementation loans.

In order to secure financing of its investment the selected company has to fulfil several financial criteria established by the SOP IEC Programme. According to the Guide of SOP IEC Programme, in order to obtain financing for an investment project FNPV(K) is requested to be higher than 0 and FRR(K) to be between 0 and 9. For the mentioned project the mandatory discount rate was established to 5%. The analysis was realized both on the implementation period of the project (2 years) and on the operation period of the investment realized within the project(7 years). A challenge was made to obtain both the financial sustainability of the project and also to ensure its bankability.

Figure 1 Presentation of the Financing sources (Currency: Thousands RON)

Assumptions regarding financing	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
EU Funds for Financial AID									
Eligible value of the project	4020.2	6691.4							
Non – eligible value of the project	0	0							
Required Financial Aid	2543.5	3813.0							
Private finance									
Own budget	0	0							
Loans	7605.0								
Other financial flow									
Loans payment	741	741	1415	1814	1814	1814	1628	1072	104
Interest payment	914	879	739	502	447	357	268	299	166
Income Tax	110.1	110.1	175.2	179.8	216.8	221.7	253.8	260.0	272.5
Royalties	28.6	28.6	28.6	28.6	28.6	28.6	28.6	28.6	28.6

Source: Made by the author

The first step was to analyse its bankability and to establish the maximum eligible loan and to analyze the loan payment using the bankability software provided by the bank. Once these information were established were introduced in the ACB-MININD Online application. The first step was to analyse its bankability and to establish the maximum eligible loan and to analyze the loan payment using the bankability software provided by the bank. These can be seen in the above figure. Once these information were established were introduced in the ACB-MININD Online application. In this circumstance all the financial sources and the equivalent financial costs are introduced in the financial analysis including the loan payment, the interest payment, royalties, income tax.

Figure 2 Financial Performance Indicators (Currency: Thousands RON)

Financial Performance Indicators	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Incremental Income									
Operating income with project	23917.6	23917.6	26084.6	26142.1	26314.6	26372.1	26503.1	26642.1	26789.1
Operating income without project	23917.6	23917.6	23917.6	23917.6	23917.6	23917.6	23917.6	23917.6	23917.6
Total Incremental Income	0	0	2167.0	2224.5	2397.0	2454.5	2585.5	2724.5	2871.5
Incremental expenses									
Operating expenses with project	-14368.1	-14368.1	-15549.9	-15567.4	-15649.9	-16824.4	-15859.1	-16094.7	-16262.2
Operating expenses without project	-14368.1	-14368.1	-14393.1	-14398.1	-14408.1	-14408.1	-14408.1	-14408.1	-14408.1
Total operating expenses	0	0	-1156.8	-1169.3	-1241.8	-1416.3	-1451.0	1686.6	-1854.1
Investment costs with project	-3972.5	-6469.0	37.8	-147.4	-299.0	-252.0	-350.8	-489.4	-523.7
Investment costs without project	140.0	130.0	125.1	14.7	-75.1	-94.7	-106.1	-134.4	-162.4
Total investment expenses	-4112.5	-6599.0	-87.3	-162.1	-223.9	-157.3	-244.7	-355.0	-361.3
Residual value with project	0	0	0	0	0	0	0	0	6750
Residual value without project	0	0	0	0	0	0	0	0	0
Total residual value	0	0	0	0	0	0	0	0	6750
Cash Flow	-4112.5	-6599.0	922.9	893.1	931.3	880.9	889.8	682.9	7406.1
Financial Performance Indicators	2.83%								
VANF/C	-1114.5	THE PROJECT CAN BE FINANCED BY EUROPEAN FUNDING!							
VAN benefits	12944.2								
VAN financial costs	-14058.8								
B/C	0.9								

<div align="center">**Source: Made by the author**</div>

As can be seen the second step was to analyse the financial performance indicators and to determine if FNPV(K) is higher than 0 and FRR(K) is between 0 and 9. Also the ratio benefits/costs its analyzed as well. The conclusion is that the project can be submitted for European financing.

<div align="center">**Figure 3 Financial sustainability of the project (Currency: Thousands RON)**</div>

Financial Sustainability of the project	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Positive Cash flow									
Financial resource of project	10148.5	3813	0	0	0	0	0	0	0
Financial Income of project	23917.6	23917.6	26084.6	26142.1	26314.6	26372.1	26503.1	26642.1	26789.1
Total Incremental Income	34066.1	27730.6	26084.6	26142.1	26314.6	26372.1	26503.1	26642.1	26789.1
Negative cash flow									
Operating expenses with project	-14368.1	-14368.1	-15549.9	-15567.4	-15649.9	-16824.4	-15859.1	-16094.7	-16262.2
Investment costs with project	-3972.5	-6469.0	37.8	-147.4	-299.0	-252.0	-350.8	-489.4	-523.7
Loans payment	741	741	1415	1814	1814	1814	1628	1072	104
Interest payment	914	879	739	502	447	357	268	299	166
Income Tax	110.1	110.1	175.2	179.8	216.8	221.7	253.8	260.0	272.5
Royalties	28.6	28.6	28.6	28.6	28.6	28.6	28.6	28.6	28.6
Total negative cash flow	-20134.3	-22595.8	-17870.8	-18239.2	-18455.3	-18497.7	-18388.3	-18143.7	-17357.0
Other cash flows	-73.7	-532.0	1199	1264	1348	1370.3	1400.9	1436.6	1489.6
Total cash flow	13858.1	4602.8	9412.8	9166.9	9207.3	9244.7	9515.7	9935	10921.7
Cumulative Cash Flow	13858.1	18460.9	27873.7	37040.6	46247.9	55492.6	65008.3	74943.3	85865.0
Conclusion of the Cumulative Cash Flow Analysis	THE PROJECT IS SUSTAINABLE!								

<div align="center">**Source: Made by the author**</div>

In figure 3 the Financial Sustainability of the project is analyzed by using also the information provided by the credit analysis from the banking system. As observed all elements of financial sustainability were considered: since in the beginning only operational expenses were presented in this stage were included also other payments and was analyzed the real capacity of the company to ensure financing resources for loans payments, interest payments, income tax or royalties. Afterwards the project is declared sustainable both by the management authorities of the programme and by the banking system.

4. Conclusions

Since, in the past, the financial analysis performed according to CBA methodology had several inconsistencies with the bankability analysis, an important step seems to be taken by using practical bankability financial information within the ACB analysis. As can be seen from the

presented test case the authors consider that, in this context the ACB Minind application can only be the beginning of reforming the ACB methodology and in the future this approach should be further extended and common solutions accepted by all stakeholders: structural funds management authorities, banking sector and private/public beneficiaries to create common indicators or analysis methodology in order to ensure both the financial sustainability, according to EU regulations and fulfilment of bankability criteria which is requested by the banking sector in order to ensure co-financing of the projects. This research should be further continued by development of a set of common indicators based on both methodologies.

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AN INTRODUCTION TO BEHAVIORAL CORPORATE FINANCE

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The purpose of this paper is to reflect the behavioral aspects that govern corporations. The paper briefly presents some of the main pillars of behavioral corporate finance: management, closed – end funds puzzle, dividends and the importance of aggregate earnings releases. The first pillar consists in a brief presentation of the behavioral factors related to the management of corporations, such as the fact that independent directors are not that independent as they should be, they do not have the prerequisite expertise for assessing complex financial risks, the importance of ethics and having a corporate culture that nurtures doing the right thing above anything else and the fact that CEO's decisions reflect in good part, their personal style rather than a set of criteria determined by the company. In the second part of the paper, it is treated the puzzle why would investors buy a closed-end fund at its IPO price, knowing that it is likely to fall to a discount, when they could buy instead an open-end fund that is guaranteed always to trade at par and some mentions about the way that dividend policy may be influenced by managers "catering" to the demands of investors and also the effects of aggregate earnings announcements over the market returns.
Keywords: Behavioral finance, conflicts of interests, corporate finance, managers, dividends, closed-end fund puzzle, aggregate earnings
Jel Classification: D22, D23, D82, G20, G32, G34, G35, M12

Conventional finance theories are based on the assumptions that people act rationally and consider all available information in their decisions related to investments. Over the last few decades, we have discovered many irrational errors and behaviors related to investment judgment, contrary to the assumptions and theories of conventional finance. Behavioral finance offers complementary points of view, explanations in response to the difficulties faced by the conventional finance, until recently considered to be "*proved beyond doubt*". Behavioral corporate finance brings in discussion conventional ideas about corporate finance and compensation strategies. *"Behavioral corporate finance argues that in many senses, corporations are natural arbitrageurs"* (David Adler). Theories from behavioral finance are in the position to explain the differences in corporate financial policies and capital structures. Behavioral corporate finance study how investors and managers behave. Studies indicated that investors suffer from overconfidence; they tend to overestimate their own abilities and chances for success, driving stock prices away from normal levels. The main psychological traps met in behavioral corporate finance are: narrow framing, confirmation bias, hindsight bias, herding behavior conservatism, the role of affects, wishful thinking, opaque framing, representativeness bias and overconfidence. Overconfident managers over estimate cash flows on projects, use too much debt and tend to feel that their stocks are mispriced by the market. Below, I will realize a brief discussion about some of the pillars of behavioral corporate finance: management, closed-end funds puzzle, aggregate earnings guidance and the role of dividends.

Management
Conflicts of interests among employees, shareholders, regulators and external evaluators (failures and weaknesses in corporate governance) represent an important cause of the latest global financial crisis. The problem is conflict of interest, an issue that is global not local. The mimic philosophy among boards of directors, made them fail miserably in their fiduciary duties to their

shareholders. Moreover, the cash bonuses for short-term performance seemed to be more appealing than stock ownership or stock options. Milgram (1974) suggests that individuals have a sensibility to conform to an authority, to be cut off by their peers. Morck (2007) has reason to say that corporate officers and directors are more loyal to their direct boss (CEO) than to their shareholders and to the law (Enron, Worldcom, Hollinger, AIG), even under clear signs of impending financial doom. Corporate governance reforms stimulate instituting independent directors or non-executive board members, committees composed of independent directors. They are supposed to induce more rationality, ethics in corporate governance and a fostering debate of flawed exposures policies before they become lethal – render corporate disasters rarer. That's in theory at least, because there is evidence that they are tied to CEOs in other informal ways. According to him, many corporate governance failures could have been averted if directors asked serious questions and demanded clear answers. Behavioral factors, such as cognitive dissonance, reciprocal favor trading or group conformity have smashed the independence and the authority of so called independent directors. Higgs report reviewed the role and effectiveness of non-executive directors and of the audit committee, aiming at improving and strengthening the existing Combined Code. *Higgs strongly backed the existing non-prescriptive approach to corporate governance: "comply or explain"*[60]. According to the report, "*almost half the so-called independent directors on British boards were recruited by the CEO through personal contacts or friendships. A mere four percent had a formal interview[61]*". Taking in consideration this, it is easy to understand that the independence of the directors is compromised. The actual financial crisis has revealed the severe problems that financial companies have regarding the risk management practices. Some of the risks were too complicated and complex (too specialist) to be assessed by the board - many of them did not understand exactly the instruments their banks were trading. Many board members have not the necessary technical financial expertise or business experience in order to fully assess the consequences of their decisions. Nowadays, many of them are reputed teachers (globally recognized) but with no previous business experience or expertise. Kirkpatrick Grant[62] (2010) emphasize that "*four of the ten members of the board were over 75 years old*"[63] and had no previous banking experience - suggesting the idea that boards might be "retirement home for the great and the good" may have a grain of truth. Even if in large financial companies, there are risk committees, their voice is barely left to be heard and assessed. Stockownership represents probably the best way to link shareholders interests with CEOs interests and wealth. Traders, salesmen and executives are not enough motivated / remunerated to focus too much on long lasting sustainability, sustainability, over decades. There is the same problem with remuneration at both levels: sales and trading. In a study, realized by Fahlenbrach and Stulz (2010), it is shown that Bank CEOs did not reduce their holdings of shares in anticipation of the crisis or during the crisis. Consequently, they suffered extremely large wealth losses in the wake of the crisis. With this tremendous financial sophistication, it is pretty difficult to find nowadays financial specialists in supervisory boards, capable to fully assess the risks, the business model and the consequences of their decisions.

Optimist managers tend to have better investment cash flow sensitivity than their peers. Kross and Souk (2009) found that managers of firms that have achieved a string of increasing earnings issue more optimistic earnings forecasts, compared to firms without such a string. The optimism in management forecast for these firms seems to dissipate after the string of earnings increases is broken. These results are consistent with the argument that managers are overly optimistic after

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experiencing earnings growth for several consecutive years, but this optimism does not persist after the earnings performance declines. The decrease of such optimism after the several earnings growth years indicates that managerial sentiment can change within a relatively short period of time. CEO's decisions reflect in good part, the chief executive's personal style rather than a set of criteria determined by the firm. Aggressive CEOs tend to misuse leverage, over indebt their companies and tend to expand through acquisitions. On the contrary, the conservative CEOs tend to maintain more cash and tend to grow independently, organically in a sustainable manner (excluding acquisitions) (see David Adler). Itzhak Ben David, Graham and Harvey (2007) show that companies with overconfident CFOs invest more and engage in more acquisitions. Moreover, overconfident managers are less likely to pay dividends, instead using the funds to make investments and have higher debt ratios and rely more heavily on long term debt. Their result indicates that miscalibration depends on personal skills, in addition to corporate characteristics. Baker and Wugler (2004) suggest that is much easier for a chief financial officer to issue more shares when a company is overvalued than it is for a hedge fund to short overvalued shares; if the shares are not truly overvalued, the consequences to the CFO's own job are relatively modest compared to those for the hedge fund manager. Overvalued companies tend to increase capital while the cheap companies tend to repurchase their share.

Standards of ethics in the decision making process is very important, especially in the financial system. It is well known that banks sell confidence, not money. Oberlechner (2007) claims that ethics goes beyond restraining from unethical behavior because of the potential costs of exposure. Heuristic biases or cognitive dissonance, for example, can also affect ethical decision making. Culture has a great importance for the attitudes of employees. The culture of doing the right thing no matter the cost makes companies less vulnerable especially when comes to trading. Traders are given strong incentives to make great profits, but if they don't do well, actually they make losses, they don't have to repay losses, and the worst thing that might happen to them is just to be fired. Practically, there is almost no incentive for respecting sound trading practices and having a prudent money management. Many banks did not develop sufficient operational limits that would restrict the bank's overall exposure to derivatives, securities or subprime loans. Did banks ignore risks because ignorance, psychological reasons or because they really did not know? How come their risk managers failed to address the real issues? Why did banks hold the most risky assets, insufficient focusing on fundamentals? According to Shefrin (2009), narrow framing and opaque framing were the two psychological traps that banks confronted with. They presented risk incompletely, did not disclose information with those who needed and netted long and short positions, obscuring the manner in which positions were structured. Another cause for distress in financial sector might be the compensation structure that made little recognition of risk issues (employees had no direct incentive to focus on risk when making decisions, establishing unrealistic profit goals and short term profit orientation).

Closed-End Funds Puzzle

The job of professional portfolio managers has always been a subject for controversial discussions among pundits over time. Weiss (1989) asserts that younger funds tend to underperform but it remains a mystery why investors have a greater will to invest in younger funds. The impact of managerial turnover would be that new funds (and funds that have recently changed their management team) should exhibit above normal NAV returns; Funds with longer managerial experience should exhibit below normal NAV returns. Only good managers would be willing to leave voluntarily, meaning the discount should *increase* (if the fund is trading at a premium the premium should decrease) around voluntary separations or pay increases. As the time goes by, the fund may be traded either at premium or at discount, depending on the managerial abilities and the expectations of shareholders. In case that management fees equal the value added (at least these are the expectations of shareholders), the funds are traded at par. Berk

et al (2003) wonder why would investors buy a closed-end fund at its IPO price, knowing that it is likely to fall to a discount, when they could buy instead an open-end fund that is guaranteed always to trade at par. Investors' irrationality might be a possible explanation. Fees represent a cost for the fund and they are subtracted from the net asset values of the funds. If managers do not generate enough value added, over the value of the fees, the fund shall be traded at discount. Depending on which one is greater, the value added or the fees, the fund shall be purchased at premium or discount. Bear in mind I said "shall". The things are a little bit more complicated, it's all about the market sentiment. If a fund is purchased at a discount, the discount might widen if the sentiment of the irrational investors turns pessimistic. The discount changes over time as investors change their beliefs about the manager's ability to create wealth.

Aggregate earnings guidance

Aggregate earning affect market returns especially in periods of profit "warnings". Profit warnings are very good informative instruments for investors, because they have a direct influence on the expected future cash flows and expected returns. Anilowski and Feng (2004) assert that important economic aggregates are increasingly dominated by the fortunes of a relatively small number of very large firms. Kothary, Lewellen and Warner (2003) conclude that the strong negative reaction to aggregate earnings news suggests that discount rates rise when earnings are unexpectedly high. They find that earnings are strongly correlated with discount rates. However, these variables only partially explain the market's negative reaction to earnings news. The results contradict the conventional knowledge affirming that discount rates and cash flows should move in opposite directions. A study of Hirshleifer, Lim and Teoh (2007) indicates that the effects of the earnings announcement for a company may be weaker in busy periods with a large number of other companies releasing earnings results. According to them, the company may record a lower volume reaction and a stronger further post - earnings announcement float. The distraction effect is even larger for positive news than for negative news. Barber and Odean (2005) claim the investor distraction hypothesis, suggesting that investors' limited attention may drive market under react to public news such as post-earnings announcement drift. Chandra, Wasley and Waymire (2004) found that technology sector companies pursue a higher degree of conservatism related to earnings, mostly due of conservative accounting rules for R&D expenses rather than shareholders litigation risk. It is well known that investors may sue managers for excessive volatility of the stock prices; that is why managers tend to be more conservative in their actions and strategies.

Dividends

It is well known that companies prefer increase their capital when stock prices are high and interest rates are low and do the opposite for repurchasing their own shares or for repaying debts when interest rates are high and stock prices are cheap. As Malcolm Baker puts it, when it comes to supply capital effects, it's all about the combination between the "*investor tastes, limited intermediation and corporate opportunism*". The informational advantage over the company earnings help corporate managers get the right mix between the three factors mentioned above. Hoberg and Prabhala (2007) suggest that that risk is the factor that explains (for about a third to almost a half of the times) the Fama-French disappearing dividends puzzle. Fama and French (2001) show that the inclination to pay dividends has declined over time. According to them, long-term returns are univocally positive and institutional (not retail) ownership increases the release of dividends. Baker and Wurgler (2004) argue that dividend policy may be influenced by managers "catering" to the demands of investors. "Catering" refers to realizing any actions intended to boost share prices above fundamental value. According to them, managers rationally cater investors' demand, by paying dividends when investors put higher prices on payers and not paying when investors prefer non-payers. In order to represent the company's long term interests,

managers need to have the flexibility of taking unpopular decisions in the market place. But that interest is merely followed. Managers are congratulated when the stock prices rise (even it is a short term rise), not when a sustainable growth long term managerial program is implemented. Remember the financial companies' way of doing business before 2007. Bankers were more interested in short term profits, regardless of risks. Investors' preferences vary overtime: in the periods with high dividends, they tend to fly for quality, they orientate themselves to less risky instruments (bonds, bank deposits) or defensive stocks, while the jump in for great growth potential stocks in periods with lower dividends.

Conclusions

As a conclusion, corporations need a lot of improvement in some of those aspects referring to management and corporate governance: sensible incentives that mix the personal interest with corporate risk and reward, control & communication systems, risk management systems, accounting standards and procedures and human resources. As investors, we also need to take in consideration aspects like dividends, earnings announcements and the evolution of closed-end funds industry in order to understand better the investors and the market's sentiment, the price momentum and price reversal so we may increase further our wealth.

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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 hipothesis
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*[64] 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 fines[65]. 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 Phlips 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

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:

$$p_1 = \alpha - \beta q_1 + \gamma p_2 + \delta p_3$$
$$p_2 = \alpha' - \beta' q_2 + \gamma' p_1 + \delta' p_3$$
$$p_3 = \alpha'' - \beta'' q_3 + \gamma'' p_1 + \delta'' p_2$$

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):

$$\pi_i(q_i) = q_i(p_i - c_i)$$
$$\pi_i(q_i) = \max \Rightarrow \frac{\partial \pi_i(q_i)}{\partial q_i} = 0$$

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 been practiced if the market companies would been 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:

$$p_1 = 14.8564 - 0.0448q_1 - 0.0049q_2 - 0.0224q_3$$
$$p_2 = 15.0474 - 0.0453q_1 - 0.0051q_2 - 0.0228q_3$$
$$p_3 = 15.1537 - 0.0456q_1 - 0.00502q_2 - 0.0238q_3$$

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 (Knörzer, 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 responsability, 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 responsabilities 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 responsability 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 responsability , 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 accurary 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, tales 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 trough 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 officals 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 majors 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 "responsability 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.

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. Spestovna 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
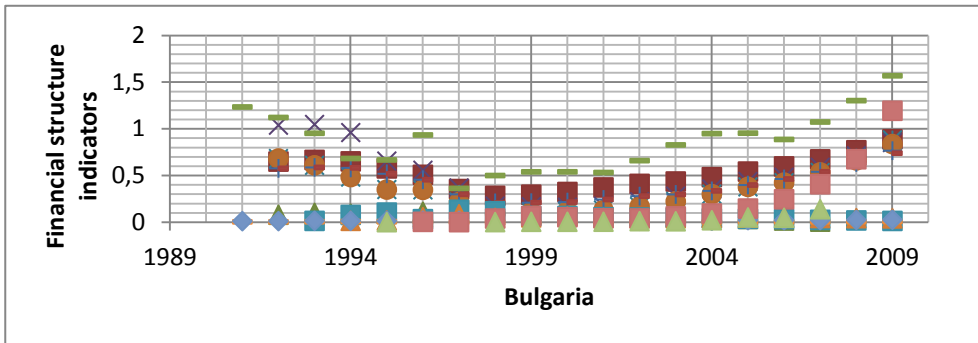
Some observations results from figure 1: major indicators shows an improvement of financial system structure, and an increase of stock market capitalization - the indicator LIQUID LIABILITIES / GDP fluctuates from a minimum value in 1998 - 0.2822 to a maximum in 2009 - 0.8877 suggesting an increase of 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 unrestructured clients. Financial sistem structure matrix indicators is shown in graphic below:

Figure 2. Financial system structure in Czech Republic
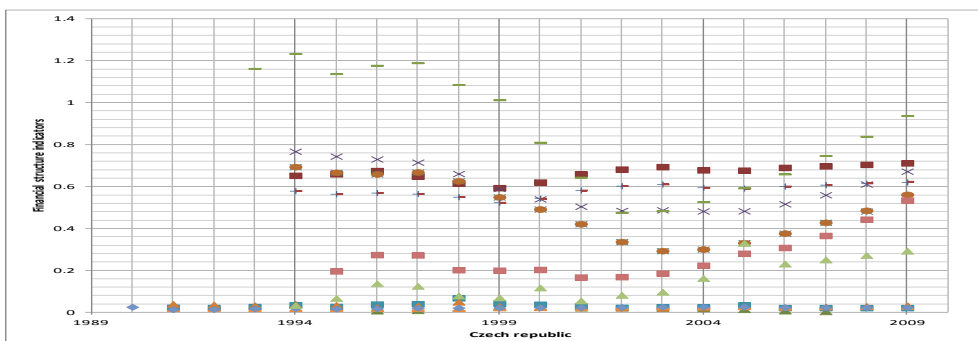
As figure 2 suggests indicators shows a lesser improvement of financial system structure, and an increase of stock market capitalization in 2008 and 2009- the indicator LIQUID LIABILITIES / GDP fluctuates from a minimum value in 1994 - 0.651 to a maximum in 2009 - 0.7103 suggesting a small increase of 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**
http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:20696167~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html
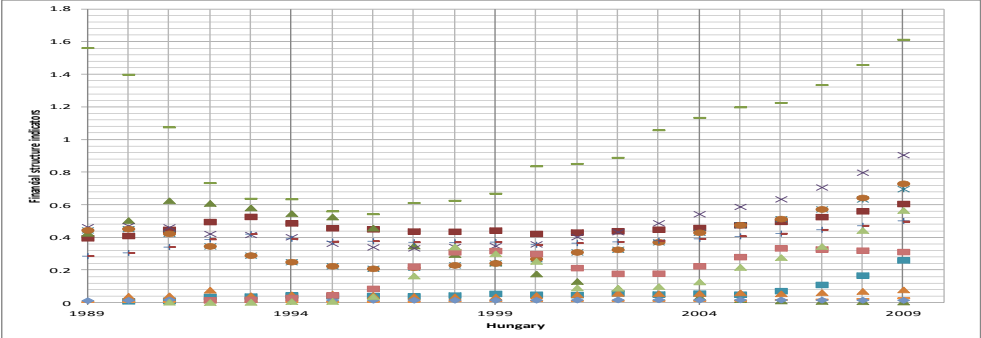
In concordance with Figure 3, in Hungarian financial system, a set of indicators almost double their an value: LIQUID LIABILITIES / GDP fluctuates from a minimum value in 1994 - 0.395 to a maximum in 2009 - 0.651 suggesting a boost increase of overall financial liquidity, indicator FINANCIAL SYSTEM DEPOSITS / 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
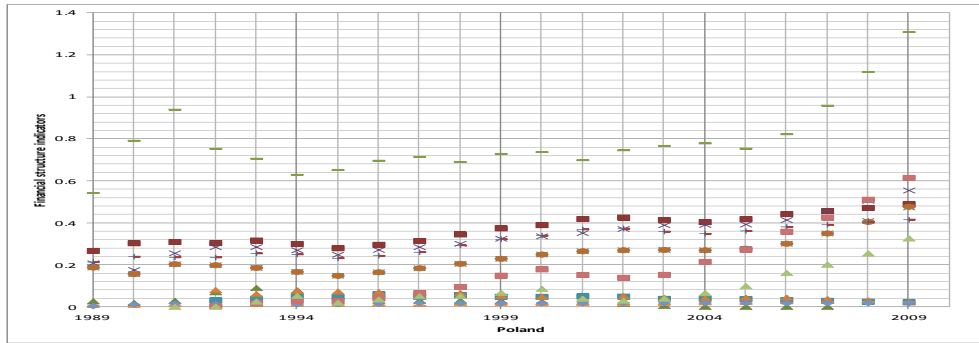
As displayed in Figure 4, a set of Polish financial system indicators almost double their an value: LIQUID LIABILITIES / GDP fluctuates from a minimum value in 1994 - 0.2672 to a maximum in 2009 - 0.651 suggesting a boost increase of overall financial liquidity, indicator FINANCIAL SYSTEM DEPOSITS / 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
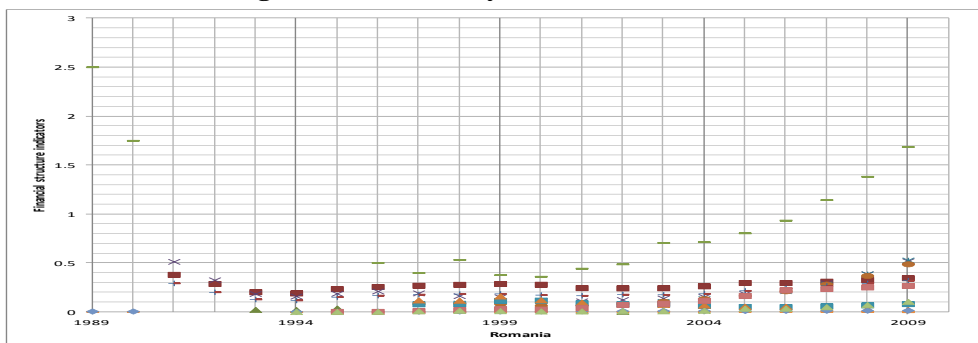
As displayed in Figure 5, indicators in 2009 are closer to values from 1991: LIQUID LIABILITIES / GDP fluctuates from 0.3804 in 1991 depreciated to 0,3454 in 2009 - 0.651 suggesting a boost increase of overall financial liquidity, indicator FINANCIAL SYSTEM DEPOSITS / GDP is within 0.2932 (1989) and 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' 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 meet. 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 meet), 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 cold 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 discretional polices (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 all 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 prompter and self-correcting fiscal response (Baunsgaard and Symansky 2009: 1-26; Fedelino, Ivanovna and Horton 2009: 1-15; Kennedy et all 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 fallowing 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 then 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 de 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 conclude 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 de 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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TAXATION OF FINANCIAL SECTOR AFTER THE CRISIS IN THE EUROPEAN UNION

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Taxation of financial sector is an important issue of the actual fiscal policy, especially after the economic crisis impact. By taxing the financial sector, it is intended taxation of financial transactions, and financial activities. European Union supports the taxation of the financial system and makes proposals in this regard. This paper tries to reveal the major aspects concerning the taxation of financial sector, both theoretical and empirical aspects. It will analyze the reasons which justify the application of such taxes, but also difficulties involved in practice. Another major objective of this paper is to examine the role of taxation in the financial sector as important regulatory instrument. This subject is debated in European Commission papers and by many economists. There are underlined the necessity of such tax, the impact and the economic efficiency. Our purpose is to identify if this kind of tax is good for our economy and what can be the impact from budgetary point of view. For finding this answers the paper realize a complex analysis of the types of taxes applied on financial sector in countries which already adopted this kind of taxes, like United Kingdom, Austria, Hungary, Cyprus. We believe that the financial sector should be charged, because was responsible in great measure the economic crisis impact. A potential tax applied to financial sector is considered as an important source of budget revenues. This article tries to explore the possible tax measures for financial sector according to the major principle of public finance –equity and efficiency. Special attention will be given to the need to implement financial sector taxation in Romania. In the years before the crisis banks and entire financial sector in Romania recorded significant profits. For this reason such tax is justified given that this sector is exempt from VAT. Applying such a tax would reduce the budget deficit and on the long term will reduce the public debt.
Keywords: financial sector taxation, fiscal policy, financial transactions
JEL Classification: E62, H25, H12.

Introduction

The global economic and financial crisis has a major negative impact on public finance because the tax revenues are decreasing and budget deficits increases for most of all countries. In this context the fiscal consolidation requires some measures like increasing the tax rates or even introducing new taxes. As a consequence of this fact many countries (European Union member states) choose to increase value added tax rates or excises for reducing the budget deficit.

Taxing the financial sector is a current topic imposed mainly by the negative impact of financial crisis since 2008. In European Union countries, in recent years concerns the taxation of the financial sector have increased, more and more states consider implementing a taxation of financial capital for several reasons.

A potential tax applied to financial sector is considered as an important source of budget revenues. Another consideration that justifies this tax would be that the financial capital is taxed far less than consumption, labor or property. The financial sector is considered to find under-taxed compared with other economic segments because the financial activities often are exempt from VAT.

It is generally accepted that the financial sector was a major cause of the crisis and received substantial government support over the past few years. To ensure that the sector makes a fair contribution to public finances and for the benefit of citizens, enterprises and Member States, the European Commission initiated a few proposals of financial sector taxation. The financial sector had an important role in the spreading of economic crisis and the governments have to finance bank failures through fees paid by taxpayers.

In this context we can underline the major reasons that may justify the financial sector taxation:
-    source of budgetary revenues;

- equity of taxation comparative with other sectors;
- regulatory instrument for correct negative externalities stemming from the activities of the financial sector, which include the effects of excessive risk-taking;
- a fair contribution of the financial sector to public finances, in particular with regard to the economic and financial crisis;

In some EU member states already operate different forms of taxation of the financial sector, with different rates. The paper realize a complex analysis of the types of taxes applied on financial sector in countries which already adopted this kind of taxes, like United Kingdom, Austria, Hungary, Cyprus. It is necessary to take measures to harmonize the taxation of the financial sector to avoid any single market imbalances.

Taxing the financial sector could contribute substantially to reducing public debt faced by many countries at this moment only if there is an effective enforcement mechanism. European Commission proposals have considered the following types of instruments, namely *financial transactions tax (FTT)* and *financial activities tax (FAT)*. Financial transactions tax (FTT) will be paid on each purchase or sale of stocks, bonds or other financial instruments or when is trade one currency.

Financial activities tax (FAT) was proposed by the IMF and is a tax on profits and total remuneration of financial institutions, so that may be considered as a value-added, which is somewhat fair since financial services are not imposed with VAT.

The main cause of economic crisis was the lack of regulation and supervision of the financial sector. Taxing the financial sector could be used as a lever to regulate this sector without using direct intervention; the more effective the more powerful tax is imposed on toxic financial instruments. For this reason the financial sector taxation could be considered as a technique to solve negative externalities generated by the financial sector especially during the economic crisis, but also before and after the economic crisis.

Taxing the financial sector involves a number of practical difficulties concerning the tax rate, defining the taxable base and object, categories of taxpayers, scope and place of taxation. It is necessary a harmonized tax for EU space for avoiding migration of financial capital to countries that do not apply such taxes or have a very low rate.

Literature review

Keen (2010), makes a comprehensive analysis of current issues: imposing a tax on financial sector in terms of the role and potential implications. This fee is seen as a corrective role - "pigovian tax", which the author underline systematic externalities to which financial sector taxation can have an impact. The last years proved that it is not enough a prudential regulatory at microeconomic level, but also a macroeconomic regulatory and taxation can be used as an important tool in this respect.

Keen, Krelove, and Norregaard (2010) address the underlying rationale of the tax on financial activities and income and potential models obtained by applying the proposed fee G20 report. This fee is seen as a way to correct market imperfections and requires all long-term economic rents generated by the financial sector or only those generated in excess.

Shackelford, Shaviro, and Slemrod, (2010) propose some solutions for the implementation of new taxes on the financial sector: tax on financial transactions, taxation of bonuses and two types of taxes on financial institutions: a tax on the excessive profits and a tax on financial activities - proposed IMF (2010). These proposals are analyzed in terms efficiency considerations, and the authors anticipate these fees to be quite inefficient comparing costs it will involve large and small receipts that will bring to the budget and in terms of correcting externalities cannot identify a clear impact, because of low rates that would apply.

Buckley, and North (2011) argue that the introduction of a low level global financial transaction tax as part of an integrated policy framework would promote greater alignment between capital

market and economic activity to the real benefit of entire economies and the people who live in them. Considering the technical issues of financial transaction tax their proposal is for applying low rate initially, with an agreed review period of five years. The tax should be a small impost of between 0.005 percent and 0.05 percent. Also it is necessary some differential rates applied to instruments or asset classes to reflect the varying transaction costs and the extent to which the tax is intended to discourage trading in particular instruments or classes. The tax should be calculated on the notional values of the underlying security and should be adjusted for the term of the security.

The major benefits of the financial sector taxation are mentioned by Meussen (2011): enhancing the efficiency and the stability of the financial markets, reducing the excessive risk-taking producing negative externalities for the rest of the economy and volatility of the financial markets.

Financial transactions tax

This kind of tax it the subject of European Commission's proposals. Under these proposals we will summarize the major directions agreed by the European Commission.

Products and transactions covered are: stocks, bonds, currencies, derivatives, options, spot transactions. Chargeable event takes into account the principle of commitment (contract entry into force) or cash principle when actual payment is made or the two combined.

Place of taxation can be set differently for each jurisdiction and can be done according to the residence of the parties, the place of operation or depending on where it is issued financial instrument.

Taxable persons can be subjects or institutions arranging the transaction. The tax base is a particularly difficult concept to clarify for those financial instruments as derivative or spot. The tax can be a flat rate or differentiated. The flat enjoys the advantage that is easily applied and managed, while the differentiated rates are more complex and difficult to manage. The latest proposals were for very low rate between 0.01% and 0.1% to avoid a negative impact on markets and discourage tax evasion.

European Commission and the IMF have developed and implemented several proposals for studies on the taxation implications of financial sector. There are also studies that deal with this issue in many respects: the proposals on the application of VAT on financial sector tax to a separate application.

In the experience of EU Member States taxing the financial sector are already in place certain measures or will in the near future to take effect.

Some states have turned to tax on financial transfers. In this case are some examples. Finland applies a transfer fee over the selling price of shares at a rate of 1.6%. Greece also applies to a transfer fee of 0.2% over the shares listed. In Poland is imposed the sale of shares or derivatives of 1% of market value.

But the main drawback of financial transaction tax is underlined by Nerudova (2011). This kind of tax would generate revenues mainly in the very narrow group of states, where the big financial centers are situated. This disproportion would be further deepened by the inclusion of derivates into the tax base. It would therefore be necessary to apply the tax globally, for the investors all around the world use those financial centers and therefore all the users of the financial centers participate on the tax revenue.

The Financial Activities Tax

A Financial Activities Tax would be levied on the sum of profit and remuneration of financial institutions. The rationale for the FAT is to target specifically financial sector activities, without affecting the operations developed on financial markets. This kind of tax can be considered as a measure to limit the risk on the financial market. The question is – how fair is that financial

institution to pay an additional tax comparative with other companies? Considering the benefit principle paying taxes has to be in accordance with the benefits received from the state. If the governments have supported the banks in crisis time, then such additional tax for financial sector is justified.

Financial activity tax can applied in three different forms:

- FAT 1: as a value added tax imposed on wages and profits;
- FAT 2: as a tax on economic rents in the financial sector (paid for supernormal wages and profits);
- FAT 3: a tax levy on very high wages and profits for discourage risk taking.

European Union countries experiences

A few EU countries choose to introduce financial sector taxation in 2010 and 2011 and this trend will continue in 2012 because the increasing tax receipts represent a priority of the fiscal policy for all EU countries after the economic crisis. Countries like Hungary applied the financial activity tax since 2010 with different rates. In Austria, Hungary and Portugal, financial activity tax is implemented in the form of a bank levy based on the balance sheet total (excluding own capital and secured deposits). Also, in Cyprus, a levy on the total deposits in banks was introduced and France introduced a levy based on consolidated risk weighted assets.

Tabel no. 1. Forms of taxes on financial activity imposed after crisis in EU countries

COUNTRY	TYPE OF TAXES	TAX RATES
Hungary 2010/09/27*	Special tax on financial institutions	1. credit institutions: 0.15% - 0.53%; 2. insurance companies: 1.5% - 6.4%; 3. financial enterprises: 6.5%; 4. investment firms: 5.6 %; 5. exchange market operators: 5.6% per cents 6. investment fund management companies 0.028%.
UK 2011/01/01*	The Bank Levy	The standard rate was originally set at 0.075%, but it was raised slightly in March to 0.078%, and again, to 0.088%, from January, 2012.
Cyprus 2011/04/29*	Special tax for financial institutions	0.095% of the deposits held in Financial Institutions restricted to a maximum of 20% of the total taxable profits of the Financial Institution
Austria 2011/01/01*	Levy on banks	The levy is structured progressively, with a rate of 0 per cent for the bracket up to € 1,000 million, 0.055 per cent for the bracket up to € 20,000 million, and 0.085 per cent for any amount exceeding this threshold.

*Note: Date of introduction

Source: realized by author based on European Commission on-line database Taxes in Europe

Denmark increased its financial activity tax (FAT) in 2011, which is a duty on wage and salary costs for businesses engaged in financial services. The rate was raised from effectively 9.13 % to 10.5 %.

In the United Kingdom the financial sector has a major contribution to the economy and for this reason a special attention was given to the taxation issue. The most important measure was introducing, both a bank levy and a one-off bank payroll tax (i.e. bonus tax) of 50 % on bonuses over £ 25 000 paid by banks and building societies between 9 December 2009 and 5 April 2010. The purpose of the levy bank is to ensure that the banking sector makes a fair contribution, reflecting the risks they pose to the financial system and the wider economy. Another purpose is

to encourage banks to move away from risky funding models that threaten the stability of the financial sector and the wider economy.

For revealing the efficiency of this tax we try to reflect the budgetary receipts of this tax in Hungary and United Kingdom. Because Hungary has applied the highest tax rates there was registered the high level of tax receipts, almost 2 % of the total revenue.

Tabel no. 2. Tax receipts from financial sector taxation in 2011

COUNTRY	TYPE OF TAXES	TAX RECEIPTS AS % OF GDP	TAX RECEIPTS AS % OF TOTAL REVENUES
Hungary	Special tax on financial institutions	0.7	1.85
UK	The Bank Levy	0.08	

Source: realized by author based on European Commission data

Some countries like Denmark, France choose to apply financial sector taxation included in labor taxation through progressive tax rates.

In countries like UK or Luxemburg the financial sector is very important because is assuring many jobs and an important part of gross domestic product. If the financial sector taxation is increase it is expected a tax receipts increase, but on the other hand also tax competition increase. Generally speaking the major financial centers have the most powerful financial capitals, but in the same time there is an alternative – tax havens - preferred just for no existing taxes.

Perspectives on taxation of financial sector in Romania

How necessary is the financial sector taxation in Romania? Our country's situation is similar with the other EU countries about the introduction of such a tax? Financial sector in Romania hasn't recorded transactions with high risk like other countries, has been more a phenomenon of contamination. Regarding financial support offered by the government to financial sector was quite lower. But as a member of the European Union, Romania has to adopt harmonized tax measures about financial sector and should apply these measures. If applied financial sector taxation the main concern of the government has to be avoiding measures that could lead to transmission of the tax burden on customers. It should also be severely taxed highly speculative risk, and operations considered toxic. Tax burden is unfairly distributed in Romania; this burden is supported by the consumers most of all, namely individuals and less by the companies. We must avoid a new burden for individuals by applying financial sector taxation. In the years before the crisis banks and entire financial sector in Romania recorded significant profits. For this reason such tax is justified given that this sector is exempt from VAT. Applying such a tax would reduce the budget deficit and on the long term will reduce the public debt.

Conclusions

This issue of financial sector taxation is and will be a controversial issue at European Union level. A possible solution is to implement a unique tax for financial activities for all EU countries with the same tax rate for avoiding financial capital migration between EU member states. It is important to implement a low tax rate because for preventing capital migration out of EU. Concerning the financial transaction tax in this case the best solution has to be choose by every state in respect with some particular characteristics of own financial sector. It is not equitable to impose the same tax or the same rules on financial transaction for all EU states because the financial sector pattern is quite different between EU member states.

In this light the European Commission considers that there is greater potential for a Financial Activities Tax at EU-level. This option could deal with the current VAT exemption of the

financial sector and raise substantial revenues. Considering the innovative nature of this kind of tax there is a need for further technical work on how it might be implemented.

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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
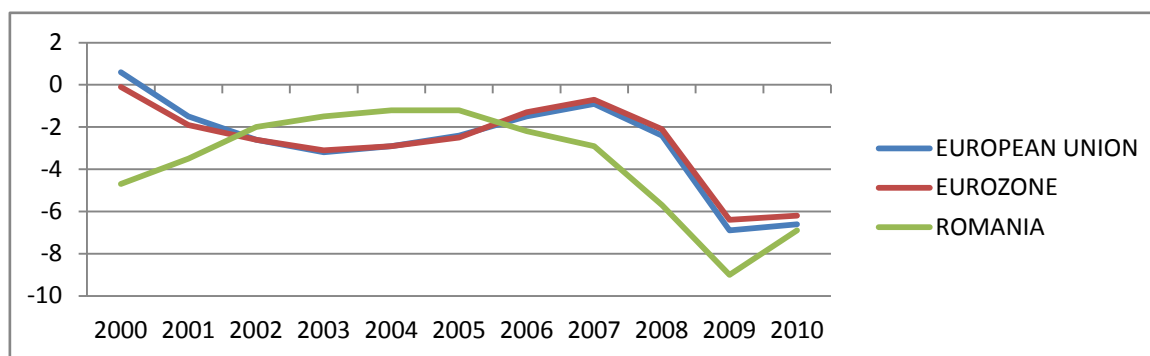
Fig. no. 1 Evolution of budget deficit (% of GDP)

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**			20%	
3	25.267	33.920	5,5%			
4	33.921	50.410		14%		
5	50.411	111.961	14%			
6	111.962	182.680	30%			
7	182.681	224.104			40%	
8	224.105	300.166		42%		
9	300.105	732.675	41%			
10	732.676	1.062.569			50%	
11	1.062.569	***		45%		

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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THE IMPACT OF MACROECONOMIC FACTORS ON COMPETITION POLICY EFFECTIVENESS WITHIN EUROPEAN UNION

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In the last decades, more and more countries have enacted competition laws, understanding the importance of this process in providing a normal functioning of the economy. Analyzing competition policy effectiveness is important not only because of the recent extent of the phenomenon, but also because of the impact of competition policy effectiveness on economic development and, in the current economic climate, on the economic recovery process. For this reason, quantitative evaluation for competition policy effectiveness became very useful as data handling and understanding the whole phenomenon are easier this way and an international perspective is provided. This was made possible by various international institutions that have created a system of aggregated indicators for the evaluation of competition law enforcement and competition advocacy (perceived effectiveness). The purpose of our research is to identify the macroeconomic factors that influence the effectiveness of competition law implementation within the European Union Member States. We have tasted the influence of 13 macroeconomic, using panel data methodology and data from the last four years. We obtained ß coefficients statistically significant only for 11 of them. The results are consistent with prior analyzed studies and economic logic: positive influence from market division, intensity of local competition, ethical behavior of firms, strength of auditing and reporting standards, efficiency of legal framework in settling disputes, protection of minority shareholders' interests, public trust of politicians, economic dimension and market size and negative influence from corruption level and diversion of public funds. Based on the achieved results we can perform an analysis of principal components leading to causal space reduction with minimal information loss and without informational redundancy, creating the premises for building a model that explains competition policy effectiveness through macroeconomic factors.
Keywords: competition, antitrust policy, economic efficiency, financial crisis, regulations
JEL Classification: K21, L44, R58

I. The concept of competition policy effectiveness

When defining competition policy and competition law, specialists have different views. But one thing is certain. All definitions converge to the idea of providing a functional competitive environment.

Massimo Motta defines competition policy as a set of policies and laws which ensure that competition in the market place is not restricted, in a way that is detrimental to society (Motta 2004: 28).

Competition law and competition policy are not synonymous concepts. Competition policy refers not only to competition law but also to institutions that enforce competition law, to competition advocacy and to industrial policy concerns (Papadopoulos 2010: 30).

Competition policy role has increased significantly in recent decades. Both at national and international level, competition policies have gained an increasingly important role. In the last decades, more and more countries have enacted competition laws, understanding the importance of this process in providing a normal functioning of the economy. Specifically, over half of all the countries that have legalized the competition field so far, have adopted the first law after 1990.

For this reason, quantitative evaluation for competition policy effectiveness became very useful as data handling and understanding the whole phenomenon are easier this way and an international perspective is provided. This was made possible by various international institutions that have created a system of aggregated indicators for the evaluation of competition law enforcement and competition advocacy (perceived effectiveness). The main indicators are: effectiveness of antitrust policy (World Economic Forum), effectiveness of competition law (International Institute for Management Development) and EBRD competition policy indicator (European Bank for Reconstruction and Development).

Although there are many obstacles in realizing such a valuation caused by the heterogeneous content of competition policies, the implementation mechanisms, types of regulated anti-competitive practices these institutions have developed methodologies meant to outline a clearer picture of countries position in the global economic system and capture competition policy implementation effects on business environment performance (Vass 2010: 10).

In this paper we analyze the competition policy effectiveness in the European Union Member States in terms of macroeconomic factors that influence it. Within the European Union, competition policy is aimed to maintain a normal competitive framework in member states.

This research is important not only because of the recent extent of the phenomenon, but also because of the impact of competition policy effectiveness on economic development and, in the current economic climate, on the economic recovery process.

Regarding this last aspect, competition policy is seen as an economic instrument during the current crisis. More than ever, companies are tempted to resort to anti-competitive practices in order to survive or for profit purposes, therefore ensuring a fair competitive framework eventually leads to maintenance of or reduce of prices and survival of companies that could not function if there are price agreements between big sellers on the market. On June 26, 2009, at Chatham House Conference, European Commissioner for Competition at the time, Neelie Kroes has stated that competition policy is now "part of the solution, rather than the problem, by bringing parties together, put a stop to potential subsidy races and being as flexible as we can without undoing the basic principles of competition policy".

II. Literature Review

Researches related to factors influencing competition policy effectiveness include both directly dependent variables (such as: clarity of competition law content, competition authorities budget, number of the personnel and level of qualification - as input and number of cases - as output), various explicative macroeconomic variables such as: commercial openness (measured as the ratio between exports plus imports and GDP), economic dimension, economic reforms in transition countries (index of economic freedom), foreign direct investments (net inflows as a share of gross capital formation), sector structure (relevant in this case is the share of industry in GDP), government policy effectiveness, corruption level, effectiveness and independence of legal institutions etc. The main studies on the impact of macroeconomic factors on competition policy effectiveness are briefly presented below.

Palim (Palim 1998: 105-145) studies the factors influencing competition policy, through the process of enacting a competition law. Main results obtained using empirical tests are: a positive and significant relation between economic development and the decision of enacting a competition law; a positive relation between economic size and the probability to legislate competition framework; an increase in government spending reduces the enacting probability. The factors that determine adoption of competition law are, after all, further drivers of competition policy effectiveness.

Evenett (2003: 9-89) tests, on the same sample of countries as WEF, the influence of several factors centralized from previous studies. Several determinants of competition policy effectiveness witch impact on law enacting are identified. Those with a positive influence are:

economic development, economy dimension, degree of economic freedom, intensity of imports, openness to foreign direct investments, dependence on international organizations and social security system development level. The factors with negative influence are: the level of industrialization, government intervention, export and import restrictions and corruption level.

Kronthaler (2007: 4-19) analyzes a sample of 71 countries that have enacted competition laws after 1990 in the time span between 1995 and 2005. Then, he extended the study to all countries with competition laws since the '80s and '70s. The empirical results suggest that the perceived effectiveness of competition law implementation, rather than its actual effectiveness, depends positively on the economic development level, commercial openness, legislative experience and negatively on economic size and corruption level.

Borrell and Jiménez (2007: 69-88) also tested various factors considered to have influence on competition policy effectiveness on a sample of 57 countries and concluded that among tested factors the following are significant: commercial openness (positive influence), corruption level (negative influence), market division (positive influence) and intensity of local competition (positive influence).

III. Research methodology, data and results

The purpose of our research is to identify the macroeconomic factors that influence the effectiveness of competition law implementation within the European Union member states.

Thus, we will use WEF competition policy effectiveness indicator as proxy variable for effectiveness implementation of competition policy. The indicator takes values between 1 (lowest - competition policy is lax and ineffective in promoting competition) and 7 (highest value - competition policy effectively promotes competition). It has been shown that this indicator is the most comprehensive indicator available in terms of sampled countries and covered period of time. Among scientists this is considered a useful measure for comparisons between countries (Nicholson 2004: 5-12).

We have chosen the endogenous variables taking into account the existing studies as well as regional aspects in competition field. Therefore, the macroeconomic factors included in analysis will be: market division (not. div), intensity of local competition (not. loc_comp), corruption level (not. corr), diversion of public funds (not. dpf), ethical behavior of firms (not. ethics), strength of auditing and reporting standards (not. reporting), efficiency of legal framework in settling disputes (not. legal), protection of minority shareholders' interests (not. protection), and public trust of politicians (not. publ_trust), all these indicators being published by the World Economic Forum and scale from 1 to 7. To these we add the national market size index (calculated as follows: GDP + value of imports of goods and services - exports of goods and services, normalized on the 1-7 scale; not. nms), commercial openness (measured as the ratio of exports plus imports and GDP; not. opp), the economy dimension (national GDP as a percentage of world GDP, not. gdp_m) and population (in millions; not. pop).

Data source is represented by World Economic Forum and World Bank.

In order to study the impact of macroeconomic factors on the effectiveness of competition policy we will use panel data methodology. Panel data models consist of estimation of regression equations using both time series and cross sectional data simultaneously.

We have collected data from the last four years for the 27 European Union member states for the WEF indicator and the 13 exogenous variables, which is a total of 108 observations per variable.

Data was log-transformed before use in order to provide homogeneity for our data series. This procedure is widely used in econometric analysis.

The general regression formula we are going to use to estimate parameters using EViews software is:

$$l\_ef_{it} = \alpha + \beta * l\_x_{zit} + \varepsilon_{it} \quad (1)$$

where i is the section (country in our case); t is the year; l_ef is the natural logarithm of WEF indicator for competition policy effectiveness; l_xz is the natural logarithm of proxy variable for initial variable z; ε_t is the residual variable.

We will use Least Squares Method (NLS and ARMA) for panel data in order to estimate the parameters.

Unifactorial regression parameters estimation results on panel data and corresponding p-value are summarized in the table below.

Table no. 1. Unifactorial regressions parameters estimated using panel data when competition policy effectiveness is the endogenous variable

No.	Endogenous Variables	α	β	No.	Endogenous Variables	α	β
1	l_div	0,3676 (0.000)	0,7759 (0.000)	8	l_publ_trust	1,1596 (0.000)	0,329 (0.000)
2	l_loc_comp	-0,786 (0.064)	1,3794 (0.000)	9	l_legal	0,8536 (0.000)	0,4903 (0.000)
3	l_corr	0,4079 (0.000)	0,6827 (0.000)	10	l_gdp_m	1,5702 (0.000)	0,0304 (0.002)
4	l_op	1,4473 (0.000)	0,0186 (0.586)	11	l_pop	1,5116 (0.000)	0,0108 (0.313)
5	l_dpf	0,8692 (0.000)	0,4545 (0.000)	12	l_protection	0,1932 (0.029)	0,8698 (0.000)
6	l_nms	1,3294 (0.000)	0,1484 (0.010)	13	l_reporting	-0,35 (0.007)	1,1295 (0.000)
7	l_ethics	0,5797 (0.000)	0,6115 (0.000)				

α is the intercept and **β** is the estimated parameter corresponding to a factor

With the exception of commercial openness and population, all other factors prove to have a significant influence on the effectiveness of competition policy implementation.

The influence of economic dimension and market size resulted as positive. Comparing this result with previous studies does not lead us to a definite conclusion. For example, Kronthaler (Kronthaler 2007: 6, 14-15) concludes that the relation is a negative one.

On one hand, it is assumed that in small economies the competitive strength of imports is higher than competition legislation, but on the other, small economies have the ability to easily develop an appropriate competition culture, which leads to greater efficiency of its implementation (the range of analyzed anticompetitive practices is smaller, as the number of actors is also smaller as well as domestic market).

Other significant macroeconomic factors with positive influence are: market division, intensity of local competition, ethical behavior of firms, strength of auditing and reporting standards, efficiency of legal framework in settling disputes, protection of minority shareholders' interests and public trust of politicians.

The significant factors with negative influence are: corruption level and diversion of public funds.

IV. Short conclusion and further researches

We are experiencing a period when, more than ever, ensuring a functional competitive framework is absolutely necessary. The focus is on the quality of competition policy, on its

effective implementation. The existence of a legal framework is not the key. We intuit from the start the positive effects of an effective conceived competition policy and, especially, effectively applied. In fact, this is the objective, to ensure the normal functioning of market economy.

Figure no. 1. WEF competition policy effectiveness indicator for EU member states
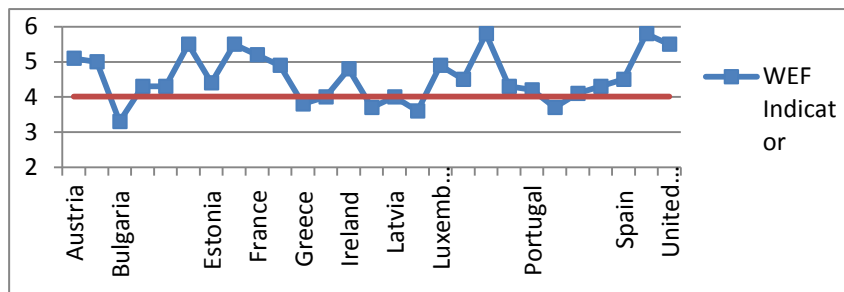
In the European Union competition policy has a central role in common policies. The indicators published by World Economic Forum for 2011 outline relatively high values of effectiveness, but not always above world average (Figure no. 1).

Based on the achieved results we can perform an analysis of principal components leading to causal space reduction with minimal information loss and without informational redundancy, creating the premises for building a model that explains competition policy effectiveness through macroeconomic factors.

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SEVERAL MEASURES OF BUDGETARY POLICY

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Budget policy for the funding and sometimes care about the public sector, certain actions and utilities on the private sector within limits set by the strategies, tactics and operational deciyiile promoted executive.
Phenomenon budget includes both revenues and expenditure side edge contained in the public budget. Often, perhaps excessive zeal in translating domain-specific phrases are even officially speak about "fiscal policy measures", with reference to all areas of the budget, containing and thus the budget expenditure.
Budgetary policy has several specific policy budget subdomains like Cookie fiscal policy, budget expenditure allocation Polti, policy and public loans.

The public budget is structured vision of hierarchical levels to finance general government needs, collective territorial administrative entities and financing needs of public-owned economic entities, and private capital for certain objectives, such as selective subsidies. Fiscal policy designed to cover the need for funding of these services and public utilities, the hierarchical levels of public administration established by specific laws. In the specialty literature, fiscal policy is presented as consisting of specific policies on budgetary subdomains, namely, fiscal policy, policy, resource allocation, policy or policies finnatare antideficitare budget deficit, public borrowing policy and possibly also other groups of targets and specific means to the budget.

Literature generally accept this group of budget policies and treat such problems specific to each subdomain.

However, in various official documents or official position or programs, even the notion specific budgetary and fiscal policy, consolidated budget position, budget fiscal responsibility law (Law 69/2010), budget and other fiscal pact in the context of domain budget. (Source: Strategy for the 2011-2013 fiscal budget, www. anaf.ro)

The content of these phrases are known and accepted caatare and even appear in official documents as conceptual, just as the literature provides the tools, concepts and phrases such more selective and scientifically defined. On the other explanatory dictionary of the Romanian language also provides explanation enough for use caatare. In this context reference is not acceptable nor any notions that are taken from other languages as long as our language gives us the possibility to differentiate the concepts of "budget policy" and "tax policy".

Besides these issues ligvistice you do not wish to invoke and the cause of the lack of specialized, are questionable interpretations and azanta these phrases. Namely, if we accept that the public purse in terms of form has two parts, the revenue and expenditure side, then fiscal policy, if we are consistent can be divided on two sides, namely common revenues and especially fiscal policy and spending policy and budgetary allocations policy. If we accept that fiscal policy aimed at both sides of the budget it seems unnecessary to pronounce the words "budget fiscal policy". We know that relationships are relationships fiscal budget through their economic content, and then repeat a part of the whole is to superimpose over the entire tautological.

From another perspective, if we analyze the formal content of such phrases in official documents d times, we expect "budget fiscal strategy" to include specific measures, if not entirely, at least mainly fiscal measures, but under this concept we find the mainly on public spending measures and especially about the budget deficit limit.

If such notions can be covered d political actions specific to the budget in the literature is necessary to develop a specific critical area, even to prevent offensive concepts known and accepted by most specialists in the field, the field having a solid theoretical basis, but we appear to our language valence, which gives us many possibilities di conceptualization, provided consistent use of words.

The necessary clarifications are doubled in the following of some assertions on the fiscal policy measures contained in the "Strategy for 2011-2013 fiscal budget," government official document, download the source shown above me.

This document is particularly complex projective tinnd enrolled into account economic indicators and especially the extent intransul obiectivelorpropuse.

Namely, "economic and fiscal objectives" of the Government in this period are grouped as follows: - "ensuring sustainable public finances in the medium and long ....;

-equitable distribution of tax burden between generations and expenses;

 -supporting monetary policy, in particular the sustainable operation of automatic stabilizers to limit the volatility of economic activity .....;

-budget policy will consider the reform of public spending while attracting massive EU funds, which can supplement the national budget, which could help the economy to increase its growth potential; ..... "x.

These measures and others that do not quote as "consolidated budget position" is quantified in the next table

% Of GDP

	2008 achievements	2009 achievements	2010 estimates	2011 estimates	2012 estimates	2013 estimates
Budget revenue	32,2	32,0	32,3	32,5	32,8	32,3
Budget expenditures	37,0	39,4	39,1	36,9	35,8	34,8
Balance	-4,8	-7,4	-6,8	-4,4	-3,0	-2,5

 Source: www.anaf.ro-fiscal-budgetary   strategy   for   2011-2013:

Handy craft and f so the deficit adjustment provided in this table is proposed to be achieved through fiscal consolidation measures, and not only through measures to reduce spending. Of these the most important in this document seems to be:

1.-strengthening fiscal discipline through the implementation of budget and fiscal responsibility law (Law 69/2010). This law establishes procedures for multiyear budgeting, setting limits on budget revisions during the year, includes rules on budget and deficit spending, creates -Council Tax-(Composed of five members appointed by Parliament on proposal BNR, Romanian Academy, Academy, Romanian Banking Institute and the Romanian Banks Association); x-www.anaf.ro-fiscal-budgetary strategy for 2011-2013

2.-measures in terms of local public-finance-through no.273/2006 amending Law on Local Public Finance, regarding: planning investment costs over a period of three years, providing amounts from the Fund reserve to be conditioned by the absence of arrears, the refusal of new loans to local authorities registered arrears in the last financial year, multi-annual planning of national allocations, transfers and the amounts deducted from the revenue budget.

3.In addition have proposed measures to improve tax collection primarily those from the VAT, then those from high income individuals, namely NAFA entitlement to have access to bank records and the records of third parties in order to determine the correct taxable income; review-definition-independent activities, to enable the taxation of income from any source, strengthening the right to control the tax authorities and the like for improving fiscal control.

4 - In the project aims to strengthen spending discipline on the assessment of investment costs and in terms of co-financing from European funds.

Some special objectives embodied in legislation affecting the budget, others as goals the entire time horizon considered, namely the 2013 budget year, which were made more or less and the effects these achievements and delay can analyze the ratio of expenses and revenues, specifically the evolution of budget deficits and in particular the result of these policies are validated by how the size of budget deficit financing sources.

If in 2008-2010, saw revenues in GDP which stood at around 32%, the expenditure share in GDP registered increasingly higher, being situated between 37% and 39%.

In these conditions, analysis of causes of the lack of effect of government measures taken is even more important as the relationship with the executive European Commission and international financial organizations have highlighted the need to determine the size deficituli annual structural deficit next nominal eliminating influence of what numim-excesu/deficitul application.

It is important in these circumstances to consider the advisability of improving budgetary measures and their effects on deficituli structural peseama reaactie lack of the real economy, the economic environment, the process of adjusting public finances through the use of foreign loans in the perioeda.

Evolution of public debt, expressed by comparison and complete and current evolutia.veniturilor state.

Debt service in early 2012 is as:

	T1/2011	T2/2011	T3/2011	T4/2011	feb. 2012
million - cumulative early					
Medium and long term debt, of which:	2 742,8	6 036,3	10 146,9	14 834,9	2 017,2
- Direct public	368,5	893,9	1 693,3	2 250,4	316,1
- Publicly Guaranteed	63,9	125,7	195,0	253,5	33,6
- Private (Non-publicly guaranteed)	2 081,2	4 486,9	6 494,8	10 337,7	827,2
- Medium and long term deposits of residents	165,9	400,7	1 562,1	1 722,7	774,2
- Loans from IMF	63,4	129,1	201,7	270,6	66,1
Short-term debt service	6 462,0	11 486,9	17 894,0	25 096,4	6 012,6

 Source:www.bnr.ro

In late 2011, the state has a public debt on medium and long EUR 30.72 billion and short-term debt of 2.89 billion euros, total debt in the medium, long and short of 33.61 billion euro.

Private sector, ie banks, population (Consumer loan, mortgage, etc.) and companies have external debt denial and long term totaling 52.67 billion euros and a short-term debt amounting to 13.19 billion euro.

 -Source: www.bnr.ro

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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

$$GRF = \frac{V.F.}{P.I.B.}$$

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

$$Grfi = \frac{BC + i.t.l.}{V}$$

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 cheltuieleile with social contributions and other similar fees related to the maintenance wage job in question (Cas.S).

The fiscal Grfm-degree work

$$Grfm = \frac{(cas\text{-}a + cass\text{-}a + cfs\text{-}a + cfs) + (\ i.s. + cas\text{-}s + cass\text{-}s + cfs\text{-}s + cpo)}{CS + Cas.S}$$

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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SUSTAINABILITY OF PENSIONS WITHIN THE EUROPEAN UNION MEMBER STATES

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The demographic changes that are likely to be experienced in the European Union in the coming decades determine governments to find solutions in order to provide the sustainability of social public expenditures. We consider that the main aims of future policies should be creating better job opportunities and working conditions for the growing number of older people in Europe. It is very important to help older people play an active role in society. The literature usually focuses on elements which underline the effects of macroeconomic parameters on the size of public pension expenditure: Samuelson (1958), Cass and Yaari (1966), Blanchard (1985), and Gertler (1999). However demographic effects, notably fertility rate and old-age dependency ratio, are also key elemets which affect the sustainability of social security expenditures according to Miroslav Verbic and Rok Spruk (2011). Our econometric testing confirms the high relevance of old age dependency ratio and of the fertility rate upon public pension expenditures, both demographic variables proving to influence the size of public pension expenditure. Considering these results we propose some measures which governments should include in future public policies. Retirement should happen at an older age but only if appropriate jobs are available for older generations. The key to tackling the challenges of an increasing proportion of older people in our societies is "active ageing": encouraging older people to remain active by working longer and retiring later, by engaging in volunteer work after retirement, and by leading healthy and autonomous lives.' Active ageing is defined by the World Health Organisation (WHO) as 'the process of optimizing opportunities for health, participation and security in order to enhance quality of life as people age'. The definition therefore includes the notion of extending the activity of older persons, both within the labour force, through delaying their retirement but also within society, through participation in a range of social, economic, civic or cultural activities. Employment policy also seeks to improve human capital through better education and skills. As such, efficient lifelong learning strategies including workplace training may enhance the prospects of older workers to remain in the workforce. The EU's employment strategy seeks to establish a lifecycle approach, putting in place conditions that allow people to prolong their working lives, such that employment rates for older workers and average exit ages are raised.
Key words: demography, pensions, public expenditures, sustainability, governments,
JEL classification: H00, H55

1. Introduction

Within the current paper we are revealing the main issues regarding the ageing of the EU-27 population by focusing mainly on the facts offered by the European Commission, Eurostat (2012) through a very interesting statistical portrait, entitled ''Active ageing and solidarity between generations A statistical portrait of the European Union''. The European Union's (EU's) population structure is changing and statistical data proves that population is becoming older and older – there were slightly more than 87 million persons aged 65 and over on 1 January 2010 in the EU‑27, some 17.4 % of the total population. These latest figures can be compared with data

from 1 January 1985, when there were 59.3 million persons aged 65 and over in the EU‑27 (12.8 % of the total population) (Eurostat, 2012).

An increase in life expectancy across the EU during the last century led to increased longevity, while in more recent decades – from the 1970s onwards – the EU has experienced falling fertility rates. Those demographic changes had very strong effects regarding ageing in the last 30 or 40 years and it is expected, by many, that the ageing process will further affect society during the next half century, as the absolute number of older people and the percentage in total population of older persons are still growing. These demographic changes will lead to significant challenges for families and individuals. For example, it could become usual for people to move into retirement while still having one or both of their parents alive.

This process should be mainly considered by governments as the ageing of the population could determine implications for public policies and budgets. At present, there are severe constraints on fiscal policies and a strong need for fiscal consolidation over a number of years in the EU, all this happening also because social security expenditures are influencing policies and the pressure regarding the sustainability of pension expenditures is steadly growing.

2. Literature review

Usually focusing on the main literature regarding the challenges with which governments are being confrunted we could see mainly those elements which underline the effects of macroeconomic parameters on the size of public pension expenditure: Samuelson (1958), Cass and Yaari (1966), Diamond (1965), Blanchard (1985), and Gertler (1999). Demographic effects, notably fertility rate and old-age dependency ratio, are also key elemets which affect the sustainability of social security expenditures. Consequently we underline the paper of Miroslav Verbic and Rok Spruk (2011) who reveal that demographic processes play a significant role, much more important than the role of macroeconomic parameters, explaining the long-run pressure of ageing.

The changes in the demographic profile of the EU will also affect the labour and product markets, families and individuals. In order to defeat the obstacles occured by population ageing, a long-term view seems necessary, well beyond the horizon of electoral cycles. Many of the challenges that arise from population ageing are universal and include (Eurostat, 2012) :
• pressure on public budgets and fiscal systems;
• strains on pension and social security systems;
• adjusting the economy and in particular workplaces to an ageing labour force;
• possible labour market shortages as the number of working age persons decreases;
• the likely need for increased numbers of trained healthcare professionals;
• higher demand for healthcare services and long-term (institutionalised) care;
• potential conflict between generations over the distribution of resources.

It is hopeful to state the fact that many people lead active, healthy and participative lives after the retirement age, which is often referred to as the 'third age', but many Europeans are faced with problems, such as poverty, illness or disability, all this restricting and harming their lifestyles.

An other important aspect is to limit unemployment and to determine active living within the European Union. One of the targets for the time horizon 2020 is to reach an EU‑27 employment rate of 75 % for those aged 20-64 by. If this target is to be achieved then a higher proportion of the population needs to remain in employment up to a later age. This will be particularly important given, that as of 2012, the size of the working age population in the EU is projected to start shrinking. The European Employment Strategy (EES) has a range of actions and guidelines targeted at older people, including measures calling for improved (occupational) health status and incentives to remain in work and discourage early retirement (Eurostat, 2012).

The European Commission proposed a new set of rules relating to how the ESF might work during the period 2014 to 2020. The goals of the ESF during this programming period are to

improve employment opportunities, promote education and lifelong learning, enhance social inclusion and contribute to combating poverty. In order to achieve these goals, greater emphasis will be placed, among others, on promoting active and healthy ageing and supporting the most disadvantaged groups and marginalised communities (Eurostat, 2012).

Eurostat population statistics shows that the median age has grown in the latest decades (Table no. 1). By 2060 the median age of the EU‑27 population is projected to stabilise at 47.6 years, around 15 years higher than a century before. The EU‑27 population stood at an estimated 501.1 million persons on the 1 January 2010; of these some 87.1 million were aged 65 or over. As well as being two of the largest Member States in terms of absolute population numbers, Germany and Italy are also characterised as having relatively old populations. There were 16.9 million persons aged 65 or more in Germany on the 1 January 2010, while there were 12.2 million in Italy.

Table 1 – Median age of population on 1st January

(years)

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010
EU-27	:	:	:	:	:	:	:	36.5	38.0	39.5	40.9
BE	35.2	34.7	34.5	34.1	33.9	35.2	36.2	37.3	38.7	40.1	40.9
BG	30.3	31.8	33.2	33.6	34.1	35.1	36.5	38.0	39.1	40.7	41.4
CZ	33.2	33.7	33.5	32.7	32.8	33.9	35.1	36.2	37.3	38.7	39.4
DK	33.0	32.8	32.5	32.7	34.1	36.0	37.0	37.7	38.2	39.4	40.5
DE	34.8	34.5	34.0	35.2	36.6	36.9	37.6	38.2	39.8	41.8	44.2
EE	:	:	33.6	:	:	:	34.2	36.2	37.8	38.8	39.5
IE	:	:	:	:	:	:	29.1	30.8	32.4	33.5	34.3
EL	:	28.9	33.9	33.9	34.0	35.2	36.0	36.9	38.1	39.9	41.7
ES	:	:	:	30.1	30.5	31.8	33.4	35.4	37.4	38.6	39.9
FR (¹)	33.0	32.8	32.5	31.6	32.2	33.5	34.7	35.9	37.3	38.6	39.8
IT	:	:	:	:	:	35.4	36.9	38.5	40.1	41.5	43.1
CY	:	:	:	:	:	:	:	32.0	33.3	35.0	36.2
LV	:	:	34.0	34.8	35.0	34.7	34.6	36.0	37.9	39.2	40.0
LT	:	:	30.7	31.5	31.7	31.9	32.4	33.9	35.8	37.7	39.2
LU	:	:	:	34.9	35.0	35.7	36.3	36.7	37.3	38.1	38.9
HU	32.0	33.3	34.1	34.2	34.3	34.9	36.1	37.6	38.5	38.9	39.8
MT	:	:	:	:	28.8	:	:	34.5	36.3	38.0	39.2
NL	28.7	28.5	28.5	29.2	31.2	32.9	34.4	35.8	37.3	38.9	40.6
AT	35.5	35.1	33.9	33.9	34.7	35.1	35.6	36.1	37.9	39.7	41.7
PL	26.4	27.5	28.3	28.2	29.4	30.7	32.2	33.7	35.1	36.5	37.7
PT	27.8	28.5	29.4	28.6	30.4	31.4	33.9	35.9	37.6	39.2	40.7
RO	:	:	30.9	30.8	30.5	31.6	32.6	34.0	34.4	36.4	38.3
SI	:	:	:	:	:	32.5	34.0	36.0	37.8	39.9	41.4
SK	27.5	27.9	28.3	28.1	28.7	30.0	31.2	32.4	33.9	35.3	36.9
FI	28.4	28.5	29.4	30.5	32.6	34.5	36.3	37.7	39.2	40.8	42.0
SE	36.0	36.3	35.5	35.3	36.0	37.6	38.4	38.4	39.3	40.1	40.7
UK	:	:	:	33.8	34.2	35.3	35.8	36.4	37.5	38.7	39.5
IS	25.6	24.2	24.3	25.2	26.7	28.1	29.8	31.3	32.8	34.1	34.8
LI	27.7	27.2	:	28.0	29.5	31.1	32.6	34.6	36.1	38.3	40.8
NO	34.3	34.2	33.0	32.2	33.2	34.5	35.3	36.0	36.7	37.8	38.6
CH	32.6	31.5	31.7	32.8	34.6	36.0	36.9	37.2	38.5	40.1	41.5
ME	:	:	:	:	:	:	:	:	:	34.5	35.6
HR	:	:	:	:	:	:	:	:	:	40.2	41.3
MK	:	:	:	:	:	:	:	30.7	32.3	34.2	35.8
TR	20.1	19.0	18.6	19.3	19.8	20.7	22.0	:	:	:	28.8

(¹) 1960-1990, excluding overseas departments.

Source: Eurostat (2012)

Eurostat's population projections suggest that there will be less than two people of working age (15 to 64 years) for every older person aged 65 or more in the EU‑27 by 2060, compared with a

ratio of almost four to one today; it is important to note that demographic dependency ratios such as these may be further influenced by underemployment or unemployment (which have the potential to reduce further the number of persons actually in work and supporting the remainder of society). The most rapid changes in the size of the working age population are expected to take place during the period from 2015 to 2035, when a large part of the babyboom cohorts are projected to retire.

Population projections foresee little overall change in the total number of inhabitants in the EU‑27 between 2010 and 2060 (Figure no. 1). However, the structure of the population is expected to become much older, with a marked change in its age profile, as the older sections of the population account for an increasing share of the total number of inhabitants. The changes that are foreseen are unprecedented, as there are no historical examples of age distributions being shaped like inversed pyramids, with the oldest age classes bigger than the youngest ones.
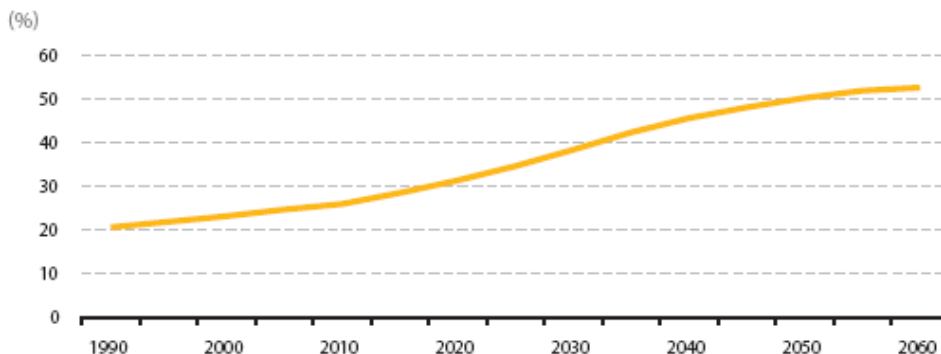
(¹) Population aged 65+ in relation to the population aged 15-64; projections, 2015-2060.

Figure 1 – Old age dependency ratio EU-27
Source: Eurostat (2012)

As discussed earlier, the impact of fertility on public pension expenditure is unambiguous (Barro and Becker 1989; Meier and Wrede 2010). The empirical evidence suggests a negative relationship between age-related government spending and equilibrium fertility rates. The literature suggests (Stensnes and Stølen 2007) that public pensions should respond strongly to the increases in old-age dependency ratio.

3. Methodology and Results

The econometrical model we have chosen in order to prove the existing relation between total pension expenditure and demographic elements is a multifactorial regression and focuses on the following variables:

- Dependent variable: Total pension expenditure (mill. Euro): old age pension, anticipated old age pension, partial pension, disability pension
- Independent variables: old-age dependency ratio (population aged 65 and over/population between 15 and 64), fertility rate, migration (net migration).

The source of the data is Eurostat, the time period 2000-2009 and the sample of countries is EU-27.

The results of our model can be seen in the table below (Table no. 2):

Table 2 – Results of the econometric model

EXPLANATORY VARIABLES		*Pooled EGLS Fixed effects (cross-section)*
OADR		3030.302*
		(1300.896)
FERT		-17124.57**
		(9020.553)
Observations	140	
Number of countries	27	
R-quared	0.9971	
Adjusted R-squared	0.9964	
F-test	1332.3680	
p-value	0.0000	
Durbin-Watson	1.66	

Notes: **Public pension expenditure** is the endogenous variable of the model. Standard errors are given in parantheses. Asterisks * and ** denote significance at 5 percent and 10 percent level, respectively.

Source: Author's calculation

The results seem to confirm the fact that **aging** is positively associated with the level of pension expenditures while the **rate of fertility** has a negative effect. **Migration** seems not to be a key variable for the pension expenditure dynamics as the results were not statistically significant. Positive implications of our empirical findings suggest that aging population and diminishing fertility rates shall impose considerable pressure on longterm sustainability of public pension expenditure. We consider that the main aims of future policies should be creating better job opportunities and working conditions for the growing number of older people in Europe. Retirement should happen at an older age but only if appropriate jobs are available for older generations.

Future research will consider:

- more control variables
- a delimitation of the whole sample of countries (ex. EU-12, EU-15)
- more tests in order to establish the right estimation method.

4. Conclusions

Considering all the aspects mentioned above, we think that urgent and useful measures are necessary in order to keep social expenditures sustainable and to hinder the potential suffering of ageing people. It is important to promote the active participation of older persons and to increase pension ages according to life expectancy, while early retirement schemes should be reduced. Furthermore providing accessible and effective healthcare services that promote early detection of diseases and help older people to maintain their health and capacity to live independently is also a main political target but it is also necessary to ensure that healthcare spending remains under control. An other public objective refers to the fact that older persons have adequate incomes generally through pensions systems and support mechanisms that seek to reduce the proportion of older persons that are at-riskof- poverty.

The development of new products and services which are constructed in order to serve older people may allow older people to stay autonomous and live longer in their own homes, avoid the delivery of assistance from other employees and save public or private money.

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PENSION FUNDS AND THE FINANCIAL CRISIS IN THE CEE COUNTRIES

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In this paper, the authors analyze the influence of the international financial crisis on the current architecture of the CEE pension systems and their further reforms. As a consequence of the financial crisis, the very fragile pension reform has been subject of debate in the new member states of European Union, given their deep recession and registered fiscal deficits. In many of the CEE countries, which have adopted/developed later the second pillar, the financial crisis has raised questions in what concerns the benefit of moving to a mixed pension system, in comparison with the former one, which relied exclusively on public pay-as-you-go schemes. The current literature analyses the situation in each of the CEE countries, but does not make an overall analysis of the situation of the CEE countries, member of the European Union. The authors show the short-term negative effects of the financial crisis on the pension reform in these countries, but also the longer run effects, on the continuing deteriorating finances of these pension systems, in the context of the aging of population and unsustainable pension schemes. Alongside reviewing and commenting the national authorities' responses to the financial crisis, we are proposing also some measures meant to enhance the further pension system reform and to improve the performance of the private pension funds. Pensions have a long-time horizon and it would be very wrong to produce a reversal of the past reforms since the main problems of adequacy and sustainability remain vivid (demographic challenge and population aging). It is also true though that, while shifting from an exclusively public pay-as-you-go system towards a mixed pension system, especially in times of financial crisis, authorities must pay increased attention to the management and supervision of the DC pension plans, to the risk management standards and regulations of the private pension funds, alongside other measures meant to enhance further pension system reform.

Keywords: financial crisis, pension funds, CEE countries, reform, pillars
JEL codes: G01,G23, H55

1. Introduction

As a consequence of the financial crisis, the very fragile pension reform has been subject of debate in the new member states of European Union, given their deep recession and registered fiscal deficits. The main benefits that a functional reformed pension system was promising to bring are exactly the reasons why this reform is under critique nowadays (instead of a reduced public burden we have a public debt that reaches worrying levels, instead of attractive returns, translated into higher benefits for the pensioners, we have lower returns due to the collapse of financial markets and the economic conditions in general). The paper makes an analysis of the influence of the international financial crisis on the reform of the pension system, analyzing the measures taken by national authorities as response to the financial crisis and outlining some concrete measures for supporting the future reform of the pension system.

The paper is organized as follows. Section 2 describes the manner in which the financial crisis can exert negative influence on the pension system, analyzing the determinants that can trigger a larger impact of the financial crisis on the pension reform, in the case of the considered CEE countries. Section 3 makes a short review of the national authorities' responses to the financial crisis in what concerns the pension policy. Section 4 concludes, outlining the reasons for further pension reform, considering also some valuable lessons that need to be learned from the financial crisis and proposing some measures in order to support pension reform.

2. Channels through which the financial crisis exerts negative influence on the pension system

The financial crisis which occurred in the second half of 2008 generated worries among the beneficiaries of the pension systems. This was a normal reaction, taking into consideration the fact that, beginning with 1998 (when the first CEE country, Hungary, implemented the 2nd pillar), millions of people have directed a part of their social security contributions towards private pension funds, which have invested their savings on financial markets, deeply affected by the crisis. Without any doubt though, there were individuals more affected by the crisis than others. This was probably caused by the following three issues: a) whether in the country of reference was implemented a minimum social pension or there were guarantees in the architecture of the private pension system; b) the importance of the second pillar in the economy; c) the existence of some limits concerning the structure of the investments made by pension funds.

As far as concerns the first factor of influence, the CEE considered countries were somehow protected, since they all have established a minimum social pension, still with differences regarding the assurance of a performance guarantee in the private pension provision. Some of the countries have established: *minimum relative guarantees*, computed in function of the performance rates obtained by different type of pension funds (conservative, balanced and growth funds) in a certain period, usually two or three years (Slovakia, Romania, Bulgaria, Poland) or in function of the interest rate for long-term state bonds (Slovenia); *minimum absolute guarantees*, which are designed to guarantee the net contributions of participants (Romania, Slovakia) or to ensure a positive performance rate and in case of failure, covering from the reserve fund of each pension fund (Czech republic- for the third pillar); *no performance guarantees* (Estonia, Hungary, Latvia, Lithuania).

Regarding the importance of the second pillar in the architecture of the pension system, it can be assumed that those countries which very developed second pillars would be harder hit by the financial crisis than the other ones, which are not depending on the dynamics of the financial markets.

Table no. 1: The importance of the 2nd Pillar in the pension system (2010)

	BG	CZ	HU	ES	LV	LI	PL	RO	SK	SL
Contribution (% gross income)	5	No 2nd Pillar; 3(from 2013)	8	2	4	5.5	7.3	2.5	9	No 2nd Pillar; DC mandatory occupational pensions for some sectors
Size (% GDP)	3.97	5.5 (3rd Pillar)	10.34	6.88	5.36	3.55	14.11	0.49	4.58	3.15

Source: realized by authors, data supplied by ISSA, web pages of national commissions of surveillance of the private pension systems

We can see that, as far as concerns the CEE countries, the second pillar market is at the beginning, fact that diminishes the potential impact of the financial crisis, the second pillar market varying in its importance from 0.49 % of GDP in Romania to 14.11 % of GDP in Poland

(the biggest market in the region, counting also on one of the biggest contribution rates, of 7.3 % from the gross income).

On the other hand, it is also logical to presume that the existence of some limits in the structure of the portfolios chosen by pension funds may determine a different influence of the financial crisis on the pension benefits. In the considered CEE countries, there is no unique set of rules regarding the structure of the investment made by private pension funds, the pension schemes vary across countries, alongside with the proportion from wage dedicated to the funded scheme. The greatest freedom in investing in high-risk financial instruments is experienced by pension funds in Slovakia (where pension funds can invest up to 80 % of their assets in shares if they are a growth fund) and the most limited investment is applied to the pension funds from Bulgaria, which are allowed to invest only up to 20 % of their assets in shares. Regardless the legislation, the practice shows that the situation is reversed in what concerns the asset allocation of the pension funds (for instance, in Slovakia, where we have the greatest freedom of investing in shares, this instruments only account for 1.4 % of portfolio, one of the lowest registered (Fig. no. 1). In general, we can observe, a policy of investing in low-risk financial instruments (state bonds on medium and long term, bank deposits), rather than in more risky financial instruments, like equities, where the allocated percentage is quite low (up to a maximum level of 36.6 % in Poland). This fact proves once again that the pension reform is in its first operation years, maintaining a rather conservative policy which creates a shield against the financial crisis.
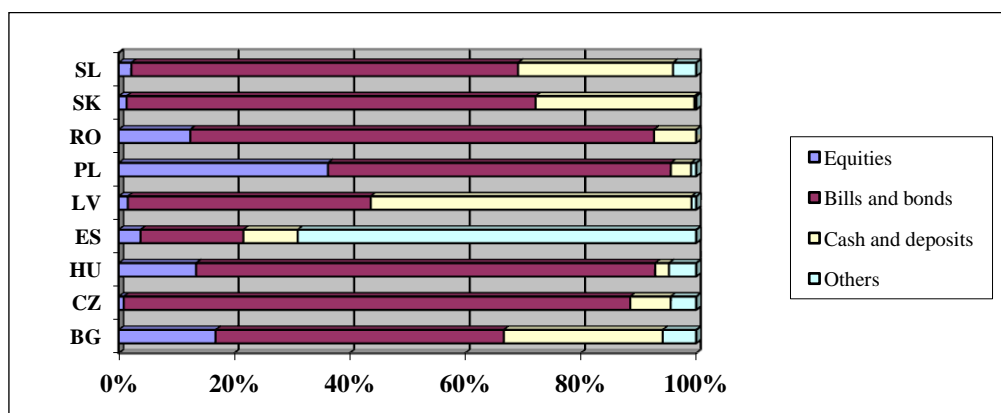
Figure no. 1: Pension funds' asset allocation for investment in CEE countries (2010)
Source: realized by authors, data provided by OECD Global pension statistics

When a financial crisis occurs, it often produces a devaluation of the accumulated funds (European Commission, 2010). Though, the extent of the devaluation is depending strongly on the pension scheme which private pension funds may apply. A growth fund, with an aggressive investment policy, which rather places their assets in shares than in bonds, is likely to be more affected by a financial crisis. In all CEE countries, 2008 was a year of adverse capital market performance, translated into negative real returns for the private pension funds (Figure no. 2). Hence the impact of the crisis on pension funds was felt different in the CEE countries, from a loss of more than 30 % in Estonia to a loss of only 10.5 % in Slovakia. The following years have brought though a recovery, not reaching yet though the pre-crisis level.
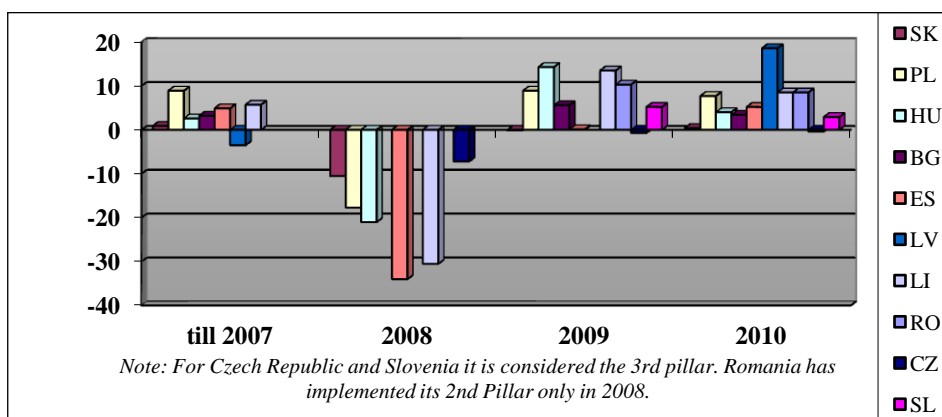
Figure no. 2: Real rate of return of pension funds before/after the financial crisis
Source: realized by authors, data provided by OECD Global pension statistics

The decline in the rate of returns was more difficult for those individuals at retirement age. Fortunately, in the CEE countries, the second pillar was introduced only recently, and excluded older employees, hence very few individuals are currently retiring with benefits from the private pension funds. If we consider the oldest second pillar countries in the region (Hungary, followed by Poland), only new entrants in the working field were obliged to join the second pillar, for the others it was voluntary. Moreover, due to the financial crisis, Hungary has allowed the return of those individuals older than 51 in 2008 to the public system, resulting even fewer employees in this situation.

Regardless the magnitude of the influence of the financial crisis upon the pension systems in some countries, it remains clear that it had a negative impact on both pension pillars. Given the volatile nature of the investments made by private pension funds, the second pillar was more affected given the financial risk at which financial markets are exposed. Although less affected, the first pillar was also negatively influenced by the financial crisis, once with the reduction of the aggregate national income, since it relies on the principle that the current generation of employees pays for the current generation of pensioners. The national income experienced a dramatic fall in almost every CEE country, which lasted till 2011.

3. Pension policy responses to the financial crisis in the CEE countries

In many of the CEE countries which have developed later the 2nd pillar, the financial crisis has raised questions in what concerns the benefit of moving to a mixed pension system, in comparison with the former one, which relied exclusively on public PAYG schemes. Some of them have even taken some concrete actions in this respect. Some of them have modified the overall contribution rate. Some increased it in order to alleviate the fiscal deficit (Romania), others have reduced it, with the aim of fostering the employment and incomes (Bulgaria). Some countries have frozen or adjusted differently in comparison with the prior calendar the 2nd Pillar contribution rate (Estonia, Lithuania, Latvia, Romania, Estonia). Even more radical measures have been taken by some CEE countries, allowing individuals to switch back to the old system, getting out of the 2nd Pillar (Hungary, Slovakia) or making the 2nd pillar voluntary to new entrants on the labor market (Slovakia). Finally, some have taken some measures in order to prevent early retirement (Hungary, Poland, Latvia) or they increase the retirement age (Hungary, Romania, Poland). A more detailed view of all these measures is described below (Table no. 2).

Table no. 2: Concrete measures taken by the CEE authorities in response to the financial crisis

	MEASURES
BG	- The government reduced the overall contribution rate to the pension system from 23% to 21% in 2010 (1.1 % for the employer and 0.9 % for the employee) and then gradually to 18% by 2013; - From 2012, the years of service for retirement will increase with four months per year.
CZ	- Delaying the introduction of the 2nd Pillar: 1st January 2013.
HU	- The government allowed the return from the private to public pillar during 2009 for those who are older than 51 at the end of 2008; - Elimination of 13th month pension; - In the future, the pension growth will be established according to an algorithm depending on the GDP growth as follows: GDP growth < 3%, 100% inflation; GDP growth between 3-4%, 20% wages, 80% inflation; GDP growth between 4-5%, 40% wages, 60% inflation ; GDP growth >5%, Swiss indexation; - Increase in retirement age from 57 to 62 years in 2010 and to 65 by 2012; - Increase in penalties for early retirement and giving bonuses for delayed retirement.
ES	- The contribution to the pension funds comprised in 2009 6 % of the gross income (2 % from the part of the employee + 4 % from the part of the state). The Estonian government has then diverted its 2nd pillar contributions (of 4%) to 1st pillar for two years (2009 and 2010); In 2011 there was a moving back to a 2% contribution to the 2nd Pillar, that is expected to rose gradually at 4% in 2012, with the possibility of higher 2nd pillar contributions of 6% in the period 2014-2017.
LV	-Contribution rates to the 2nd pillar reduced from 8% to 2% in May 2009; increasing to 4% in January 2010 and to 6% in January 2011and remaining at this level (2nd pillar contribution rate was to rise to 10% in 2010 prior to the amendment) - First pillar benefits cut - Reduction of early retirement pensions from 80% of normal retirement pension, to 50% of normal retirement pension. - Early retirement will no longer be an option from January 1, 2012
LI	- Reduced the contribution rate to 2nd pillar from 5.5 % to 3 % in 2011 for two years. In 2011, compensation will take place by raising the contribution to 6 %. - The overall contribution rate was increased by 2% starting in January 2010. - Benefits cuts – all state-pensions were recalculated from 1st January 2010.
PL	- The government took the decision of reducing the contribution rate to the private mandatory pension funds in January 2011, from 7.3 % to 2.5 % (although with the possibility of rising the contribution to 3.5 % in the near future). - Elimination of numerous early retirement schemes (previously available to some 1 million people) . - Increase in retirement age for men and women to 67 by 2030

RO	-The overall rate contribution increased from 27.5% in 2008 to 31.3% in 2009, remaining stable in the present period.
	- Although the contribution rate to the 2nd pillar should have experienced an increase of 0.5 %, from 2 % in 2008 to 2.5 % in 2009, the level was frozen at 2% in 2009; the increase was realized only in 2010 (to 2.5 %) and then in 2011 (to 3 % of the gross income).
	- Equalizing gradually the retirement age of women with men at 65:
	   - in 2011-2015, for women from 59 to 60 and for men from 64 to 65;
	   - from 2016-2030, for women till 65.
	- Elimination of special pension schemes, integrating them in a public pension system and prohibition of early retirement for a period of 6 months (from July 2010 to 1st January 2011)

SK	- From a new defined-contribution scheme, the workers have been allowed to switch to the public system, having two options for this: January –June 2008 and November 2008 – June 2009; As far as concerns the 2nd Pillar participation for new participants, it was made voluntary as of January 2008.

4. Conclusions

Although the global financial crisis has generated difficult moments for all CEE countries, its influence pales in comparison with the "demographic time-bomb". Like Börsch-Supan (2009) observes, while the financial crisis is just one crisis among others, a century event, population aging is not just a phase; it will not go away, not even after the baby boom generation after 2050. We believe that all these actions are short-term solutions taken by the authorities in order to alleviate the budget tensions, but the reform of the pension system must be continued. The architecture of the pension systems is thought on a long run basis, hence taking these actions to avoid immediate circumstances can have negative long-term effects on the system. While the financial crisis is decreasing in its intensity, the current problems of adequacy and sustainability of the pension systems remain. Like Jarrett (2011) pointed out, trying to solve the problem of public finance sustainability by radically shrinking the 2nd tier of the pension system has obvious costs in terms of poverty among old-age pensioners. Their benefits will be considerably lower than the ones of working age and their confidence in the multi-pillar system would be strongly affected.

Moreover, some other valuable lessons learned from the financial crisis involve:

-Multi-pillar systems, in which private pension provision has a greater economic significance, are more exposed to financial turmoil, but they represent a necessity;

-The transition from DB to DC pension plan is a must, but since it brings a shift for the risk from employer towards individuals, a special attention must be paid to the management and supervision of the DC pension plans;

-Better regulation, increased transparency is required, allowing future pensioners to know precisely which is the investment strategy, which is their risk and their expected rate of return;

-Establishing a public-private campaign, to restore people's faith in private pension funds and to increase their financial education;

-Establishing the right balance between public and private tiers, in order to guarantee minimum retirement income; like Chybalski (2009) points out, "it appears that in the post communist countries, whose populations still have a low propensity to save, and in any case have much less opportunity to save voluntarily than in Western Europe due to their level of earnings; the pensions system must be based on compulsory pension cover, in order to prevent the "free riders" phenomenon";

-Allowing private pension funds to invest abroad and beneficiate from the portfolio diversification;

-Increasing further the retirement age, up to 70, equalize it across the two sexes to deal with the long-run demographic threat, reduce access to early retirement;

-Complementing pension reforms with labor market reforms (giving incentives for actively looking for a job, re-entering the working field after maternity leave, hiring elderly).

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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 Schmölders 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" (Schmölders 1960: 97-98). Despite the definition given by Schmölders, 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 performane. 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 chosen 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 economice value added, but in particular the social and environmental values that they are creating or destroing (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 în 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 (Boţa-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 Valu Added	Immediate liquidity	Degree of customer satisfaction	Pollution degree
Return Investment	Indebtedness	Job satisfaction	Emissions
Return on Equi	Total Shareho Return	Organizational climate	Recyclable materials
Operational CF	Total profit	Number of complaints	Energy consumption and its origin
Net profit per sl	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 separe 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 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. 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).

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
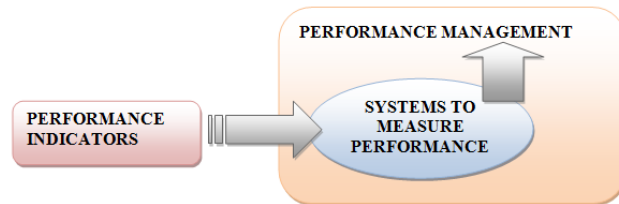
Source: the author

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) şi 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 it 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; Bélyácz 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/ (debt / 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: inventory turnover in days + accounts receivable turnover in days – 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 at*., 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. (Gheorghe 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	-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	- 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.
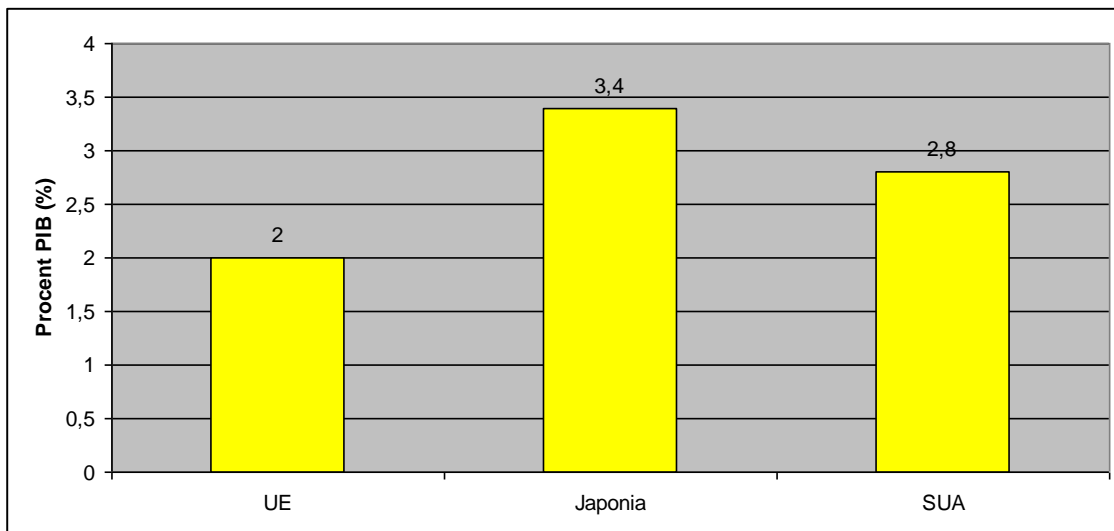
TN: GDB Percentage (%)

Fig. 1. *2009RDI budget*
(Source: http://www.ec.europa.eu/innovation)
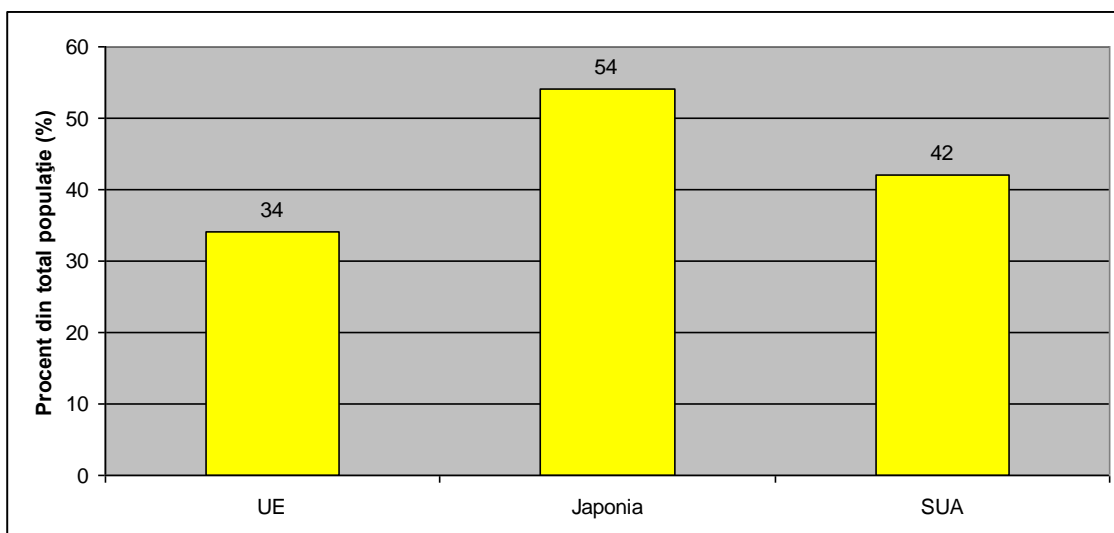
TN: Total population percentage (%)

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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THE RESEARCH SYSTEM IN ROMANIA – REFORMING AND FUNDING IT THROUGH PROGRAMS

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Scientific research represents today the most important lever for improving the living standard, health, culture and, in general, the wealth of a society. Therefore, this paper attempts to present the current state of the research system in Romania, as well as several proposals for reforming this system, which would, consequently, lead to a better use of research results, as well as the presentation of ways of funding for research through research programs, both national and European. We should not omit the fact that adequate funding for the research system also has a social impact, by creating new jobs, especially if the research results are implemented in industry.
Key-words: R & D and innovation, reform, funding, programs
JEL code: G28, G29, O30, O31

1. Introduction

The research activity aims to produce knowledge, being primarily expressed in publications. Scientific research distinguishes between basic research, applied research and development and innovation research. Therefore, if knowledge refers to rules and principles, we may speak of knowledge as result of basic research, expressed in publications. If knowledge refers to procedures or to applying the knowledge resulted from basic research to specific contexts, we may speak of applied science research, whose result is to be implemented in production.

2. Current situation

Currently, Romania primarily has three systems of R & D and innovation:
- the academic system (the Romanian Academy and the branch academies);
- the public institutes system (subordinated to / coordinated by the ministries);
- the university system.
Also, the current national RDI system also has the following research-development-innovation structures:
- state-owned companies, from the former branch institutes;
- private companies;
- private foundations and associations. (Văcărel. I. *et al.*, 2006)
The research, development and innovation (RDI) system existing in Romania is not able to ensure the promotion of industrial development because of its weaknesses, among which the most important ones are:
- extremely low RDI expenses, compared with industrialized countries,
- the total or almost total absence of R & D in the business sector, that is, in fact, the main factor of innovation,
- excessive priority given by some of these institutes to basic research, in the detriment of applied research, the fragmentation of scientific research, affecting the structure of non-specific means of financing of universities and academic sectors;
- the attitude and mentality of researchers in these institutes, which are more concerned with career prospects than with national industry needs;
- the mismanagement of research funds (scientific events, exhibitions etc.);

- the superficial capitalization of RDI results;
- the precarious equipment of the RDI activity;
- the lack of a regular analysis of the real correlation between the Romanian society needs and the priority programs as a research direction for the National Research, Development and Innovation Plan (NRDIP), as to ensure an increasing share of priority projects to be awarded by public tender and particularly those of community interest (ex. drinking water, wastewater, waste management, air and soil pollution, energy, health).

On the other hand, in Romania there is still a technical and material for base for RDI, created after the anticommunist revolution, but also an industry of innovation. However, the innovative process was much hampered by the gradual disappearance of human and institutional actors, as well as by reducing RDI investment and expenditure. (Radu M. *et al*., 2009)

3. The reform of the national research-development-innovation system

In order to change the current state of affairs, it is necessary to catalyze the structuring of relations and mechanisms of the scientific community, of the civil society and of international cooperation, for promoting innovation and stimulating excellence, based on a real and efficient reform of the RDI system.

3.1. General principles of the national research-development-innovation system reform

They are:

I. The current RDI system has been developing gradually after 1948, in the context of a planned economy. This system is rigid, anachronistic and incompatible with market economy and economic globalization.

II. The main mission of RDI activities is to address the important issues of transition and socioeconomic development. In general, RDI projects should be conducted in accordance with market needs, as dictated by the economic actors.

III. RDI reform should be carried out in order to facilitate the development of this activity, especially by stimulating competition mechanisms.

IV. Priority must be given to national invention, so that RDI results may turn into production capacities and that Romania may become an exporter of technology and products.

V. We must structure a balance between achieving short-term and long-term objectives, as well as between technological development, applied research and basic research.

VI. The limited RDI resources must be managed in such manner as to be oriented towards priorities and major issues. They should focus the key issues of national interest and backed by the industry associations that are apolitical.

VII. Academic democracy and scientific careers will be encouraged and developed.(Radu M. *et al,* 2009)

3.2. The purpose and objectives of the national research-development-innovation system reform

The purpose of the national research-development-innovation system reform is to restructure the connections between science, technology, economy and civil society in such manner as to let the market decide the primary distribution of RDI resources and to accelerate the commercialization of scientific and technological results.

The objectives of the national RDI system reform are:

I. Changing the organizational structure of the national research-development-innovation system.

II. Switching the RDI thematic from the traditional (flawed) model to the emergent model, calling for transdisciplinarity and strategic relevance.

III. Multiplication RDI funding resources and improving the funding system.

IV. Changing the management system of RDI units.

V. Stimulating the formation and operation of new research organizations (public or private capital).

VI. Changing the evaluation system of research results.

VII. Improving the communication and dissemination system of research results.

VIII. Stopping the migration / immigration flow of RDI specialists.

Changing the organizational structure of the national research-development-innovation system is based on a structural vision simplifying the system's components, effectively correlating them and insuring diminished expenses. (Radu M. *et al*., 2009)

Such a target structure is shown in the figure below:
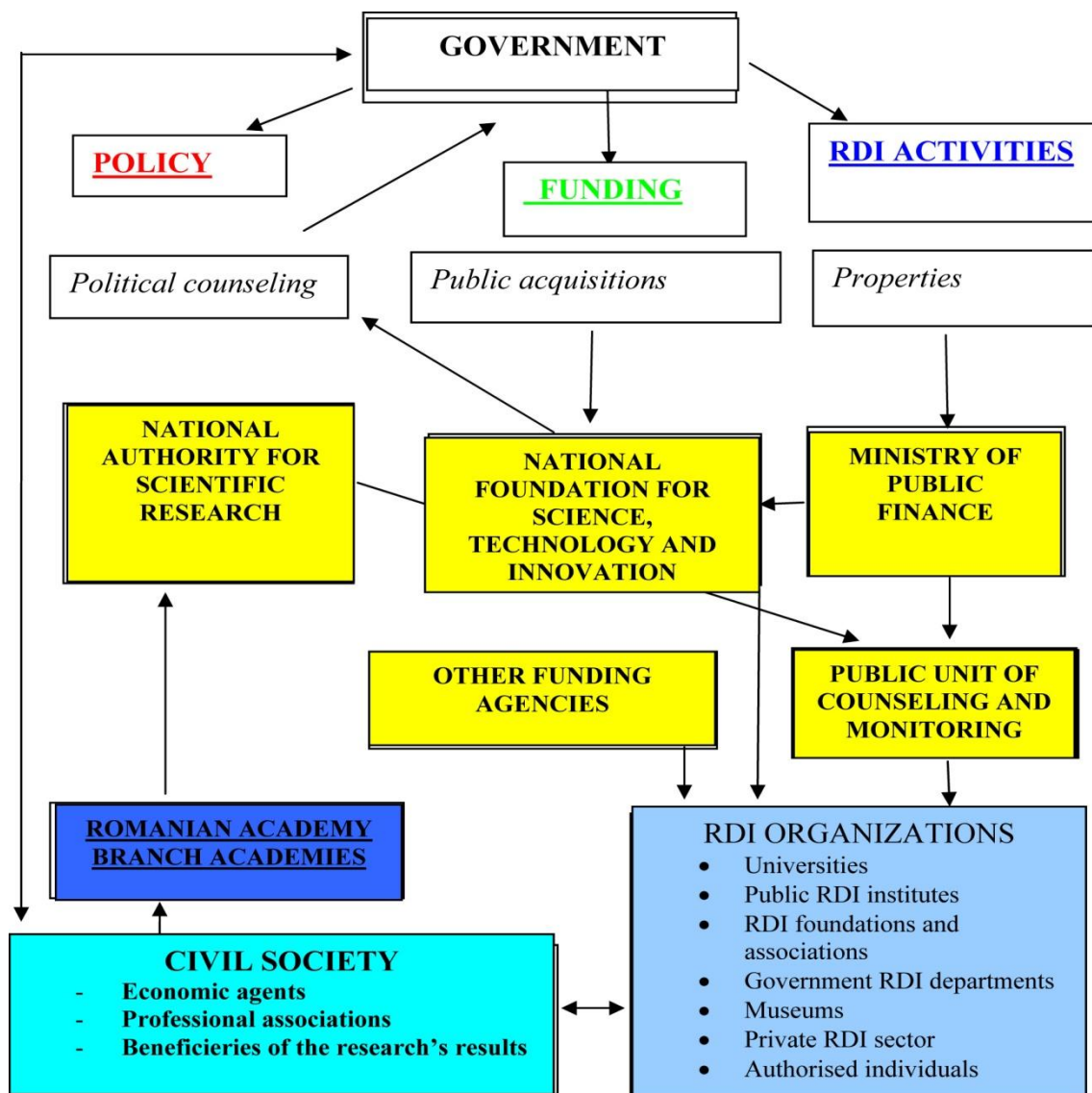
Fig. 1. The organizational structure of the national research-development-innovation system and its funding (Radu M. et al., 2008)

4. Funding of the research-development-innovation activity

The funds allocated from the budget for the research-development activity in the last 10 years are found in Table 1, which also presents the actual values allocated for this activity (fig. 2 and 3):

Table 1: *Funds allocated for research in 2002-2011*

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP %	0,21	0,39	0,39	0,41	0,46	0,52	0,58	0,47	0,49	0,50
Expenses (mil. lei)	304	560	696	778	1.119	1.626	2.371	1.649	1.551	1.745

(Source: Author's processing)

Cheltuieli cercetare-dezvoltare (milioane lei)
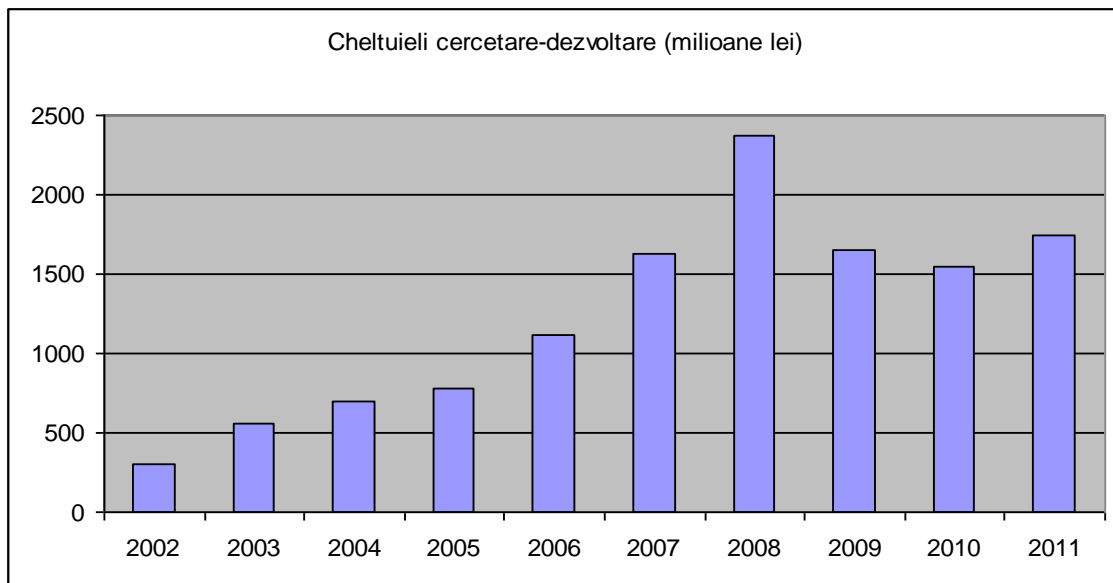
TN: Research-development expenses (million lei)
***Fig. 2:** Research-development expenses in 2002-2011*
(Source: Author's processing)

Procent PIB (%)
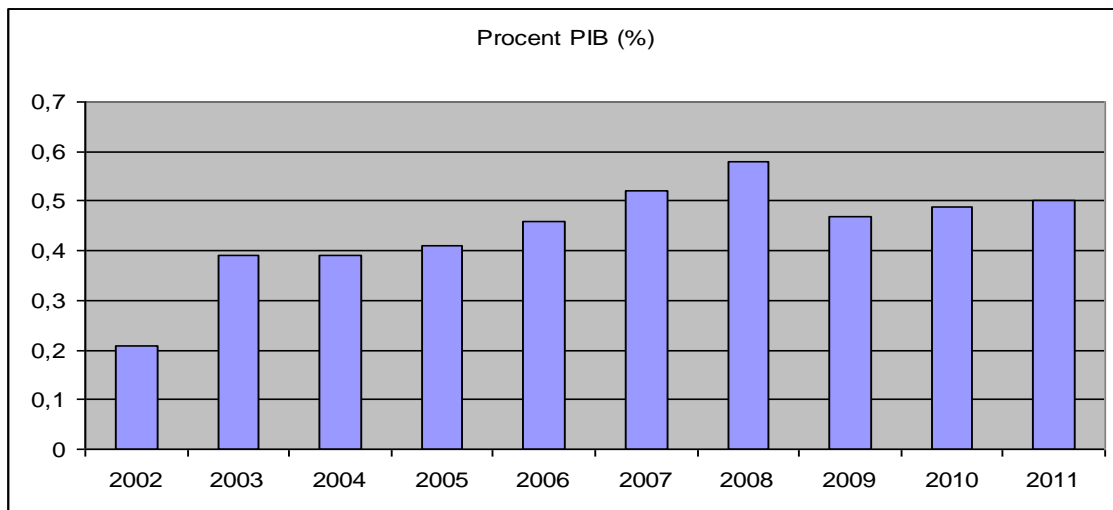
TN: GDP percentage (%)
***Fig. 3:** GDP percentage for research-development in 2002-2011*
(Source: Author's processing)

Research and development funding is made by funds allocated from the state budget through programs. Thus, in Figure 4 we illustrated the current funding programs for research and development in Romania.
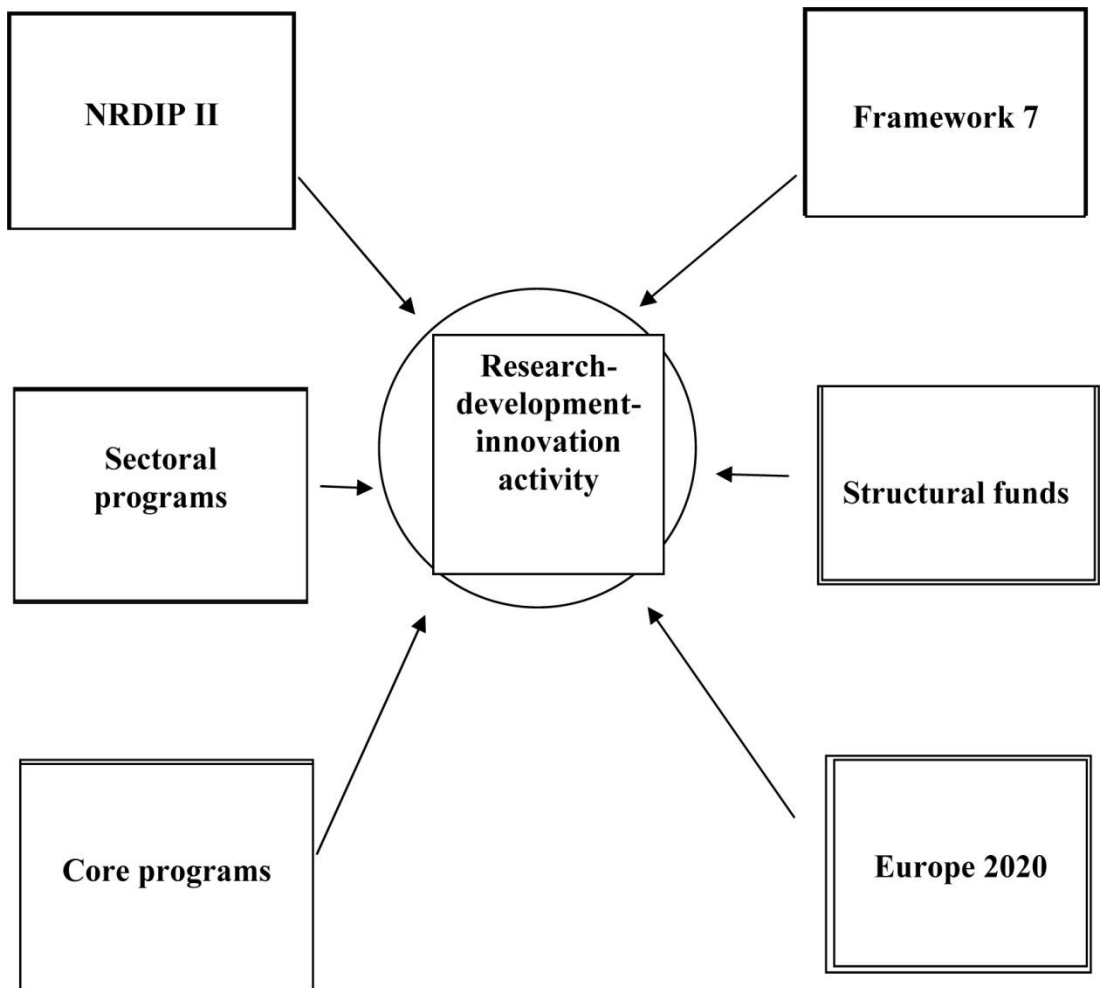
Fig. 4: *Sources of funding for research-development*
(Source: Author's processing)

The National Authority for Scientific Research (NASR), as a government body with responsibility for developing and harmonizing national research-development-innovation with the EU, aims to align the objectives of the science and technical community and the business environment in Romania to the specific science and technology priorities in the European Union, as well as to their evolution dynamic.

The support for planning and implementing of the RDI policies promoted by NASR in the post-accession period was given by:

- The National Strategy for RDI for 2007-2013 (National Strategy), approved by GD no. 217/2007;

- The National Plan for Research, Development and Innovation for 2007-2013 (National Plan), approved by GD no. 475/2007.

The National Strategy's main objective until 2013 is to bridge the current gaps compared to European countries and to prepare the RDI system to identify and consolidate, through international openness, partnership and competition, those areas where Romania can excel.

5. Conclusions

In recent years, more sources of funding for research and development were sought, but we must stress that the field of RDI does not benefit from external credits or from EU funding under national allocation like, for example, in agriculture. The only exception is represented by the structural funds for this domain. Access to EU funding is based solely on competition within the Community programs. Therefore, to increase the volume, quality and competitiveness of our country RDI activities in line with the evolution and requirements in Europe, is extremely necessary to stimulate them inside the companies. Cooperation between economic agents, universities and / or RDI institutions imposes itself as priority axis in tandem with the emergence of the concept of "entrepreneurial university." (Paul Vass A., 2010).

We must not forget the fact that a research activity does not end with the presentation of its results; these results are either implemented in the production process, seeking material benefits, or are presented as an article or paper to various scientific manifestations and can be the basis for other research activities.

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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 stated 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 to 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: Structural deficit=Structural expenditures-Structural revenues=Expenditures*GAP^{ec}-Expenditures*GAP^{ev}. GAP represents the production differential calculated as ratio between the potential GDP (normal rhythm of economic growth in a neutral year, form 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 (Ionuţ 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 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 is 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.
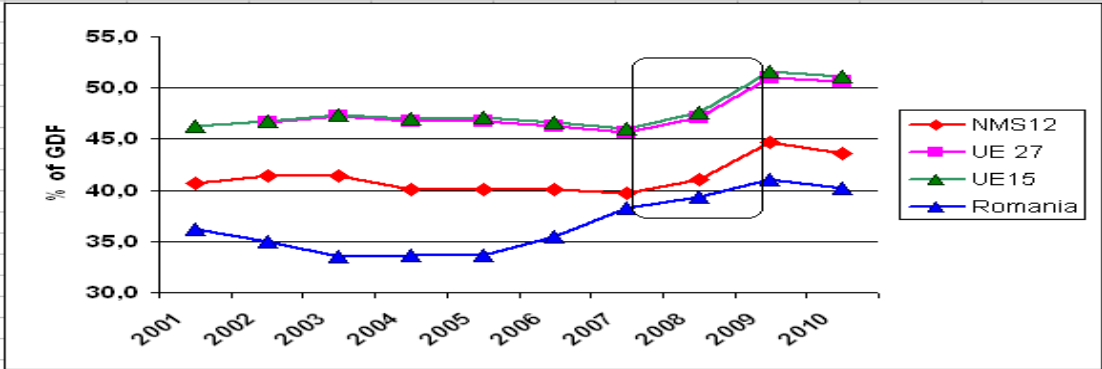
Figure no. 1. Public expenditures evolution in European Union
Source: realized by author

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.
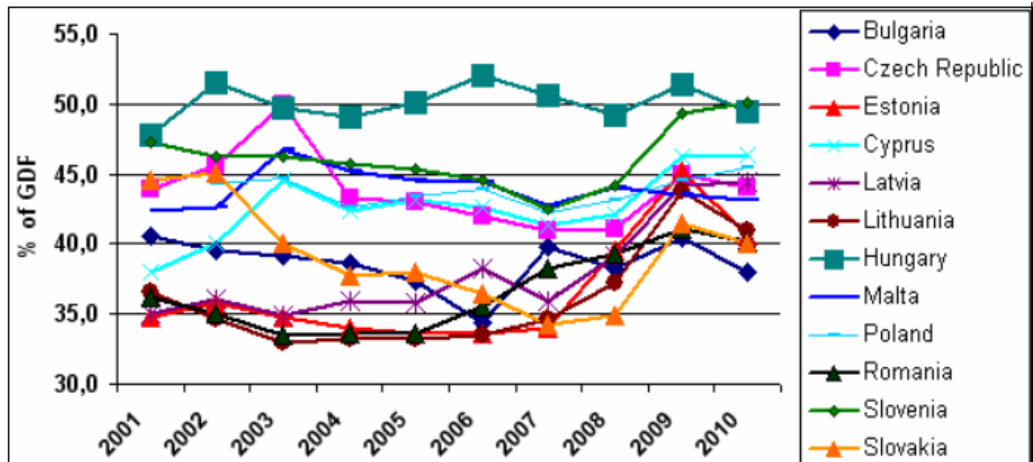
Figure no. 2. Public expenditure evolution in new member states
Source: realized by author

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.
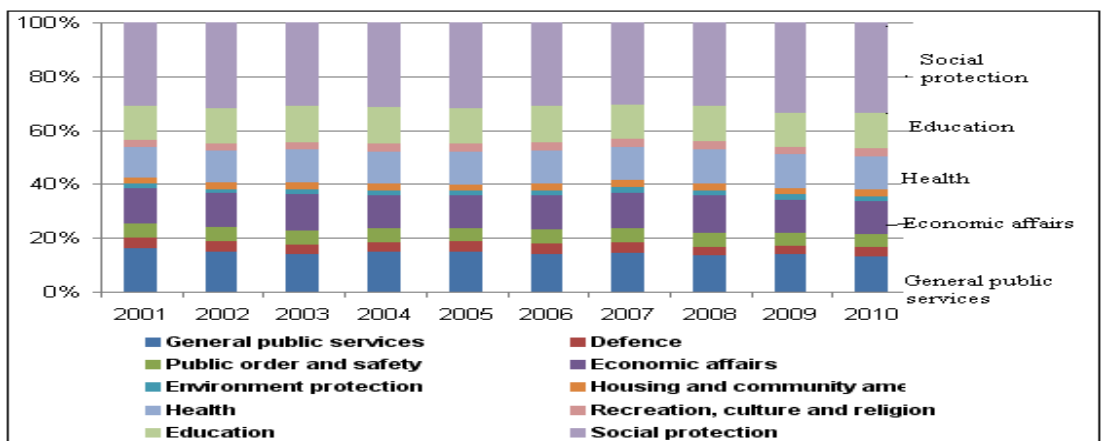
Figure no. 3. Structure of public expenditures in NMS 12
Source: realized by author

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.
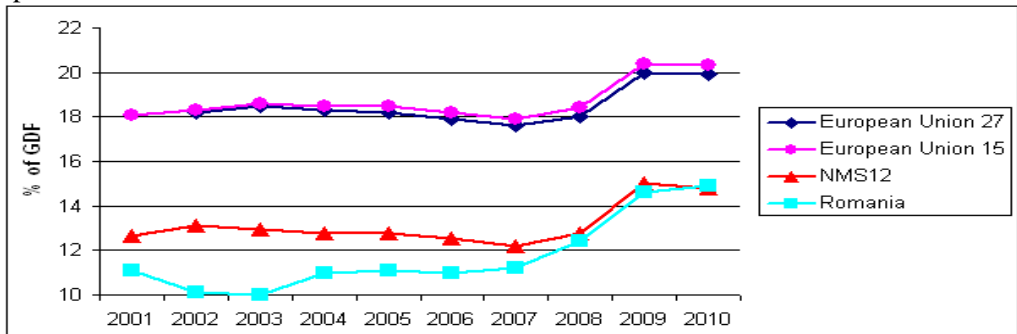
Figure no. 4. Social protection expenditures in EU
Source: realized by author

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.
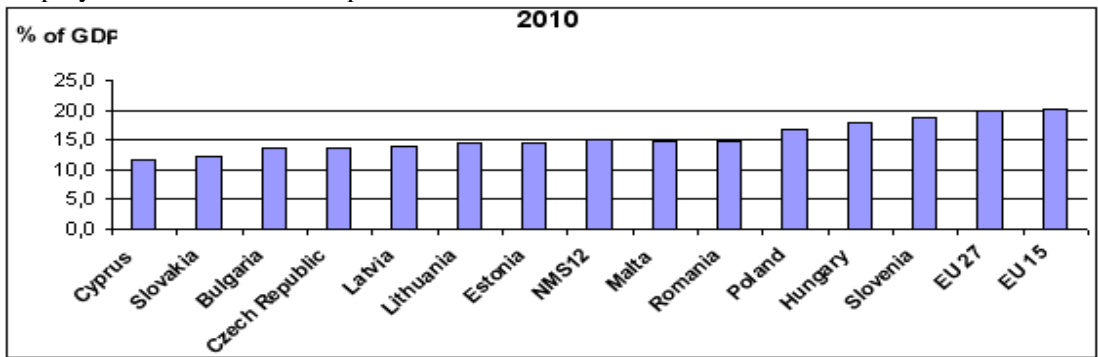
Figure no. 5 Social protection expenditures in 2010
Source: realized by author
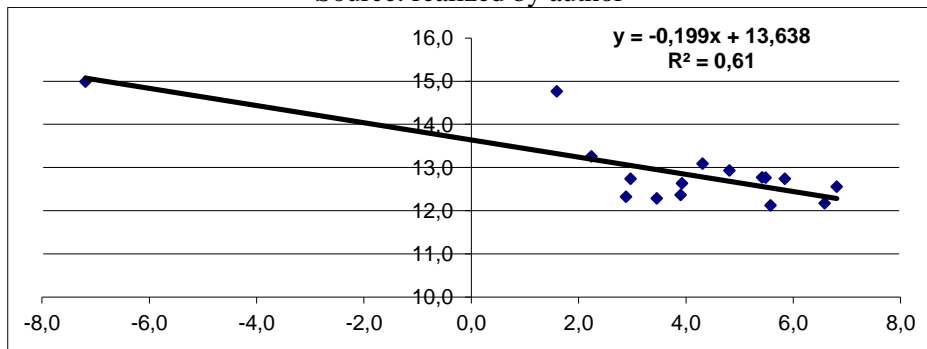
Figure no. 6. Correlation between social protection expenditures and economic growth rate in NMS12
Source: realized by author

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.
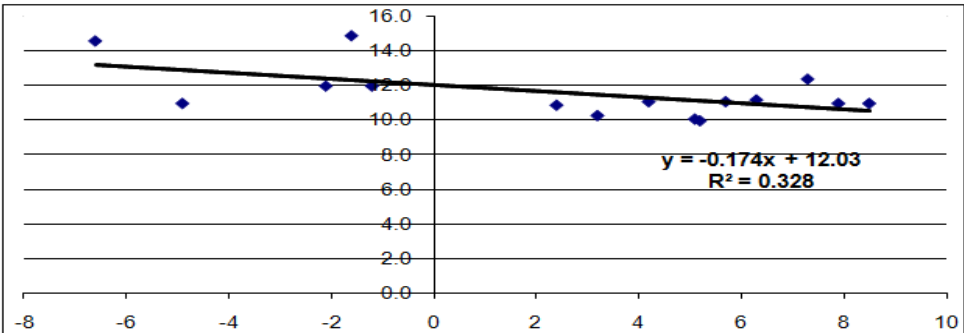
Figure no. 7. Correlation between social protection expenditures and
economic growth rate in Romania
Source: realized by author

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%.
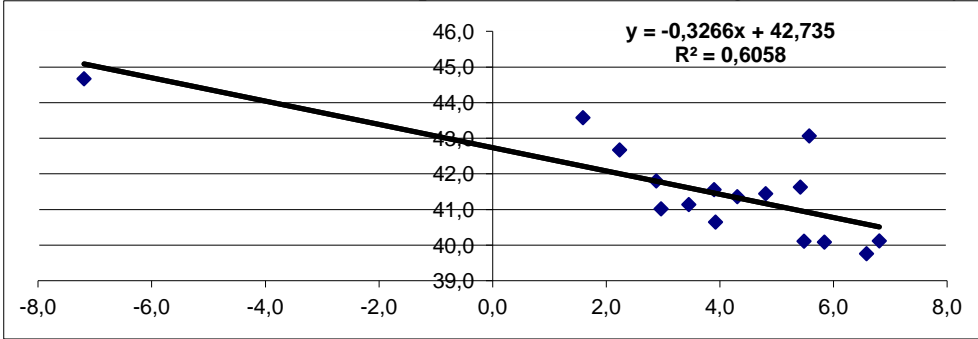
Figure no. 8. Correlation between total expenditures and economic growth rate in NMS12
Source: realized by author

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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ADVANTAGES AND RISKS OF USING THE PUBLIC-PRIVATE PARTNERSHIP IN ROMANIA

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This article presents the advantages and risks of the public-private partnership in realizing the public investments in Romania. Public-private partnerships refer to the forms of cooperation between public authorities and private entities and target the regulation of the design, financing, construction, operation, rehabilitation, development, rental and transfer of any public work, asset or public service. It is a formula agreed by the public authorities by which the solving of public problems of general interest is "commissioned" by attracting entrepreneurs from the private sector.
One of the main arguments for supporting the public-private partnerships in case of public investment projects is the transfer of the managerial competencies and of the know-how from the private partner to the public one.
One of the main risks of the public-private partnerships is related to the temptation of using the private-public partnerships as a means of eluding the budgetary pressure, which may lead to their inadequate use.
Key words: knowledge transfer, concession and joint venture, public-private partnerships, public investments.
JEL Code: D23, H54, E60

Introduction

The involvement of the private sector in providing public assets is a longstanding practice in the Organisation for Economic Co-operation and Development countries. Public-private partnerships are effective means to deliver infrastructure projects (which may produce a rapid return to economic growth in the current context), to provide public services and to innovate. Public-private partnerships are attractive to the private sector because the investment is recovered either by governmental transfers and/or by charges applied to the users of the facility. As benefits are obtained by the participation of the private sector (practicing innovative solutions, better allocation of inputs), public-private partnerships can represent a better solution than the traditional public procurements.

In the EU, public-private partnerships have developed in the transport sector, in the area of public buildings and equipment (schools, hospitals, prisons) and the environment. Many EU Member states only have a limited experience of public-private partnerships or none at all (Mihai Petrescu, 2010: 54). In terms of overall management of public services or the construction and operation of public infrastructure in the EU, the spread of public-private partnerships is still rather limited.

Of the entire EU, Great Britain uses the most the public-private partnerships; the total value of the 935 agreements of this type is £66 billion. The sectors preferred in the public-private partnerships in Great Britain are the transport sector (road, rail), building prisons, hospitals and public housing.

In the paper *Public-Private Partnerships and Investment in Infrastructure,* Sónia Araújo and Douglas Sutherland underline that public-private partnerships are best suited when there is a positive externality between the construction and the operating phase, which gives incentives for the private sector to internalise the costs of service provision and asset maintenance in its decisions at the construction phase. To allow the private sector to explore innovative solutions, the contract should lean towards output specification rather than input requirements. In the absence of this positive externality, the government should grant the private sector the ownership of the asset. In this case, public-private partnerships are more suitable for leisure centres and public housing, as the number of buyers is potentially higher, allowing the private sector to enjoy a higher bargaining position relative to a situation where the public sector is the sole buyer.

The recent economic crisis has had a major negative impact on public-private partnerships projects due to the fact that there has been a marked reduction in the availability of bank lending and a significant deterioration of the financial conditions offered for public-private partnerships lending and also some national governments and regional authorities have reduced or put on hold their public-private partnerships programmes.

1. Legislative framework of the public-private partnerships in Romania

Public-private partnerships refer to the forms of cooperation between public authorities and private entities (NGOs, businessmen associations, companies) in order to realize a project with positive effects. These partnerships target the regulation of the design, financing, construction, operation, rehabilitation, development, rental and transfer of any public work, asset or public service. The role of the public partner is to finance and to implement the general interest objectives, to establish the prices. The role of the private investor is to finance, design, realize and operate on economic criteria the objective of the public-private partnership agreement.

Currently, these public-private partnership agreements for public works in various fields of activity are regulated by the much-disputed Law 178/01.10.2010 and by its Application norms, the Government Emergency Ordinance 39/21.04.2011 to amend and complete the Public-Private Partnership Law 178/2010 and the Government Emergency Ordinance 86/17.10.2011 to amend and complete the Public-Private Partnership Law 178/2010.

The public-private partnership agreements had been regulated before by the Government Ordinance 16/2002, which was abrogated once the Government Emergency Ordinance 34/2006 entered into force, concerning the public procurement contract awarding; the notion of "public-private partnership" was replaced with that of "work concession", which led to confusions in the business community. This legislative initiative proved to be an obstacle to the development of public-private partnerships because of several reasons, out of which the most important is, in my opinion, is the fact that not all the ways of realizing the public-private partnerships were regulated. A proof of this is the very small number of public works and public services concessions, where we cannot find the concept of "partnership", as it was replaced with that of "concession".

The Public-Private Partnership Law 178/2010 defines under Art. 4 the *public-private partnership agreement (project agreement) as* the legal document concluded for a definite term between a public authority and a private investor after the whole completion of the stages of preliminary analysis, selection of private investors, conclusion of the project agreement, negotiation. Before concluding this partnership agreement, another legal document must be concluded – *the project agreement*, for the purpose of preparing the public-private partnership agreement.

Art. 4 of the Law 178/2010 also regulates the functioning of the *project company* – the company residing in Romania, having as associates or shareholders both the public and the private partner, which are represented on a pro rata basis according to the quota of participation in the public-private partnership project, the public partner participating with a contribution in kind; The assets of the projects company, classified as non-assets, will be registered in the quarterly and yearly financial statement of the involved public partner, for the only purpose of the public-private partnership development. It will function throughout the period during which the public-private partnership agreement is developed and it will be closed at the date of its end.

Throughout the development of a public- private partnership agreement, the partners' related rights and obligations cannot be assigned. The project company cannot change its subject of activity and cannot develop economical operations which are beyond the precise purpose of the public-private partnership for which it was created or of its development for the community's benefit.

Upon the completion of the public-private partnership agreement, the project company transfers free of charge, the public asset achieved under the public-private partnership agreement, in a

good state, exploitable and free of any charges or obligations. The properties resulted from the implementation of the public-private project and the lands occupied by the project, except for the assets under public property, and that cannot be disposed of or encumbered can be mortgaged, pledged and they can be guarantees for the party financing the public-private project, during the validity period of the agreement.

Since the negotiation procedure initially included in the Law 178/2010 ignored the community norms referring to the obligation to ensure the transparency of the procurement procedure and real remedies for those whose candidateships had been rejected, the Government Emergency Ordinance 39/2011 stipulates only two procedures of awarding the public-private partnership agreement: the open procedure and the competitive dialogue procedure.

The value thresholds for the public-private partnerships agreements, which are actualized by Government Decision are the following (Law 178/2010, art.5 (1)):

- The equivalent in lei of 125.000 Euros without VAT, for assets and services;
- The equivalent in lei of 4.845.000 Euros without VAT for works.

The public-private partnership can be realized by the conclusion of agreements having as object assets, services or works. Art. 4(1) of the Government Emergency Ordinance 86/2011 specifies that these public-private partnerships agreements having as object works, assets and services include the agreements awarded for the execution of a relevant activity in the fields of public utility: natural gas, thermal and electrical energy, sewage, transport, postal services, exploration and extraction of oil, gas, coal or other solid fuels, ports and airports.

Art. 11 of the Law 178/2010 stipulates that the law does not apply to the conclusion of public-private partnership agreements that:

- have as object the purchase or lease, by any financial means, of lands, existing buildings, other immovable assets and rights to the same;
- refer to the purchase, development, production or co-production of programs for broadcasting purposes, by radio and television institutions;
- refer to the provision of arbitration and conciliation services;
- refer to the provision of financial services with respect to the issuance, purchase, sale or transfer of movable assets or other financial instruments;
- refer to the employment of labor force, namely the conclusion of employment contracts;
- refer to the provision of research – development services fully remunerated by the public partner and whose results are not exclusively dedicated to it, for its own benefit.

The Government Decision 1000/20.10.2011 abrogated the whole chapter III which specified the types of public-private partnership agreements. Thus, Romanian legislation does not limit the types of public-private partnership agreements which may be concluded. The partners may establish various types of public-private partnership agreements, provided that the Law 178/2010 is respected, together with its application norms, as subsequently amended and supplemented.

2.Public-private partnership versus concession

The *public-private partnership* is a formula agreed by the public authorities by which the solving of public problems of general interest is "commissioned" by attracting investors from the private sector. Usually in this type of association, the public authority has a contribution in kind (material resources, lands, buildings) and the private investor contributes with the knowledge, logistics, managerial experience and the financial support of the business. The public-private partnership, developed due to the existence of the project company, is characterized by the fact that the public sector and the private sector co-operate according to reciprocity principles, each of them having its own objectives: satisfying the general interest for the local government of municipalities and obtaining profit for the private partner (Marian Stoian, 2010:172).

The main form of public-private partnership used in the EU member states is *concession,* also used in Romania until the Law 178/2010 was passed, stipulating under art.10 that the conclusion of public-private partnerships is not possible if one of the following conditions is met:

- *the public works concession agreements and the services concession agreements* regulated by Government Emergency Ordinance no. 34/2006 on the award of public procurement contracts, of public works concession agreements and of services concession agreements, as approved, as subsequently amended and supplemented by Law 337/2006, as subsequently amended and supplemented, and the related legislation;
- *the agreements on the concession of assets under the public property*, regulated by Government Emergency Ordinance no. 54/2006 on the regime of the concession agreements of assets under public property, as approved, as amended by Law 22/2007, and by the related legislation;
- the joint venture agreements regulated under the law.

I have to mention *the main differences between a public-private partnership agreement and the concession agreement:*

- for the public-private partnership there are only two types of procedures (the open procedure and the competitive dialogue procedure), according to the updated Law 178/2010, compared to the four types of procedures stipulated in the Government Emergency Ordinance 34/2006 for the concession (open tender, restricted tender, competitive dialogue, negotiation with the prior publication of a participation announcement*).*
- For the public-private partnership, according to the updated Law 178/2010, there is no restriction/conditioning to subcontract with third parties some works, while according to art. 225 of the Government Emergency Ordinance 34/2006, the concessionaire must subcontract with third parties at least 30% of the overall value of the works subject to the concession.
- Unlike the concession agreement, the public-private partnership agreement does not entitle the public partner/contracting authority to receive from the public investor payment of a preset amount for the right to exploit for a definite term the services or the achieved asset.
- In case of public-private partnership, the risk of work interruption on a certain project is much smaller than in case of concession, where, as seen before, in some situations, this led to significant delays. Moreover, regardless of the situation of ending the cooperation before the settled term, the works already done remain in the project company patrimony.

3.Advantages of using public-private partnership in Romania

Public-private partnerships refer to the forms of cooperation between public authorities and private entities and target the regulation of the design, financing, construction, operation, rehabilitation, development, rental and transfer of any public work, asset or public service. The role of the public partner is to finance, establish and implement the general interest objectives, to establish the prices and the quality of the assets/works/services. The role of the private investor is to finance, design, realize and operate on economic criteria the objective of the public-private partnership agreement. The sharing of responsibilities and of the financing necessary in order to realize the investment, but also the risk-sharing are stipulated in the agreement.

A first argument for supporting the public-private partnerships in case of investment projects is *the transfer of the managerial competencies and of the know-how from the private partner to the public one.* The contribution of the private sector consists in capital or other assets and in the transfer of managerial competencies to the public sector, ensuring thus a modern management and performant economic models to the public sector, compensating the lack of expertise of the

technical personnel of the public administration. On the other hand, the public sector ensures rules, financial stability and sometimes a redistribution of resources for the private sector.

A second argument for using public-private partnerships is that *they diminish the immediate pressure upon the public financial resources by providing an extra source of capital*. In turn, the participation of the public sector within a project offers serious guarantees to the private investors, regarding the long-term flows of capital, as well as regarding the integration of some social and environmental benefits in the projects (Mihai Petrescu, 2010:53).

A third argument for the development of public-private partnerships in Romania is the fact that *they can reasonably transfer a part of the risks to the private partner*. If the tasks are well distributed, an efficient risk sharing and management decreases the project costs.

A fourth argument is the possibility *to obtain lower long-run costs for the Romanian state* and also the fact that it will not have to make any payment until the service is provisioned according to the agreement. The lower project costs can be explained by the fact that the private partner can borrow funds easier and with lower interest rates than the public authorities. The financing costs of public investments projects are distributed during the whole life of the asset, which determines a diminishment of the immediate pressures upon public budgets,

Moreover, these public-private partnerships realize the mobilization of private financial resources and their association to the public financial resources, which, in the current economic context, when we must maintain the discipline of public finances, is a very important advantage, taking into account that Romania, just like the rest of the EU member states wants to increase the rhythm of the investments.

But, in order to have a positive activity in the PPP field some conditions have to be fulfilled such as: the stability of the cash flows, the punctual and complete provision of services, according to the agreement, the existence of a stable commercial law and of a stable profit rate.

4.Risks associated to the public-private partnership in Romania

The option to deliver infrastructure services by public-private partnerships is not free of risk, as Douglas Sutherland observes in his paper *Public-Private Partnerships and Investment in Infrastructure*.

First of all, *the advantages of the participation of the private sector are not guaranteed in a public-private partnership*. The result depends on several elements, from the correct identification of the most effective offer, to the adequate risk sharing and to the contract relationship established between the public and private partners.

Secondly and probably most importantly, *the temptation of using the public-private partnerships as a means of eluding the budgetary pressure may lead to their inadequate use.* The political decision makers must carefully analyze the option of provisioning infrastructure services by public-private partnerships, taking into account the specificity of the asset as opposed to the traditional public procurements. Because of the corruption existing in our country, the public-private partnerships are the most exposed to become "black holes" for public money if a permanent monitoring from the qualified authorities doesn't take place.

In the third place, in Romania, not all the levels of the public administration have the specific structures for the evaluation of partnership opportunities and projects, and thus the regional development programmes cannot be correlated to the local ones.

In the fourth place, private investors are reticent about concluding public-private partnerships with the Romanian public authorities, given the lack of guarantees for financial risk coverage and investment recovery. The Romanian state can offer financial guarantees for a certain public investment of maximum 49% of its overall value.

Besides these inconvenients, the effective conclusion or implementation of a public-private partnership is affected by the difficulty to harmonize the interests of all the involved partners, by the lack of trust from the initial implementation period of the partnership and by the fear that the

partnership might be transformed into an immediate source of profit (Institute for Public Policy, 2004, 26).

Conclusions

The recent economic crisis has had a major negative impact on public-private partnerships projects, which have been reduced or even put on hold.

The development of public-private partnerships is, therefore, currently being restricted by two factors: the significant increases in the cost of debt for public-private partnership projects and the substantially reduced maturities being offered by banks on their debt.

Romanian public administrations use on a limited scale the public-private partnership as a tool for local development. A strategic approach of local development on a department level and the establishment of a relationship between the local development of the department and the region are necessary for the public administration to be able to promote the partnership system.

Therefore we need a modern and flexible public administration, which can manage the priority public investments for local development, which includes as an implementation tool the public-private partnership.

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THE LEVELS OF VALUE IN BUSINESS VALUATION. THE DISCOUNT FOR LACK OF MARKETABILITY

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This paper approaches the subject of levels of value used in business valuation and adjustments (discounts and prime) that enable professional business valuers to relate these in order to determine the value of a business or ownerships interests in a business. Marketability and control over business decision have a profound impact on the value of an ownership interest. Valuators, regularly, reduce the value of an investment interest if it lacks a ready market. In this paper, I highlight the difference between the marketability and liquidity and, the differences between the the discount for lack of marketability and discount for lack of control. A discount for lack of marketability is closely associated with, but, conceptually, distinct from, the discount for lack of control. I present the characteristics of discount for lack of marketability and the rational of applying it in valuation of minority and majority interest.

1. Introduction

When business owners think about the value of their business, they are almost always implicitly thinking about the value of the business in its entirety. In this case the value of a single share, for example, is the value of the whole business divided by the number of shares.

Many times, valuation cases do not imply estimation of the value of a company but the value of the blocks of shares in a company. The determination the value of a stock through dividing the value of the whole business by the number of common shares may not be an accurate method if the block of stock under consideration does not assure the control on the enterprise.

Many times, interests in businesses are often held directly by multiple owners**.** In this case one owner has only a fractional (partial) interest in an entity.

Fractional interest valuation implies determination the value of ownership of a portion of a corporation. A fractional ownership interest may be worth less than its proportional share of the total business. For example, ownership of a 20% share in the business may be worth less than 20% of the entire company value.

The market values of these fractional interests are generally discounted from their proportional share of the whole. The degree of value reduction for fractional interest is determined, primarily, by whether or not it is a controlling interest. Secondly, the degree of value reduction for fractional interest is determined by whether or not it is a marketable interest.

Function of the percentage owed there are two categories of *fractional interest* in a business: *majority (controlling) interest* and *minority interest* (non-controlling interest).

Function of ease with which the interest can be transformed in cash there are, also, two categories of *fractional interest* in a business: *marketable interest* and*, non-marketable interest.*

2. The Levels of Value in Business Valuation. Previous Research

Levels of value are conceptual points at which can be calculated the value of business interest. Marketability and control over business decision have a profound impact on the value of an ownership interest. There are four basic levels of marketability and control:

-the marketable controlling interest (a controlling share in a public company)
-the non-marketable controlling interest (a controlling share in a private company)
-the marketable minority interest (minority share in a public company)
-the non-marketable minority interest (a minority share in a private company)

A majority interest versus minority interest

For valuation purposes, *the concept of control* or, *absence of control*, relates to a shareholder`s ability to influence, respectively, do not influence, the company`s affairs. The determination of whether the valuation should be on **a** controlling interest or minority interest basis is a very important aspect. Shares may be subject to premium or discounts, depending upon whether they represent controlling or minority interests.

The concept of "business value" reflects the value of the 100% interest representing total control (Howitt, Idelle A. 1993). This is a usual indicator of a company value for merger or sales purposes. It is the value of the business as a whole. A" control interest" is defined as ownership of more than 50% of the business. These two positions (100% interest and, more than 50% of the business) also are known as majority interest positions.

The majority interest in a corporation is the ownership of an amount of stock which does enable the holder to exercise the control. *A minority interest* in a corporation is the ownership of an amount of stock which does not enable the holder to exercise the control. Generally, *a minority (non-controlling) interest* is defined as less than 50% of the total equity held. An investor has a minority interest in the firm if he held small blocks of stock that represent less than 50% of the company`s equity, and usually much less than 50%.

A marketable interest versus non-marketable interest

For valuation purposes the concept of *marketability or, lack of marketability,* relates to a shareholder`s ability to transform its interest easily in cash. The determination of whether the valuation should be on a marketable interest or nonmarketable interest basis is other very important aspect. Shares may be subject to discount that adjusts for degree of marketability.

In general, investors value marketability. Therefore, other things being equal, investors will pay more for an asset that is readily marketable than for an otherwise identical asset that is not readily marketable. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable (an owner can sell his/her shares on the stock market). Conversely, an interest in a privately held company is worth less because no established market exists.

2.1 The Concept of Marketability. The Marketability versus Liquidity

According with International Glossary of Business Valuation Terms the marketability is defined "the ability to quickly convert property to cash at minimal cost". The concept of marketability centres on the ease with which the holder of a stock ownership interest can convert the security to cash in terms of timing, the reliability of realizing the quoted proceeds, and transaction costs (Ronald D. DiMattia, 2008).

The terms of liquidity and marketability are often used interchangeably, although there is a "technical distinction" between them (DLOM Job Aid, 2009).

Marketability is similar to liquidity, except marketability simply indicates that the security can be bought and sold easily, whereas liquidity implies the value of the security is preserved.

Marketability is the capability and ease of transfer or, saleability of an asset (DLOM Job Aid, 2009). Marketability may be defined as a measure of the ability of a security to be bought and sold and to be converted into cash quickly and at minimal cost. Therefore, if an active marketplace for a security exists, it has good marketability**.** The marketability can be restricted by agreements and regulation (DLOM Job Aid, 2009).

Liquidity is the ability to readily convert the asset into cash without significant loss of principal. Liquidity centres on the ability to find a buyer.

Marketability indicates the fact of "Saleability", while Liquidity indicates how fast that sale can occur at the current price. Between marketability and liquidity there are the following relationships (DLOM Job Aid, 2009)**:**

 - if an asset is liquid, it is marketable;

 - if an asset is not marketable, it is illiquid;

 - if an asset is illiquid does not necessary mean that it is non-marketable – it may still be sellable but not quickly or without loss of value.

Pratt and Reilly (2000) distinguish marketability and liquidity as follows: "…with marketability focusing on finding the appropriate market, preparing the property for sale and executing the trade, and liquidity focusing on realizing cash proceeds**."**

2.2 The Discount for the Lack of Marketability

The control premium and *the marketability discount* are conceptual adjustments enabling professional business valuers to relate the marketable minority level of value with the controlling interest level (control premium) and, nonmarketable minority level (marketability discount). *The minority interest discount* relates the controlling interest and minority levels.

According with the International Glossary of Business Valuation Terms, Discount for Lack of Marketability (DLOM) is "an amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability."

The DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability. Studies have shown that, because investors are risk averse, they apply a considerable discount to stocks that are not freely tradable. The inability to readily sell a financial interest significantly reduces its value.

Valuators regularly reduce the value of an investment interest if it lacks a ready market. As part of the appraisal process, the appraiser must determine the appropriate discount for lack of marketability that should be applied to a specific business ownership interest (DLOM Job Aid, 2009)**.**The application of the Discount for Lack of Marketability (DLOM) can result in a significant value reduction as compared to the pro rata value of a business interest. The DLOM can be the valuation adjustment with the largest monetary impact on the final determination of value.

 The application of DLOM can be a crucial aspect in the valuation of the stock of a privately held company because many valuation methods used by appraisers determine the obtaining a marketable indication of value (Ronald D. DiMattia, 2008).Values derived from   methods that apply aspects of securities of publicly traded companies result in what is termed a "publicly traded equivalent value".

3. The rationale for DLOM. The comparison of Discount for Lack of Marketability with Discount for Lack of control. The Results of Research

A discount for lack of marketability is closely associated with, but conceptually distinct from, the discount for owning a non-controlling interest. The marketability of stock shares is a concept that is distinct from the level of control, but related to it. It is well known that the shares of the closely held firms do not have the liquidity of the publicly held companies. The level of marketability associated to shares of the closely held companies is influenced by the level of control.

The marketability of a controlling interest in a private company is affected by two factors: *the transaction time* and *the transaction costs*. The owner of a controlling interest in a private company may incur, firstly, a *significant period of time* to sell its part. This situation is due to the fact that there is not a ready market for controlling interest in the companies. The unknown time for a sale is considered the fundamental rationale for discounts for lack of marketability. It may take months or years to sell an entire private business and it is almost impossible to sell minority (less than 50%) interest (Rand M. Curtiss, 2009).

Secondly, the owner of a controlling interest in a private company may incur significant costs associated to selling. These costs will be of two types: direct costs of the sale and, the opportunity costs. *The direct costs of the sale* are represented by *legal, accounting* and *transaction fees*. *The opportunity costs* are represented by the cash-flows on alternative investments that are given up by the seller as result of his incapacity to sell in short time.

The minority interests in closely-held companies tend to be *much* less marketable than majority interests. Frank C. Evans (2011) put the question: „who wants to buy a minority interest in a private company where there may be little or no assurance of any annual cash return on their investment and little or no market available for a resale of those shares?"

The marketability of a minority interest in a private company is, also, affected by the transaction time and transaction costs associated with selling but appear another important element that must be taken into consideration. This is lack of transferability. Ownership interests in closely held businesses are frequently subject to agreements restricting their transfer. Often, transfers are restricted to family members, and other owners are the only permitted buyers of interests. These restrictions limit the pool of available buyers, further reducing liquidity and, implicit, the value. For most minority shareholders, sale must await action by the controlling stockholder, such as sale of the company.

Frank C. Evans (2011) highlighted that:„The 100% control shareholder in the private company possesses relatively high liquidity: he or she can choose to sell the company, with marketability primarily determined by the time required to find a suitable buyer and close the deal and the associated transaction cost. This level of illiquidity often creates a discount that ranges from 3% to 15%. Conversely, the minority shareholder cannot force a sale of the company, frequently faces severe restrictions on the transfer of shares, and must find a buyer willing to invest in the unattractive lack of control interest. The result is severe illiquidity, which usually carries a marketability discount of at least 33% to 50% from a freely traded value."(1).

The Discount for Lack of Marketability is deducted from the value of the entity as a whole. It applies to all shares, not just the minority stake being valued, to reflect the relative illiquidity of the shares compared to those of publicly traded companies. On the other part, the Discount for Lack of control is deducted from the proportionate share of the value of the minority stake being valued, to reflect the absence of control prerogatives.

The DLOM is applied after the minority interest discount or control premium.

Conclusions:

Fractional interest valuation implies determination the value of ownership of a portion of a corporation. A fractional ownership interest may be worth less than its proportional share of the total business. The market values of these fractional interests are generally discounted from their proportional share of the whole. The degree of value reduction for fractional interest is determined by the degree of control and degree of marketability. Levels of value are conceptual points at which can be calculated the value of business interest. Marketability and control over business decision have a profound impact on the value of an ownership interest. The DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

The marketability of stock shares is a concept that is distinct from the level of control, but related to it. The level of marketability associated to shares of the closely held companies is influenced

by the level of control. The marketability of a controlling interest in a private company is affected by two factors: *the transaction time* and *the transaction costs*. The minority interests in closely-held companies tend to be *much* less marketable than majority interests. The marketability of a minority interest in a private company is, also, affected by the transaction time and transaction costs associated with selling but appear another important element that must be taken into consideration. This is lack of transferability. Ownership interests in closely held businesses are frequently subject to agreements restricting their transfer. Often, transfers are restricted to family members, and other owners are the only permitted buyers of interests. These restrictions limit the pool of available buyers, further reducing liquidity and, implicit, the value.

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ROMANIAN INTERNATIONAL TRADE CHARACTERISTICS DURING THE RECENT CRISIS

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The present paper aims to reflect the main changes in Romanian international trade during recent crisis. Using databases from Eurostat and United Nations Conference on Trade and Development we reflect a sharp decrease in the start of 2009 and an increase during this period to nowadays. The situation is similar in the Central and Eastern Europe countries.
Keywords: international trade, financial crisis, balance of payments, Romania
JEL Codes: F10, F32

I. Introduction

Haidar (2012) reflects that Eurozone recent crisis has shown that current account problems in developing countries affected European Monetary Union partners and have spread the crisis to other European countries. A large number of scientific articles and the most important international financial institutions like International Monetary Fund highlighted exports decrease in 2009, after two years with important imbalances in the financial sector.

II. An analysis on Romanian international trade evolution

In the socialist period, Romanian industrial activity increased and authorities were oriented on exports in order to achieve the full payment of the national debt. The United Nations Conference on Trade and Development (UNCTAD) reflected a higher volume of exports and imports during 1980-2004 periods [graph no. 1].
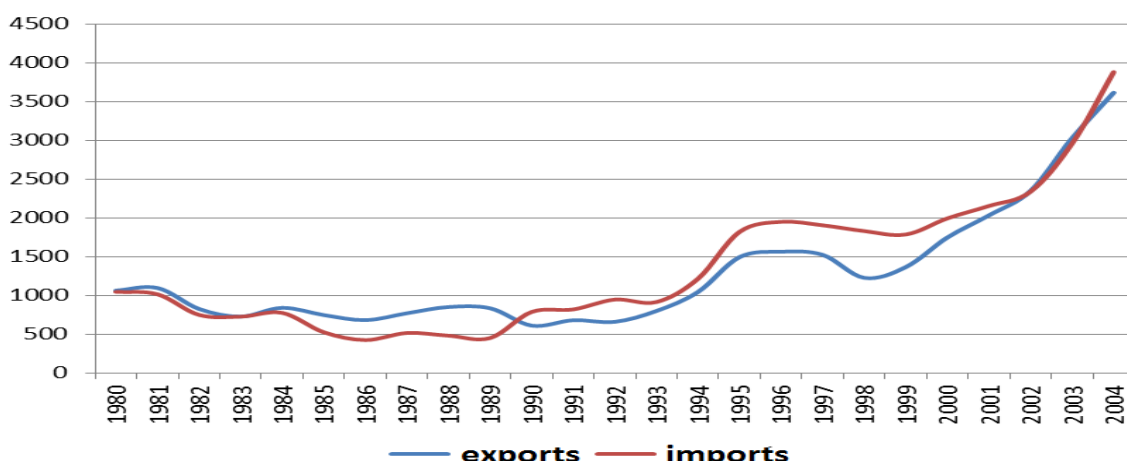
Source: United Nations Conference on Trade and Development (UNCTAD), 2012

Graph no. 1: Exports and imports volume in Romania during 1980-2004 period (millions of USD)

In 1990, Romanian balance of payment situation was positive after the socialist regime has paid the national debt. After this year, all regulation mechanism on international trade deteriorated and the current account recorded serious imbalances in a context of a higher volume of imports and reduction of international reserves. In these circumstances, in 1998, the balance of payments deficit were 2,6 billions USD. The balance of goods and services deteriorated due to a higher

volume of imports over the capacity of national enterprises, a reduction of border protection and a domestic demand growth due to higher real wages and national currency real appreciation.

After 2000, Central and Eastern Europe countries have recorded a sharp increase in exports relative to that of imports based on lower oil and external materials prices [graph no. 2].
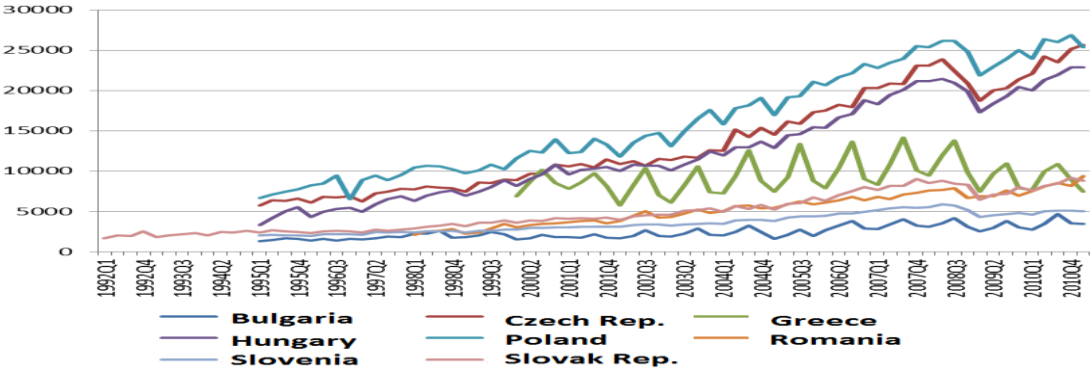
Graph no. 2: Exports of Central and Eastern Eastern Europe countries, European Union members in 1992Q1-2011Q1 periods (millions EUR)

Between Central and Eastern European countries in the European Union the largest volume of exports is registered in Poland (in fact, the only European country that has registered growth in the recession), followed by Czech Republic, Hungary, Greece, Slovakia, Romania , Slovenia and Bulgaria. Beyond that comparison is difficult due to different structure and characteristics of European economies mentioned above, the graph indicates the countries of the region with intensive foreign trade activity. On the other hand, the volume of imports follows a trajectory similar to that of exports [graph no. 3].
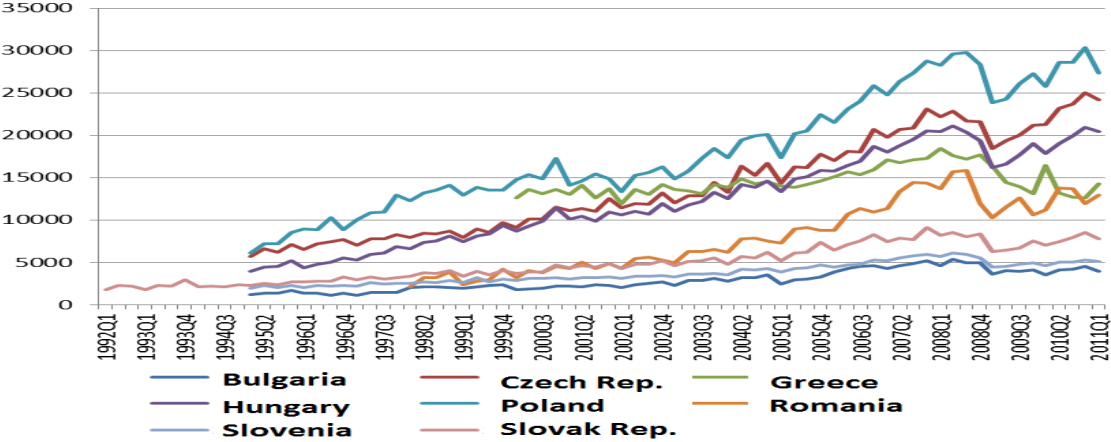
Graph no. 3: Imports of Central and Eastern Eastern Europe countries, European Union members in 1992Q1-2011Q1 periods (millions EUR)

It is worth noting that international trade dynamics of the states in the region recorded a decrease during the crisis. However, you can see the increasing trend of imports and exports in most countries in the region since 2009.

Returning to the situation of Romania, a stable national currency in the 2005-2007 periods and a lower inflation rate had no significant effect on the development of exports. During crisis, after a

sudden decrease in 2008, was followed by an increase in both exports and imports volume [graph no. 4].
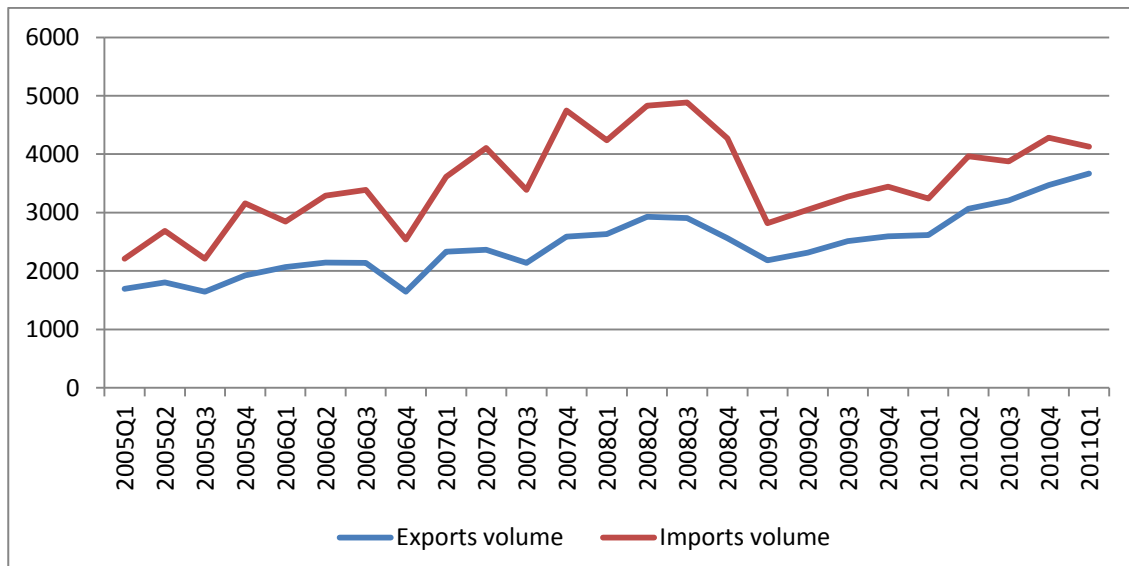
Graph no. 4: Evolution of imports and exports in Romania during 2003Q1 – 2011Q1

In 2005, we reflect a downward trend for exports and an increase in imports, except for July and September of 2005 when is reflected a slight improvement in the situation of the balance of goods and services.

In 2006 the trade deficit amounted to 11.759 billion euros and GDP ratio increased to 12.1%. The trade deficit deteriorated by 50.6% over 2005 as the exports decreased and imports increased. Trade balance deficit was generated by developed countries (58.4% of which 51.2% of EU trade), followed by trade with developing countries (25.6%) and poor countries (16%). Coverage of imports by exports and openness of the Romanian economy were 68.7% and 68.5%. Exports of goods amounted to 25.85 billion euros, up 16.2% due to foreign price increases for processed products. Imports of goods were 37.609 billion euros, up 25.1% over 2005.

Increasing trade deficit was attributed to internal structural changes and economic catching-up process. Also, the currency appreciation has influenced growth gap between imports and exports. However, exports have had a robust growth rate based on lower prices of Romanian products. In 2007, exports of goods totaled 29.402 billion euros, up by 13.7%, due to the higher external prices, volume and structure changes for exports of capital goods. Imports of goods had a value of 47.067 billion euros, registering a growth rate of 25.1% due to the increase in international prices and domestic demand for capital goods, intermediate goods and consumer goods. Surplus value was generated mainly by the increase in physical volume of imported goods.

EU accession led to sharper's goods and services imports increased to 17.345 billion euro deficit, up by 47.6% over 2006.

In 2008, exports of goods totaled 33.628 billion euros, up 13.8 percent from the previous year due to higher external prices and volume, change the export structure in favor of capital goods and depreciation in real terms national currency against the euro. In 2008, we reflect an increase in the share of capital goods and raw materials. Main source of which is manufacturing provided 94.8% of Romanian exports. Imports of goods amounted to 52 billion euros, up by 9.8% over the previous year. In 2008, the structure of imports by output stage shows the increase of raw materials and consumer goods, while the share of intermediate goods remained unchanged.

Excess of imports was determined in 88% of external price increases as oil products, natural gas, petroleum products, machinery and electrical equipment etc.

In 2009, global economic activity began to shrink due to adjustment of balance sheets of firms and household incomes and the wealth effect of declining confidence. Emerging economies, including Romania, have been affected by the slowdown in developed countries and reduce global trade, due to lower global demand. However, Romania recorded a trade deficit of 7.165 billion euros, down by 61.2% over the previous year. Manufacturing provided 92.3% of Romanian exports. Intra exports represented 74.3% of the total, increasing by 3.8% compared to 2008.

Difficulties that have arisen in the Romanian economy have caused an oscillating evolution of international trade. In 2010, the current account deficit of balance of payments was 4.969 billion euros, the lowest level in the last seven years as a share of GDP (4.1%).

In 2010, exports and imports have resumed growth after the decline recorded in 2009 and early 2011, there is even a favorable situation. Most trade deficit was caused by intra-Community trade. Coverage of imports by exports increased by 5.4% to 86.3% and the openness of the economy increased by 10.7% to 66%. In 2010, exports of goods recorded 37.293 billion euros, up 28.2% as a result of recovery in domestic demand. The increase of exports from the previous year came in 58.6% share of the increase of the cars and the like, while 41.4% was due to foreign prices. Imports of goods totaled EUR 43.199 billion up 20.1% from 2009.

Overall, in recent years several trends have emerged on the international trade of Romania (in line with changes made in the world):

• increasing the share of world exports of manufactured products in the structure;

• an increase in exports of manufactured products at a rate faster than exports of agricultural products.

Table no. 1: Concentration and diversity index of exports and imports of Romania

Exporturi					
2000			**2009**		
Number of exported products	*Diversity index*	*Concentration index*	*Number of exported products*	*Diversity index*	*Concentration index*
242 (**260**)	0,550 (**0,159**)	0,132 (**0,067**)	251 (**260**)	0,431 (**0,207**)	0,097 (**0,060**)
Importuri					
2000			**2009**		
Number of imported products	*Diversity index*	*Concentration index*	*Number of imported products*	*Diversity index*	*Concentration index*
250 (**260**)	0,347 (**0,088**)	0,071 (**0,069**)	252 (**260**)	0,263 (**0,125**)	0,065 (**0,064**)

The observed situation highlighted an increase in the number of products exported by Romania due to the increase and diversification of exported products to the import situation where growth is weak. Compared to 2000 there is a decrease of diversity index on lower differences from the global average. It can be said that the structure of exported products differs by about 43% to the global average. If the difference is less imports, being around 26%.

In Romania, the concentration indices have low values and the structure of products involved in international trade is a less concentrated on certain products.

III. Conclusions

It is worth noting that international trade dynamics of the states in the region recorded a decrease during the crisis. However, you can see the increasing trend of imports and exports in most

countries in the region since 2009. In Romania, automotive was the main incentives that sustained the domestic exports. The overall volumes of imports and exports have been affected by the slowdown in developed countries and a reduced global trade, due to lower global demand.

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ECO – FISCAL POLICY IN ROMANIA: MITH OR REALITY?

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Fiscal ecology has become in recent years a very interesting subject in Romania and in the recent European context specialists are filling their agendas with points about the environmental policy and the environmental fiscal policy are top priorities.

But is there the Romanian stat able to use environmental fiscal instruments in order to regulate economical agents behavior or is the state just using them as fiscal instruments with no environmental purpose? In a world that is constantly moving and is facing different problems, states are trying to find new ways to create budgetary resources in a crisis situation. What is Romania's position?

Environmental Romanian fiscal policy has to be though in the general economic context, being included in the general social and economical problems. Thus, the fiscal policy should aim at integrating into costs consumption and production externalities but his causes several effects hard to dimension.

The Romanian fiscal system needs hard coercion measures and a total rethinking of the imposing system in order to become efficient. Therefore, only after 2000 we can state that Romania had real environmental taxes but how are often modified both as way of determination and imposing base, things that have generated lack of trust and even panic among the economic agents.

In this context, the paper aims to underline the environmental fiscal policy characteristics applied in the European Union states and especially Romania, in order to surprise the role of the environmental taxes by comparison with other direct taxes, underlining at the same time the national fiscal policy modifications.

Analyzed data has been coming from different sources. Thus, for international comparisons the European Union site has been used, the Eurostat, the Romanian Finance Ministry site. The research is mainly based upon a synthesis of the reached area in the special literature. The study continues a fundamental research using deductive and inductive research mechanism in order to delimit the used concepts.

Keywords: eco-fiscal policy, environmental taxes, fiscal policy, energy taxes, fiscal burden
JEL classification: H23

Introduction

The human kind is facing the most dramatic crisis since the '29 – 33's one, crisis that does not imply just economical and financial elements but also social and environment ones. Are there still pertinent solutions for the environment sustainability and is there still a way for states to implement fiscal policies with an impact upon the environment? In the European context every state wishes a stable and coherent fiscal policy which will offer the possibility, on one side, to attract new and more foreign investments and, on the other side, to increase the collection degree of taxes. Romania is aiming at the same things but because of some elements, not always related to fiscal factors, it is not able to increase the collection degree but rather to increase the fiscal burden and especially the indirect taxation (the VAT has been modified from 19% to 24% which has lead to a decrease of consumption and not to an increase of VAT encasements).

1. Environmental fiscal policy in Romania: between "can" and "do"
1.1 Environmental fiscal policy general characterization

In a general sense the environmental fiscal policy means all the taxes and royalties applied upon any products and services that can damage the environment or upon polluters by burdening upon renewable or non-renewable resources (OECD 2001: 16). This definition is putting into practice the principle the "polluter must pay" that is specified in the Romania legislation too.

Environmental policy works like an externality internalization instrument, the externalities been considered a cost impose to an economic agent that does not take it into consideration in future decisions (OECD 2001: 22), while others consider that internalizing externalities can't be done without negotiations been parties – the victim and the polluter (Coase 1960: 1-44). Putting this

negotiation into practice is very difficult because cost related un-clarities will emerge and a prohibitive cost may appear and it can be higher than the social gain possible to obtain.

On international level the environmental policy is inciting firms to respect regulations because decreasing pollution will allow the firm to make economies equal to the pollution permit cost or tax, stimulating innovation, research and non-polluting technology. If there is not coherence and consensus in applying these instruments the environmental taxes impact upon competition will not have the expected result.

Although environmental taxes are aiming to make the economical agents and population more responsible as regard to their actions that can damage the environment we have to state that in establishing these policies the state will follow the principle "the polluter pays" because the one responsible for the damage should support the damage cost. The fiscal reform starter in the '90's is, practically, still going on in every state but in different rates and with different reactions. After the '90's Denmark, Finland, Germany, Holland, Switzerland have imposed environmental taxes but at the same time have decreased labor taxes (in order to maintain an constant fiscal pressure and to avoid a double dividend taxation), Slovenia has introduces in 1997 a tax upon CO_2 emissions applied to all energetically products while the Czech Republic has realized the environmental tax reform in 2008 focusing upon increasing tax quota for most energetically products in the period 2008-2012.

1.2 Comparison between Romania's environmental taxes and other countries

In Romania the fiscal reform started after the '90's has had more fazes. In the first period (faze) (1990-2000) the accent has been laid upon the indirect taxation, during which the value added tax has been introduced (1993), excises, and the wage tax was being determined according to a proportionate imposing system but in this period the environmental taxes have had small results. Starting from 2000 and preparing to negotiate with the European Union an eventual future adhesion, Romania is starting to rethink its fiscal policy thus to obtain a better businesses environment, attract more foreign investments, stimulating economical developing and at the same time introduce and modify fuel, bio-diversity, energetically products taxes, etc.

After the adhesion that took place at 1st January 2007 Romania is still in the process of harmonizing its indirect taxes, is rethinking the revenue taxation and introducing modifications regarding environmental taxes (first registration tax or the pollution tax for vehicles being the most often modified). Environmental tax can influence both the economic agent and population decision process and this is way in establishing such a tax there are a few factors that are need to be taken into consideration: fiscal pressure at macro-economic level, economical development degree, inflation rate, public dept percentage into the gross domestic product, new pollution sources, etc.

We do consider that environmental taxes can also have some negative effects upon an economy by increasing administrative costs, social disequilibrium appearances, decreasing competitiveness when tax quotas are high because taxes levied upon production factors will lead to increasing prices, decreasing wages and capital competitiveness (OECD 2002: 12).

A fiscal reform should aim at fiscal or budgetary neutrality thus the social impact will be decreased by a smaller fiscal burden especially upon labor. In this sense, the environmental taxes are characterized by the so- called mechanism "double dividend" (Dyck-Madsen, 2003): significant increase in environmental protection and creation of jobs.

Although the increasing interest in environmental protection, in Romania the revenues from these taxes has increased with a lower rate than the average European Union increasing rate for other taxes. In 2009, in the European Union 27 the environmental revenues were 2.60% from GPB and 7.40% from the total fiscal revenues while in Romania the same revenues were just 1.90% from GDP and 7.00% from the total fiscal revenues. But the evolution of the environmental taxes

should be analyzed by comparison with other budgetary revenues (revenue, capital and labor taxes, figure no. 1)
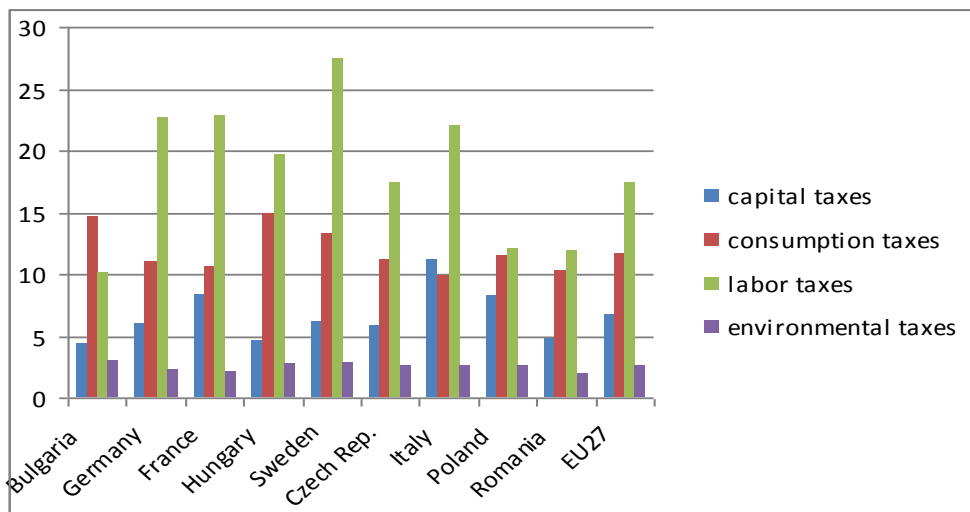
Fig. 1 Capital, consumption, labor and environmental taxes in GDP in 2009, EU states
Source: Taxation trends in the European Union (2010), European Commission – Taxation and Customs Union, Eurostat Statistical books

At European Union level in 2009 labor taxes have an average of 12.00% from GDP while the environmental taxes have an average of only 2.60%. Furthermore the environmental taxes have the tendency to decrease as percentages from GDP with some exceptions: Cyprus, Malta, and Norway.

For a better comparison between the two taxes - level of revenues collected from the two taxes, figure 2 presents the denominated level of revenues by deduction with the harmonized consumption price index (IAPC) afferent to member states.
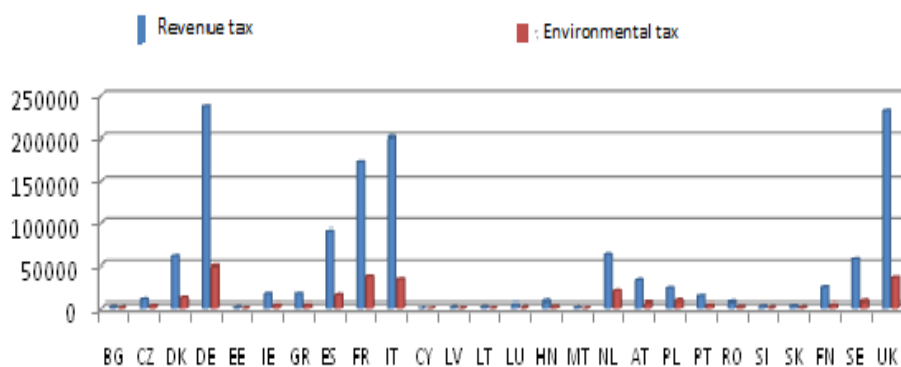
Fig. 2 Comparison between environmental and labor taxes in the European Union (real values, millions euro)
Source: Taxation trends in the European Union (2010), European Commission – Taxation and Customs Union, Eurostat Statistical books

An analysis of the different fiscal systems for the European Union countries permits us to asses that fiscal revenues have, in general, three main sources: consumption, capital and labor (fig. 3)
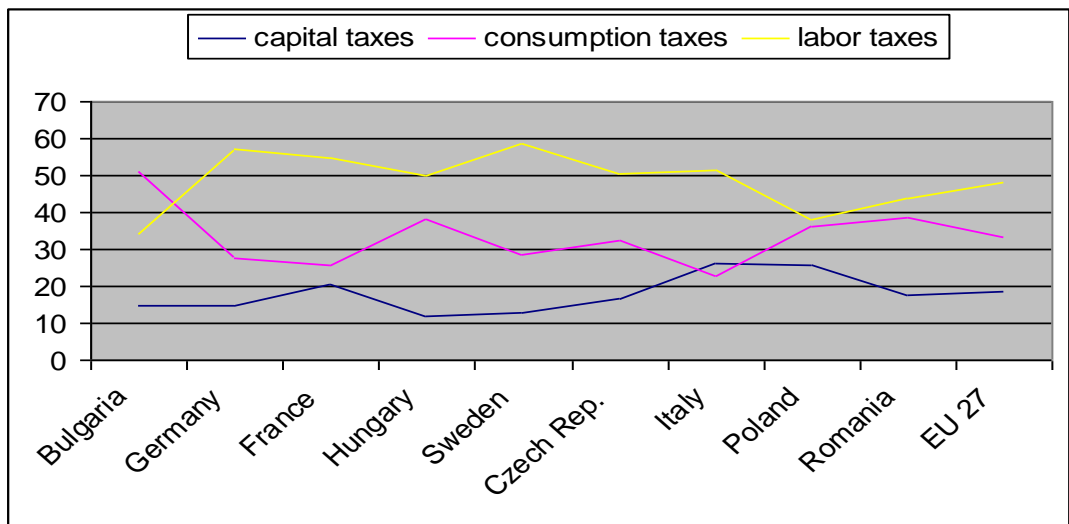
Fig. 3 Fiscal revenues sources (EU, 2009)

Source: Taxation trends in the European Union (2011), European Commission – Taxation and Customs Union, Eurostat Statistical books

We can see that Romania as well as other ex-communist countries has a fiscal policy based upon the indirect taxes that meaning based upon consumption (which are in Romania 38.40% from the total encashment while the same tax has just 22.80% in Italy). As far as the environmental taxes their average has been in Romania of 7.00% while the European average has been 7.40% (Romania is the 14th from the 27 member states being outrun by countries with a waste environmental taxes experience like Denmark, Great Britain, Holland but also by recently adhere countries Poland, Czech Republic, Latvia). Among eco-taxes, the energy tax has the main percentage at European level (EU-27) with 73.00% from the total fiscal revenues followed by transport taxes with 23.00% from the total fiscal revenues while taxes levied upon resources/pollution are not significant, just 0.40% from the total fiscal revenues.

Furthermore, if we continue our research we find out that the real motive for this decrease is that from the market a lot of big polluters have disappeared and so we can not sustain that environmental taxes have reached their purpose in Romania that being to change economical agent's behaviors.

If we analyze the fluctuation for each environmental tax (energy, transport and resources/pollution tax) we can see that the main source of the fluctuation has been the energy tax while transport taxes have been significantly modifying since 2007 when the first registration tax has been introduced.

In Romania after 2003 energy taxes have decreased and this trend has been set by both a low level of excises (the excise level for fuel is most times under the minimum level stipulated in Annex I of the European Directive 2003/96/EC) and a reduced collection degree. Furthermore, between 1995-2011 Romania had had the lowest fuel price in comparison with other European countries, thus in July 2011 this was 1.23 euro/liter face to 1.65 euro/liter in Greece (state facing an acute debt crisis) followed by Bulgaria where the price was 1,16 euro/liter.
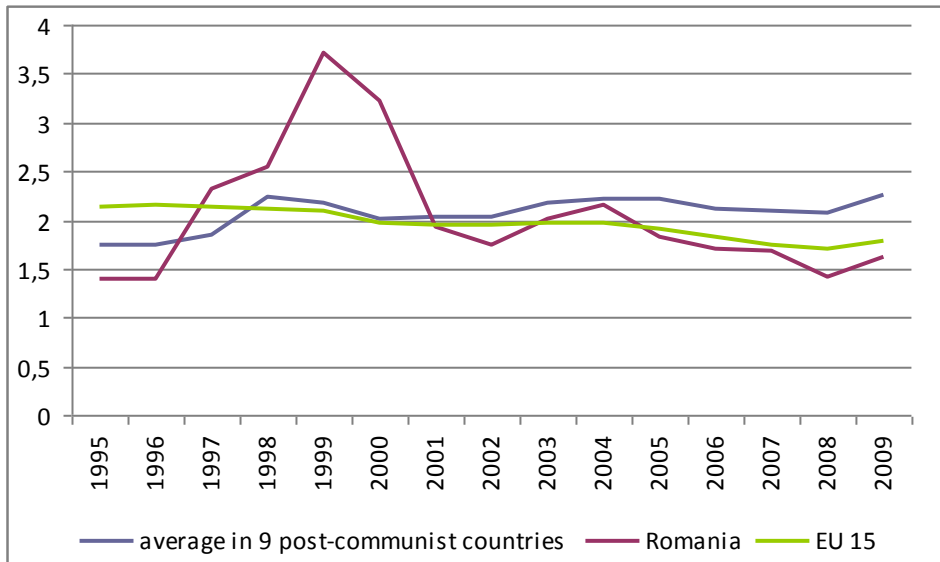
Fig. 4 Energy tax revenues (% GDP, evolution 1995-2009)

Source: Taxation trends in the European Union (2011), European Commission – Taxation and Customs Union, Eurostat Statistical books
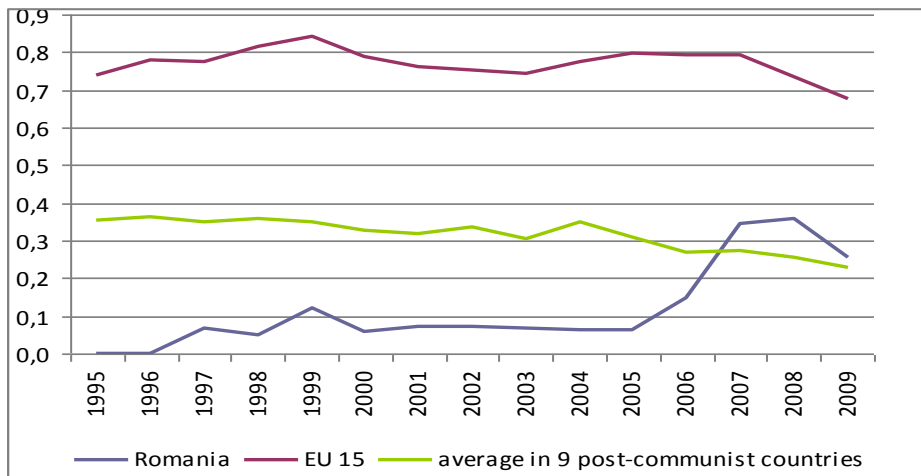
Fig. 5 Transport tax revenues (% GDP, evolution 1995-2009)

Source: Taxation trends in the European Union (2011), European Commission – Taxation and Customs Union, Eurostat Statistical books

The moderate decrease of the energy tax percentage in GDP over 2000 and 2009 is the result of a structure tax change at the European countries level. For example in Cyprus energy taxes increase is 1.00% form GDP while in Bulgaria, Poland and Estonia is just 0.50%.

2. Conclusions

We can generally state that in states adhered in 2004 and 2007 the small increase in environmental taxes is due to the harmonization process, some of them taking advantage of this in order to increase their level beyond the requested adhesion level. Furthermore we can see, on one hand, the extreme low revenues from environmental taxes in developing states like Cyprus, Estonia, Latvia, Lithuania and on the other hand, the high difference between the real value of environmental taxes and other revenues taxes in develop states like Germany, France, Italy, Spain or Great Britain.

Are the environmental taxes incentive or have they just a fiscal role? In Romania it looks like they are seen just from the possible revenues brought to the states budget and have less a coercive character upon the ones damaging more or less the environment.

Taking into consideration that the existence of such taxes in the energetic sector hasn't had any international competitive advantages, Romania will continue to increase its environmental fiscal taxes at the European Union recommendations. In order for this system to work it has to be put into practice at the same time a policy regarding the revenue tax decrease (Romania has a great labor taxation – in 2009, 35% of the states revenues were direct social contributions).

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FISCAL COMPETITION AND DIRECT FOREIGN INVESTMENTS: ROMANIA VERSUS POLAND

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The European Economic Community treaty defines indirect taxation common rules taking into consideration their impact upon free merchandise's circulation and upon international commercial exchanges.
Once the Roma treaty has been signed (1957) the established scope was creating a common market. But, how is it possible to create a common market without any monetary and fiscal instruments? Thus, these instruments have had to be created in order to achieve such an objective. If from the monetary point of view introducing euro as a common currency was a big step ahead, from the fiscal point of view things haven't evolved in such an easy manner. Fiscal objectives are achieved only if the national market is running normally and correctly.
Indirect taxation is harmonized base upon article 113 from the European Union Treaty, while regarding direct taxation legal recommendations and regulations approval we can't talk about harmonization but about fiscal competition. We are stating this because there are 27 states in the European Union and each one is sustaining its own direct taxation system. Furthermore, the taxation system (fiscal system) is influencing member states economical performances through economies, investments and human capital formation by affecting the revenue's distribution, research and development expenses level and type and by fiscal competition – an effect more and more profound. In this context we aim at analyzing the way fiscal competition had had a positive impact upon attracting foreign direct investments in Romania and Poland. We also aim at underlining positive and negative points for fiscal competition taking into consideration that not only a decrease in micro or macro-economic fiscal burden will have a positive impact upon investments in-flows and there are other factors to be taken into consideration, like: infrastructure, labor expenses, research and development expenses, internet access, etc. The research is mainly based upon a synthesis of the reached area in the special literature. The study continues a fundamental research using deductive and inductive research mechanism in order to delimit the used concepts.
Keywords: fiscal competition, foreign direct investments, fiscal systems, tax rate
JEL classification: H3

Introduction

European Union 27 states can make us think not only about fiscal competition but also about fiscal harmonization. But, is there even possible a fiscal harmonization of all 27 fiscal systems? For now at European level only a fiscal harmonization of the indirect taxes, VAT and excises, has been possible. Furthermore, according to the European fiscal policy strategy there is not necessary a total fiscal harmonization, member states being free to have their own fiscal system but within the European practices framework.

Nevertheless the European Union insists upon eliminating fiscal barriers for trans-national economic activities but, at the same time, intensifying the fight against harmful fiscal competition and fiscal fraud (European Commission). These objectives are sustained also by the new European 2020 strategy which states that the European space should become an intelligent and durable economy which favors economical, social and territorial cohesion.

Fiscal competition is an old concept but politically speaking the interest towards this concept has increase significantly in recent years, especially after the economical and financial crisis emerging since 2007. For a very long period of time the differences in tax levels between states were not significant enough to generate mass movements of capital or tax-payers. Starting from the 20th centaury the fiscal burden has increase significantly generating at the same time a series of restrictions fro trans-national movements: high tariffs, capital strict control, low currency convertibility degree and inflexible and harsh immigration regulations. In this context each states aims through its proposed and implemented fiscal regulations to attract at national level as many foreign investors as possible. Fiscal competition is mainly manifested by the way of direct taxation, which is what we aim to underline from this point forward.

Fiscal competition – present developments

The unique European market and the North American Free Trade Accord (NAFTA) have lead to intense capital and labor movements with the possibility of directing the investments flow towards other countries. In the European Union fiscal competition has started to manifest it's self mostly after 2004, when 10 ex-communist countries have adhered to the union.

As a reaction to these adhesions some countries have changed their taxation systems and have started using flat rates instead of progressive rates. The first state to adopt the flat rate was Estonia (the flat rate was 26%) and this has lead to an average economic growth of 4.3% per year. Following this example states like Latvia and Lithuania have adopted flat rates, 25% and 33%.

Describing the fist fiscal competition mechanism is attributed to Zodrow and Miesykowski. The created model was based upon two states with interdependent fiscal policies: fiscal revenues from one state were depending upon the other state tax rate. This is explained by the fact that a high tax rate in the first state will determine a transfer of the mobile tax base in the second state increasing this state's fiscal revenues. This model suggests that states are competing "towards a minimum limit" regarding taxation, each state trying to attract as much capital as possible by decreasing its tax rate. At equilibrium tax rates will be under those from a model with no fiscal competition having as effect a decrease under the optimum for public goods financed by taxes (Zodrow and Miesykowski, 1986: 365:370). Other authors (Bucovetsky and Wilson, 1991 333:350) have underlined that the states dimension can alter significantly the model previsions.

If states have relatively equal dimensions then same decisions regarding the taxation system can be made and the well-being will be equally influenced. When states dimension differ, the smaller state is prone to decrease its tax rate and has less to suffer (Genschel and Schwarz 2001, 339 - 370).

The indirect correlation between the fiscal competition and foreign direct investments has emerged in the context in which attracting more investments to national level has became an important goal for both develop and developing countries. Thus, the study done for EU 25 is demonstrating that the corporate tax is influencing profits repartition and at the same time the foreign direct investments (Wolf 2007, 327 - 346).

Fiscal competition and foreign direct investments flow analysis in Romania and Poland

The fiscal policy analysis realized in 2008 upon 106 states has revealed that the European Union states have the lowest corporate tax rates (KPMG 2008, 14-15). The average tax rate is 23.2% in EU, 26.7% in the OECD countries, 26.6% in Latin America and 28.4% in Pacific Asia; all these rates were lower than the ones from 2007. But a decrease of the direct tax rates has as a direct consequence the increase in indirect taxes. Thus, the average indirect tax rate was 19.5% in the EU, 16.9% in the OECD countries, 14.3% in Latin America and 11.14% in Pacific-Asia (KPMG 2008, 14-15).

In 2008, 7 European states have decrease their corporate tax; in Germany the tax has been decreased until it reached 29.8% and in Italy it was registered a decrease of 5.9 percentage points until it reached 31.4%. None of the European countries has increased their tax rates in the same period.

As goes for Romania and Poland in order to underline if the fiscal policy had had an impact upon attracting foreign direct investments, we will analyze several elements.

In the European fiscal context each of these two states will try, on one hand to increase fiscal revenue percentage in the gross domestic product, thus to finance public expenses and on the other hand will try to attract investors through different facilities like decreasing tax rates for certain taxes.

By comparison the maximum revenue tax rates for both personal and corporate revenues are presented in the following tables.

Table no. 1 maximum tax rate for personal revenues, Poland and Romania

	2000	2010	2011
Poland	40%	32%	32%
Romania	40%	16%	16%

Source: data eurostat

We can see that even the two states had had the same revenue tax rate in 2000 (40%) but Poland has decreased its revenue tax rate to 32% and Romania to 16%. As regarding the corporate tax rate Poland had had a higher decrease than Romania.

Table no. 2 Corporate tax rate evolution in Poland and Romania

	2000	2010	2011
Poland	30%	19%	19%
Romania	25%	16%	16%

Source: data eurostat

Although corporate tax rates have decreased in both countries the percentage from these taxes have registered almost the same evolution: in both countries in the year the corporate tax rate was cut back the percentage in the gross domestic product from these revenues has decreased (figure no 1).
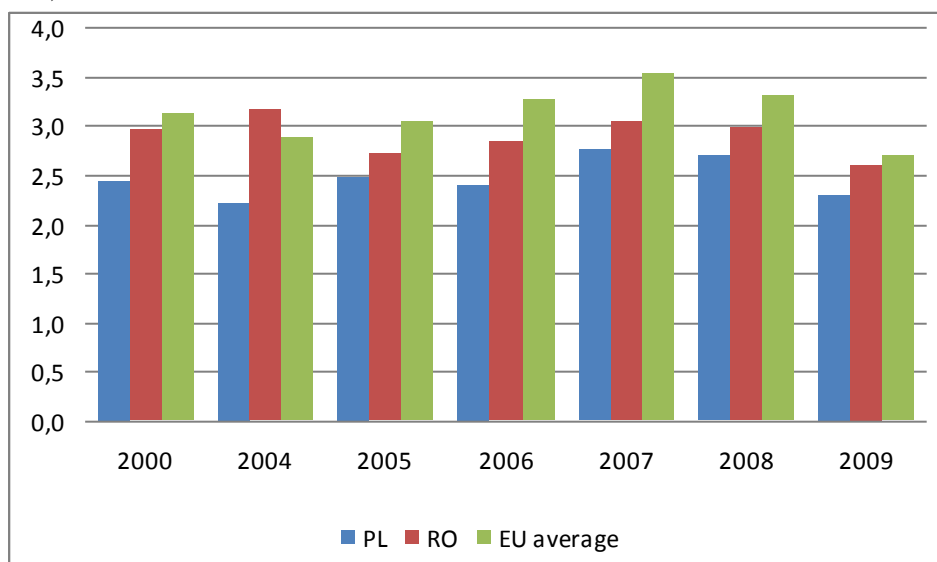
Source: data eurostat

We will next analyze how the modification of the corporate tax rate has influenced the foreign direct investments flow. Thus, Poland and Romania have registered in the period 2008-2010 the following foreign direct investments flow (figure no. 2)

	2004	2005	2006	2007	2008	2009	2010
Poland	10237	8330	15741	17242	10085	9863	6686
Romania	5183	5213	9059	7250	9496	3488	2220
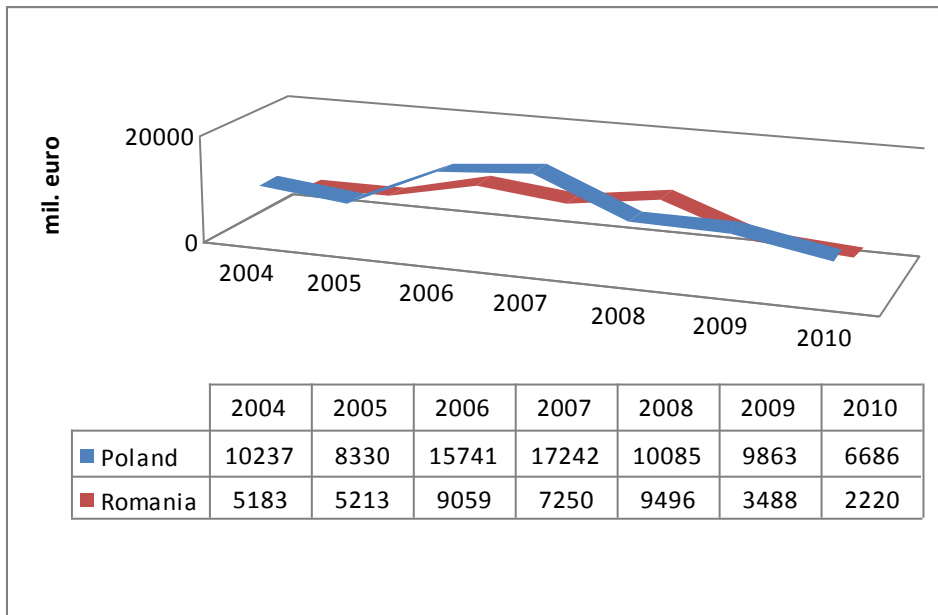
Fig. no 2 Foreign direct investments flow in Poland and Romania, 2008-2010

Source: http://www.bnr.ro/Investitiile-straine-directe-(ISD)-in-Romania-3174.aspx, http://www.paiz.gov.pl/poland_in_figures/foreign_direct_investment, Accessed 18 April, 2012

The difference between the two flows in significant, thus the foreign direct investments value attracted by Poland is higher than the one attracted by Romania with 4,466 million euro, meaning that investors are not always guided by fiscal elements and are interested in other facilities given by the state in which they are trying to relocate their activity. Following the type of investors we will see that in Romania investors coming from Holland have occupied the first position with 20.7% from total flow, while in Poland investors coming from Luxembourg have the first position with a 25.88% from the total flow.

Another important aspect is the deductions system applied by each country. A state fiscal policy can be competitive not only by aiming to a lower tax rate but also by an expense deduction system or by exonerating from payment the reinvested profit. Starting from 2006 in Poland research and development expenses and acquisitions of new technologies expenses are deductible. Another measure to attract investors in Poland is referring to the so called "Special Economic Areas" meaning that companies located here are receiving tax dispensations. As return these companies have to maintain a certain number of employees, invest in fix assets and carry on the economic activity for a fix period of time (usually 5 years).

According to a study realized at European level regarding the fiscal attractiveness of a territory unfold in 10 different countries; the interviewed managers have nominated Poland 4 times the first place and 3 times the second place they would invest.

In Romania the tax rate modification didn't had as effect a significant increase of the foreign direct investments flow, due, in our opinion, to many other factors like: consecutive and

numerous VAT modifications, social contributions, para-fiscal taxes, bureaucracy, the long period of time necessary to create a firm.

Conclusions

We consider that just a decrease of the tax burden is not sufficient in order to increase investment flows, both national and foreign. Other factors like: infrastructure, educational level, labor costs, existing technologies and selling markets are very important when in comes to attracting investments. Thus, when a state is focusing upon increasing corporate tax rates and then uses the fiscal revenues to finance those domains there is the possibility that a positive effect emerges from foreign direct investment flows. Furthermore, a state focused upon increasing foreign direct investments flows should have a fiscal policy aiming to assure a high development of the public services like decreasing the reimbursement time for VAT and an efficient infrastructure.

We do consider that when in comes to fiscal competition we have both favorable and non-favorable effects, as shown in the following schema.

Favorable effects:
- Economy development and economical and social gaps reduction which might lead to decreasing the geographical disadvantage;
- Putting a stop to state's desire to increase fiscal burden;
- Imposing a certain behavior regarding spending public money and financing public expenses;
- Decreases corruption and bureaucracy.

Non-favorable effects:
- Can cause fiscal evasion;
- Taxes are often burdening upon less mobile factors (higher taxes levied upon labor than upon capital, because labor is a less mobile factor).

Schema no. 1 Favorable and non-favorable effects of the fiscal competition
Source: realized by the authors

As regarding attracting foreign direct investments Poland is more prone to be attracting more investments than Romania because of factors like: Poland is much more efficient in dealing with insolvability cases (it occupies the 87th place from 183 economies, while Romania is placed the 97th in the same top), services regarding electricity connection are more efficient in Poland than in Romania (Poland is placed 64th while Romania is placing 165th) and regarding the fiscal policy Poland is placed 128 and Romania just 154 (World Bank, 2012).

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CREDIT LEVEL INFLUENCING FACTORS AT HUNGARIAN FARMS

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In this paper we estimate the impact of different factors on creditability of agricultural farms. According to the literature the collateral (tangible assets), the farm size, productivity, and subsidies should have significant effects on farm loans. We use data from the Hungarian Farm Accountancy Data Network to test our two hypotheses and theoretical assumptions for the period 2001-2010. Because of using panel data, we do our estimations using fixed effects econometrics model to test our assumptions. The results indicate that the chosen factors have significant influence on total liabilities and short- and long-term loans as well. With specially interest of subsidies the growing level of supports decrease the need of other financial tools. At output factors (inclusive farm size) have significant and positive effect, same as collateral (tangible assets).
Keywords: credit, output, collateral, subsidies, farm size
JEL code: G32, H71

I. Introduction

Financial situation of farmers and creditability is a standard and important topic in agricultural economics. For instance the farm productivity, the efficient production methods, the financial strategy are those factors, which could have determining effect on the amount of foreign finance and - of course - on creditability.

The EU accession of Hungary in 2004 have also role in agricultural financing, because of growing supports, which can substitute bank loans with more cheaper and – particularly after the financial crisis – more and easier available subsidies (Ciaian and Pokrivcak 2011:12).

On the other hand subsides (especially direct ones) can also upgrade income and productivity ratios, which could lead to not enough efficient production systems, because it hides efficiency problems at agricultural farms.

The main objective of the paper is to investigate, which factors are influencing the credit level of farms with specially attention to subsidies, output, and farm size. But naturally we take into consideration other elements that also could have role of choosing financial strategy.

During our analysis we would like to confirm our two hypotheses.

Hypothesis 1: If there are available subsidies and farms are not credit constrained and if we assume perfect credit market the subsidies are affecting (reduce) significantly credit level.

Hypothesis 2: If farms are not credit constrained and if we assume perfect credit market, the economic size of farms and amount of output have significant and positive influence on creditability.

To confirm our two hypotheses we divided the total liabilities of farms into short and long-term loans to see the difference of variable's behavior between long and short term financing.

II. Literature review

There are lot of studies, which are dealing with financial aspects of farms in different countries. This question according to the literature can be analyzed from two viewpoints. One is the credit availability of farms (credit access), and the second one is the financial standing of farms (capital structure, support level, productivity, etc.).

Because of high support level (direct or indirect) the agricultural sector's financial standing seems like better compared to other sectors. This could lead to soft budget constraints (Kornai, 2001:1573-1599) on agricultural firms, which can negatively influence farm performance. In concrete terms if a farm get higher level of direct support there is a possibility of sticking in a not enough efficient production system, they spend their budget not efficiently.

The collateral (we use tangible assets for simplification) has lower role in those countries where the financial institutions have closer knowledge of lending firms (Benjamin, 2002:1127). He analyzed France and Great Britain, he found that in France subjective factors have important role in farm financing. So the credit access is easier in this country compared to Great Britain where the sensitivity of collateral was higher. Because of the phenomenon in Great Britain, the level of tangible assets can be an important factor, which determines the level of loan. In addition, for better creditability farmers should improve their willingness to use farm assets for collateral (Pederson and Khitarishvili 1997: 29-30).

There was another study, which analyzed credit availability in Kenya (Carter and Wiebe 1990:1150). It is very far from the Hungarian situation but it should be seen the availability of convenient funds is crucial. They expertise the same in this African country, where the credit availability was higher the development of farms was also better.

Farmers with low debts are liquidity constrained (Bakucs, Ferto and Fogarasi 2002:122-124). Beside this at corporate farms where the budget constraint is soft the debt is higher. We think for this observation can be a reason of higher level of support and other revenues. That is why in our developed model we not just involve support variable, but European size unit (ESU) of farms as well. We assume this should have also significant effect on credit level.

Profitability is a key factor of farm financing. (Swinnen 1999:44-45). If a farm has low profitability, any central corrections to solve inefficiencies are not enough, if the profitability does not improve. So the income (profit) gives relevant information about the need of external financing and about financial standing.

At farm financing the financial managerial style, the financial strategy (conservative, aggressive, etc.) can also determine the future access to bank loans (Bierlen and Featherstone 1998:434). Although it would be important to implement it into the model we do not deal with this aspect, because lack of data.

III. Methodology and Data

In our research we used FADN (Farm Accountancy Data Network) data from 2001 to 2010 for Hungarian farms. This database is compiled and maintained by the Hungarian Research Institute of Agriculture Economics. This is a European Union compulsory system of national surveys, which collect natural, structural and mostly financial data from corporate and incorporate farms. The Hungarian sample size is around 1900 farms per year, which represents almost (it contains farmers bigger than 2 European Size Unit) the total agricultural production of Hungary. The farm level data is confident so we can present in our paper only aggregate information.

The FADN data is a panel dataset that means farms, which stay in whole analyzed period in the database can traced over the 10 years using a special identifier number. So we used panel data to examine the loan level of farms. We did not do special selection of farms at this first stage we put all of them in our models.

We applied eight independent variables (Table 1.) in our three estimations, which according to literature and our expectations can explain the credit level and need of Hungarian FADN farms. According to already in the introduction mentioned reasons support and tangible assets are determining factors of creditability. We put in the model farm size and output variable, because the size of production and farms can determine the total liabilities according to our assumptions.

In our first model we used liabilities not total loans as dependent variable, because there are other financial channels like leasing or factoring, which also very similar to normal loans, and has to

added to the model. The level of inventory and receiver can also determine the level of mainly short-term loans but possibly long-term loans as well. The best would be if creditors (acc_payabl) could finance the debtors (receiver), otherwise there is a need for higher amount of short term loan to finance the farm's operation.

Table 1. Description of data

Variable	Obs	Mean	Std. Dev	Min	Max
esu	19146	86.21778	257.944	1.108638	8391.044
support	19146	12139.71	39253.83	0	1215545
total_output	19146	90692.48	297042.2	-2147	8482212
inventory	19146	25536.61	106594.2	0	3497385
tang_assets	19146	72584.55	199157.2	0	7748015
receiver	19146	6038.246	30089.27	0	1135411
income_btax	19146	7050.054	27451.59	-934141	669385
acc_payab	19146	6173.724	35837.2	0	2657224
loan_long	19146	6557.526	33797.95	0	1971741
loan_short	19146	9208.529	68883.51	0	3388147
liabilities	19146	42176.04	187809.3	-39	9081393

Source: FADN national Hungarian database

We use panel data and estimate fixed effects model. This model helps to control the unobserved heterogeneity component that remains fixed and the effect of omitted variables is lower (Ciaian, Pokrivcak 2011:10).
We estimated three models:

(1)
$$liabilities_{jt} = \beta_0 + b_j + \beta_e*esu_{jt} + \beta_s*support_{jt} + \beta_o*total\_output_{jt} + \beta_a*tang\_assets_{jt} + \beta_r*receiver_{jt} + \beta_i*inventory_{jt} + \beta_p*acc\_payable_{jt} + \varepsilon_{it},$$

(2)
$$loan\_long_{jt} = \beta_0 + b_j + \beta_e*esu_{jt} + \beta_s*support_{jt} + \beta_o*total\_output_{jt} + \beta_a*tang\_assets_{jt} + \beta_r*receiver_{jt} + \beta_p*acc\_payable_{jt} + \varepsilon_{it},$$

(3)
$$loan\_short_{jt} = \beta_0 + b_j + \beta_e*esu_{jt} + \beta_s*support_{jt} + \beta_o*total\_output_{jt} + \beta_a*tang\_assets_{jt} + \beta_r*receiver_{jt} + \beta_i*inventory_{jt} + \beta_p*acc\_payable_{jt} + \varepsilon_{it},$$

where j, t represents farm j and time t, b_j is the fixed effect for farm j, and ε_{it} is the residual term.
We are especially interested in assets, support, and output but the other variables especially inventory at short term loans should have also positive effect.
(As it can be seen we omitted in Model 2 inventory variable, because in the first tests it was insignificant, and distorted the results for the total model.)

IV. Results of research
The results are presented for total liabilities, long-term loans and short term loans (Table 2.). The model R^2's within the model range 0.4 to 0.73. If take a look on variables all of them significant in all of the models presented in the previous section.
On the basis of hypotheses, and literature we focus on support, income (income_btax), European Size Unit (esu), and output (total_output) firstly. In all of the three models these variables are strongly (p<0.10) significant. The support coefficient is negative, which confirms our hypothesis

that support negatively influences loan changes. So if the amount of support is growing the farm need of credit is decreasing. So we can confirm our hypothesis 1. at first and third model.

The esu variable has changing effects across the three models. At the first and third one it is positive as we assumed before. In the second one it is negative, which is the case when the relationship between long-term loans and farm size is non-linear.

The output is significant and positive that indicates if the output is growing the creditability of farms is also increasing. So partly- in the first and third model – we can confirm our hypothesis 2. that means output and firm size has positive and significant effect on creditability.

Although the income (income_btax) variable is significant but is negative. One reason could the non-linearity the other is if the income grows the need of credit is decreasing. So income can be realized as own financial resource.

As in the literature mentioned the level of collateral is very important factor. It is also confirmed by our model, because the tangible (long-term) assets (tang_assets) are also strongly significant and positive in all of the models.

The other variables used in the model give also significant results. The only exception is inventory because this variable was insignificant in the second model. The reason could be that long term financing is less connected to inventory or short term assets so the level of long-term loans is not determined by inventories.

At the creditors (acc_payab) and debtors (receiver) in all model we got significant results. These two variables have decisive role at total liabilities and short term loans. The reason for that if the creditors could not finance debtors, we need more short-term loans or other financial tools to stabilize working and liquidity. If the level of short –term tools is growing the total amount of liabilities is also increasing.

Table 2. Summary of results

	Model 1 (Ind: Liabilities)			Model 2 (Ind: loan_long)			Model 3 (Ind: loan_short)		
	Coeff	*t*	*P>ItI*	*Coeff*	*t*	*P>ItI*	*Coeff*	*t*	*P>ItI*
esu	13.69	1.84	0.065	-11.112	-3.46	0.001	28.835	5.75	0.000
support	-0.242	-8.58	0.000	-0.0234	-1.9	0.057	-0.09122	-4.79	0.000
total_output	0.14	17.94	0.000	0.0664	20.36	0.000	0.0734	13.92	0.000
inventory	0.475	28	0.000	-	-	-	0.448	39.16	0.000
tang_assets	0.585	87.89	0.000	0.185	63.63	0.000	0.138	30.81	0.000
receiver	0.733	31.08	0.000	0.09185	8.9	0.000	0.314	19.72	0.000
income_btax	-0.393	-23.44	0.000	-0.167	-22.93	0.000	-0.0875	-7.73	0.000
acc_payab	0.794	43.39	0.000	-0.0726	-9.25	0.000	0.166	13.45	0.000
constant	-29962	-45.38	0.000	-10564	-36.67	0.000	-22646	-50.81	0.000
R.sq (within)	0.728			0.4032			0.45		

Source: Own calculation

V. Conclusions

During our research we estimated the impact of output variables, collaterals, subsidies, income on agricultural farm credit. Firstly we analyzed the theoretical background of the research, which factors would be relevant to implement them in the model. In the empirical part we used farm-level panel data from Hungarian FADN database to test our two hypotheses. We created three models, where we differentiated the dependent variable to total liabilities and short or long-term loan. We used fixed effects model for estimation.

In the following we summarize our main implications:

– According to results if the amount of support (subsidies) is growing the farm need of credit is decreasing independently whether it is short-or long-term. So we can confirm our first hypothesis.

– Partly - at total liabilities and short-term loans – we can confirm our hypothesis 2 that means output and firm size has positive and significant effect on creditability and credit level.

– We found that income has negative and significant effect on farm loans. The income could be one form of own finance, so if the own financial tools like income (which are much cheaper than credits) have increasing role, the need of credit is decreasing.

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SUB-SECTION: BANKING

ASSESSMENT OF CREDIT INSTITUTIONS' OPERATIONAL RISKS FROM THE PERSPECTIVE OF EXTERNAL AUDIT

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Credit institution's operational risk should be evaluated by the external auditor cautiously because it is a risk arising from the way in which the bank's global strategy is implemented in practice and how the bank's activity is followed step by step by those charged with governance, internal audit and internal control so to indicate any deviation from the standard rules and procedures and reduce the likelihood of distortions caused by frauds or errors.
International Standards on Auditing require to external auditors to obtain sufficient and appropriate evidences to support the audit opinion, therefore the auditor must first understand the specific banking activities and then identify and properly evaluate the credit institution's operational risks.
Keywords: external audit, operational risk, misstatements, fraud, error.
JEL Classification: G21, M42

1. Introduction

ISA 200 "Objectives and General Principles Governing an Audit of Financial Statements" specifies that the objective of an audit is for the auditor to be able "to express an opinion on financial statements, if they are prepared, in all significant material respects, in accordance with the applicable financial reporting framework" (IFAC 2007: 227). An auditor who conducts a conformity audit must obtain a reasonable assurance that the annual financial statements are free of significant material misstatements, whether due to fraud or errors.

Credit institutions are constantly operating in conditions of risk and uncertainty, being exposed to high range of risks, respectively:
- Financial risks;
- Operational risks;
- Business risks;
- Risks of various events' occurrence.

2. Credit Institutions' Operational Risks

The operational risks are arising for all credit institutions from the practical application of banks' strategic objectives and the functioning of their systems of control and monitoring, including the use of computerized technology.

The main types of operational risks that may occur in banking activity are:
- Internal fraud;
- External fraud;
- trading error;
- malfunction of systems or processes;
- Disturbance or disruption of banking activity;

- Damage to physical assets;
- Violation of information in terms of security, integrity or confidentiality
- Involvement of the bank in money laundering or financing terrorism;
- Forgery of identity, computer piracy or unauthorized transactions.

Credit institutions are obliged to take into account all the possibilities to prevent operational risks by collection and processing of data concerning operational risk, according to the schedule set out in Figure No. 1:

Identification of data regarding operational risk	**Collection** of data regarding operational risk	**Creation** of a history of all data regarding operational	**Calculation** of data regarding operational risk
- Which are the risks? - What data must be collected?	- How do we collect the data? - Which is the cost?	- Is the acknowledgement of data history sufficient?	- Are the backtesting results satisfactory?
	Choosing a number of sufficient and adequate risk factors	Combination of the data collected from both internal and external sources	Reexamination of risks' hierarchy

Source: Own adaptation after Eric Lamarque, *Management de la Banque*, Ed. Pearson Education France, Paris, 2011, page 41

Figure no.1 *Collection and processing of data regarding operational risk*

Credit institutions find themselves facing a variety of operational risks, so that we can only agree with Eric Lamarque when he states that "the real challenge is to integrate these different components of operational risk in a coherent and effective assembly" (Lamarque 2011: 50), which consists of the following:
- a self-assessment instrument, by a careful examination of all aspects regarding operational risks that may occur in the activity of credit institution;
- a consistent database meant to collect information on operational risks;
- a section of key and risk measurement indicators, including scenarios of situations more or less predictable;
- a reporting instrument, for both internal management and supervisory and regulatory authorities;
- a workflow system able to provide sufficient opportunities for reducing losses associated to operational risk.

It is obvious that the top management of credit institution must have a rapid response rate to any occurrence of symptoms indicating a manifestation of a form of operational risk, but a primarily

proactive attitude based on internal rules and reliable procedures, focused on operational risk prevention, is more desirable.

3. Assessment of the Operational Risk from the perspective of International Standards on Auditing

According to ISA 315, „the auditor understands the entity's objectives and strategies and any business risks related that could result in material misstatements of financial statements" (IFAC 2007: 315). The auditor should observe how the leadership was able to identify risks relevant to financial reporting, to assess the significance of those risks and evaluate the possibility of their recurrence but to examine as well how the top management was able to manage risks. When he finds a material misstatement in the risk assessment process of the entity, he will communicate it to those charged with governance. For this, he must previously make a series of tests on internal control and auditing procedures in terms of the effectiveness of these procedures applied by entity.

By analyzing the potential operational risks of credit institutions, it seems fairly normal for auditors to focus on the risk of fraud. ISA 240 "The Auditor's Responsibility to consider fraud in an audit of financial statements" makes a distinction between fraud and error, so "the term of *error* refers to an unintentional distortion occurring in the financial statements, including the omission of an amount or a presentation such as:

-an omission during the collection and processing of data based on which the financial statements are done;

-an incorrect accounting estimation due to overlooking or misinterpreting the facts;

-an error occurring while the accounting policies on assessment, recognition, classification, presentation and description of any information are applied" (IFAC 2007: 288)

Fraud, as defined in ISA 240, is seen as a deliberate action done for obtaining an unjust or illegal advantage. The auditor is interested in fraud only in the measure it can affect the quality of accounting information by generating significant material misstatements. A distinction is usually made between internal and external fraud, meaning that external fraud is caused by third parties, while internal fraud can be caused either by involvement of one or more members of the top management or those charged with governance, in which case we can talk about a "management fraud" or by common employees and then it is called a " staff association fraud ".

In conformity with the International Statement on Auditing Practice 1006, "Audit of the Banks' Financial Statements", the factors that contribute significantly to operational risk include:

-the need to carry out a large volume of transactions in a predetermined period of time;

-the need for electronic transfer of funds or other telecommunications systems for fast transfer of funds;

-the performance of banking operations in a large geographical area;

-the need to monitor and manage significant exposures that can occur over short periods of time;

-taking in large amounts of cash;

-the volatility and the inherent complexity of the financial-banking environment;

-numerous operating restrictions stipulated by law and prudential supervision norms.

4. Risks and other aspects regarding frauds and illegal acts

The risk of fraudulent or illegal acts arises at banks both from the inside and outside of the credit institution. Among the many fraudulent and illegal acts that banks may face with are: fraud related to the issuance of checks, fraudulent crediting and trading, money laundering and misappropriation of bank assets. These fraudulent activities may involve collusion by management of banks and their customers. Those perpetrating fraudulent activities may prepare false and misleading documents to justify inappropriate transactions and hide illegal activities. Fraudulent financial reporting is another serious concern.

In addition, banks are permanently confronted with the threat of computer fraud. Hackers and others who may gain unauthorized access to banks' computer systems and their databases can allocate intentionally funds to their personal accounts and steal private information about the institution and its customers. In the case of all companies for profit, fraud and criminal activity perpetrated by authorized users within the bank are also of particular concern. Fraud is more likely to occur at banks that have serious deficiencies in corporate governance and internal control.

Significant losses from fraud can occur in case of the following categories of deficiencies in corporate governance and internal control:

- Lack of a proper oversight and accountability on behalf of the top management and the absence of a "culture" on strong control manifested in the bank;
- Inadequate recognition and assessment of risk of certain banking activities, either regarding balance sheet or off-balance sheet ones;
- Absence or failure of key control structures and activities, such as segregation of duties, approvals, verifications, reconciliations and reviews of operating performances;
- Inadequate communication of information between different levels of management within the bank, especially in communicating problems at a higher hierarchical level;
- Inadequate and ineffective internal audit programs and monitoring activities.

Table no.1 *Examples of Fraud Risk Factors*

	Acceptance of Deposits	Trading	Crediting
Frauds committed by top management and other personnel	Depositors' camouflage Unrecorded deposits Theft from customers' deposits or investments, especially in the case of inactive accounts	Off-market rings Transactions with affiliated third parties Fees of brokers for bringing in clients False transaction Unrecorded transactions Delayed allocation of transactions Intentional wrong use of discretionary accounts Exploiting the weaknesses of correlation procedures Marking intentionally erroneous the registry Association to commit fraud during an evaluation (assessment rings) Theft or intentional wrong use of guarantees	Loans to fictitious borrowers Use of Nominee Companies Deposits transformation Transactions with affiliates Fees for bringing in clients Use of parallel organizations Funds transformation Selling recovered collaterals at a price below the market price Bribes to obtain the release of collateral or to reduce the amount claimed Theft or intentional use of misleading guarantees
External Frauds	Money laundering Fraudulent instructions Counterfeiting money or assets Fraudulent use of cashing periods (checks uncovered)	Fraudulent custodial sales False information or documents on partners	Impersonation and false information on loan applications and other documents submitted latter Double guarantee with the same good Forged evaluations or Fraudulent or worthless guarantees fraudulent Wrongful use of credit funds

			by representatives / customers Unauthorized sale of securities

5. Case Study – Société Generale 2008

Jerome Kerviel, a trader at Société Generale in a subdivision specialized in financial market operations, managed to avoid internal control and to defraud the bank of 4.9 billion Euros. It is obviously an internal fraud, which can be circumscribed to the issues related to operational risk. Kerviel was selling and buying futures contracts "taking advantage of exchange rate differences recorded by the indexes DAX (Germany), CAC 40 (France) and Footsie (United Kingdom). In principle, the internal procedures imposed covering with the same type of security in order to generate no operational risk (when he sold he had to buy in return, when he bought he had to sell in return).

Before working in the banking sector, Kerviel have worked in internal control and knew how to avoid the organizational procedures, so he managed to remain undetected by creating fictional counterparts with Deutsche Bank. After he closed his position at Société Generale he lost 6.3 billion Euros, which compensated by the 1.4 billion" gains" made by Kerviel in 2007, led to a total fraud of 4.9 billion euro.

Kerviel was found guilty and was sentenced to only three counts:

- Embezzlement;

- Fraudulent introduction of data in an automated system

- Fake and forgery.

Can we consider that Jerome Kerviel was the only guilty part? So how was it possible that:

- No one has answered the request for information made by Eurex Compensation Chamber in November 2007 and has not studied its request?

- No one noticed the disparity between fictitious investments and bank's treasury?

- No one noticed that Jerome Kerviel was always present in the bank, not taking holidays and days off in the last two years?

- Gains of 1.4 billion a year have not drawn attention to potential risks?

6. Conclusions

Credit institutions have some responsibilities in terms of assets they hold but which belong to other persons and entities. Public trust is for bank a capital as important as the equity, therefore they must establish operating procedures and internal controls designed to ensure the public that those assets are treated strictly in conformity with the terms and conditions under which they were transferred to the bank.

A very old banking axiom, which states "when trust is gone, the crisis occurs", requires credit institutions to better manage the risks and to apply consistently the principle of prudential banking. For an external auditor, the challenges of his mission are related to:

- the special nature of the risks associated with the transactions conducted by banks;

- the scale of banking operations, the large exposures and the operations' speed;

- the excessive dependence on IT (with advantages and disadvantages);

- the occurrence of regulations from different jurisdictions (especially when the controlling company has status of a non-resident);

- the occurrence of "financial innovation" and emergence of new banking products and practices more or less compatible with the ability of resilience of internal control and audit.

Determinants of bank fraud may occur in the form of:

-Pressure (inciting a person to commit fraud);

-Opportunities (offered by the knowledge of the bank's internal environment, in case of an internal fraud, or specific technical or relational knowledge, where external fraud occurs)

-Attitudes (generated by the ethical values that guide the person who commits fraud).

Audit evidences should be adequate and sufficient thus the risk of non-detection will decrease when the quality and quantity of proving evidences shall increase which will determine correct conclusion based on which an audit opinion will be issued accordingly.

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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 (>= 1,25)	>=1,25	>1	>0
	3	2	1
Equity / Total Liabilities (>= 15%)	>=15%	<=10%	>10%
	3	2	1
Total Expenses/ Turnover (<= 5%)	<=5%	>=10%	<10%
	3	2	1
Cash Flow / Total Assets (>= 3, 5%)	>=4%	<=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
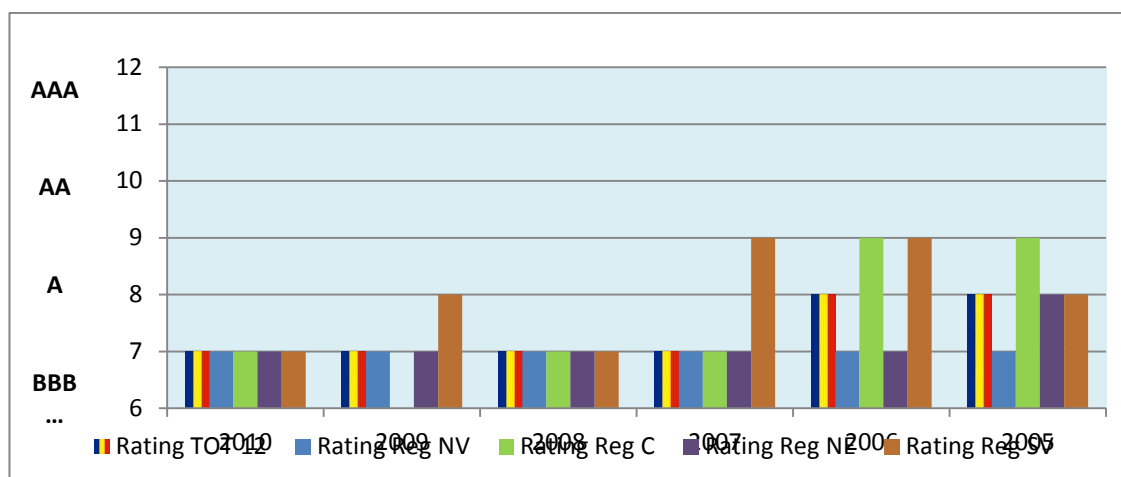
Source: Personal Illustration

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 SEEMINGLY UTOPIAN COMPARATIVE ANALYSIS OF STOCK MARKETS IN THE CONTEXT OF THE GLOBAL FINANCIAL CRISIS

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This article analyzes in a comparative manner the evolution of an emerging stock market, such as Bucharest Stock Exchange and several developed stock markets in the context of the global financial crisis. The analysis is based on the daily prices of the following indices: BET (Romania), D.J.I.A (U.S.A), Nikkei 225 (Japan) and F.T.S.E 100 (U.K) during the period of January 2007 to April 2011. In this respect, the article aims to highlight if there are certain similarities between these completely different typologies of stock markets due to the extremely turbulent and unstable financial and economic conjuncture.
Keywords : emerging stock market, developed stock market, financial crisis, correlation, index
JEL Classifications : C10, G15, G17

1. Introduction

The global financial crisis that was caused by U.S. subprime crisis affected all the capital markets in the world. The negative impact was reflected by: reduction of the value and volume of transactions, significant reduction in the level of investment, the share price decrease and the unprecedented reduction of the profit opportunities.

The major stock markets indices of developed countries registers significant declines since the beginning of the financial crisis in the second half of 2007, as well as the advance emerging capital markets indices that have evolved in close contact with mature stock markets in the U.S., Europe and Asia.

Stock markets less developed or frontier capital market have not felt immediately the impact of financial crisis that swept the U.S., they recorded an apparent misaligned trend compared to the developed capital markets trend, many of them, such as Saudi Arabia, Pakistan, Nigeria, Colombia or Vietnam, maintaining or registering slight increases during the first months of the crisis. However, the global financial crisis had a strong negative impact on the evolution of Bucharest Stock Exchange (BSE), because Romanian capital market is strongly correlated with the stock exchanges in developed countries, but especially with New York Stock Exchange (NYSE).

The analysis is based on the daily prices of following indices: BET (Romania), D.J.I.A (U.S.A), Nikkei 225 (Japan) and F.T.S.E 100 (U.K) during the period of January 2007 to April 2011. In addition, the framework is focused on the main statistical properties, specifically Skewness and Kurtosis, and to reach an enlightening conclusion I used Unit Root Test, stationary test Augmented Dickey-Fuller and BDS test.

2. Similar implications of the global financial crisis

It is a generally accepted fact that emerging stock markets are less efficient than developed stock markets. For a very long time, a comparative analysis would have seemed utopian, an unrealistic and impossible idea.

It is a certainty that emerging stock markets are very different compared to developed markets. Emerging capital market's unstable and unpredictable behavior is characterized by certain features such as its sharp structural, functional, organizational, legislative, regulatory, infrastructure and institutional dysfunction and underdevelopment.

Despite the apparent antagonism between emerging stock markets and developed stock markets, their evolution was quite similar in the analyzed period. The trend of the analyzed indices, namely BET (Romania), D.J.I.A (U.S.A), Nikkei 225 (Japan) and F.T.S.E 100 (U.K) during the period of January 2007 to April 2011 was strongly downwards, in strong correlation with the global financial crisis, as it can be seen in the figures below :
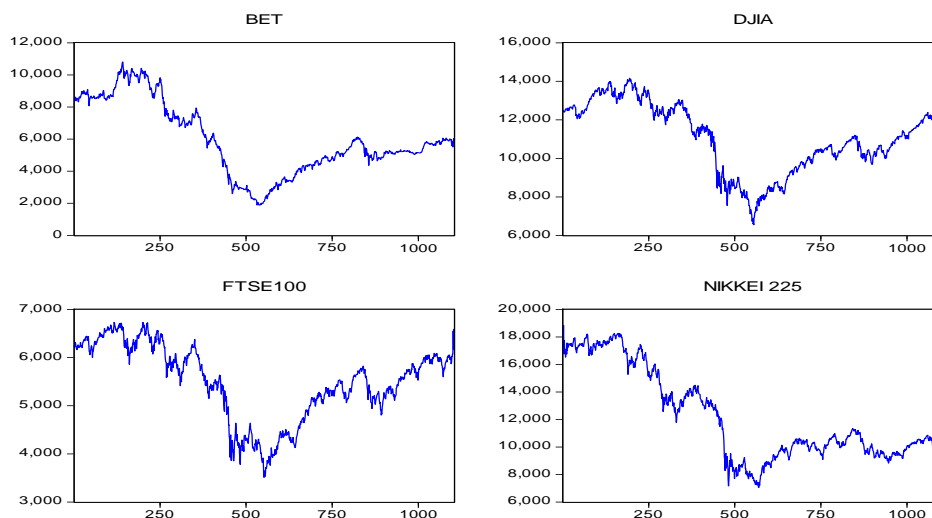
Figure no.1 The trend of BET, D.J.I.A , Nikkei 225 and F.T.S.E 100 indices

The main statistical properties, specifically Skewness and Kurtosis, suggest that historical data are non-normally distributed, especially for BET index. In statistical terms, skewness is a measure of asymmetry of the distribution of a data series around its means. The skewness of a symmetric distribution is zero. In conclusion, in the case of normal distribution, the skewness is null. Positive skewness suggests that the distribution has a long right tail, while negative skewness implies that the distribution has a long left tail. Kurtosis measures the peakedness or flatness of the distribution of a return data series. The kurtosis of a normal distribution is 3, any other value having profound implications in the context of emerging capital markets. Thus, if the kurtosis exceeds 3, the distribution is peaked (Leptokurtic) relative to the normal. In the opposite, if the kurtosis is less than 3, the distribution is flat (Platykurtic) relative to normal.

The BDS test was used to determine whether the residuals are independent and identically distributed. The hypothesis was rejected. In this analysis I used also the Unit Root Test. When running Unit Root Test, the null hypothesis is that the variable has a unit root. I also used the stationary test Augmented Dickey-Fuller. The analysis performed in this article has led to the conclusion that the time series are not stationary in levels, regardless the level of confidence, which is 1%, 5% and 10%. The greatest differences are emphasized throughout in the case of the Bucharest Stock Exchange index, namely BET.

The results are presented in Annexes.

3. Conclusion
In economic literature, the stock market is metaphorically called "economic barometer," because it implies that it anticipated growth in the real economy. However, in the case of the Bucharest Stock Exchange, this phrase remains only an incomplete definition of an economics textbook.

Previous study demonstrates that the stock market development in Romania depends fundamentally on the evolution of mature stock markets.

The financial crisis has had a significant negative impact on capital markets around the world, and of course on the Bucharest Stock Exchange. The magnitude of losses was unprecedented, one of the main explanations is the status of frontier emerging stock market of Bucharest Stock Exchange, which is highly correlated to the evolution of the mature stock markets of the world, but especially with the New York Stock Exchange.

Obviously, under the conditions in which financial markets are globalized, Bucharest Stock Exchange cannot be disconnected from the trend of mature stock markets, but correlation with them is extremly intense.

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Annexes

Series: BET	
Sample 1 1104	
Observations 1104	
Mean	5956.300
Median	5473.460
Maximum	10813.59
Minimum	1887.140
Std. Dev.	2238.771
Skewness	0.319377
Kurtosis	2.186742
Jarque-Bera	49.19218
Probability	0.000000
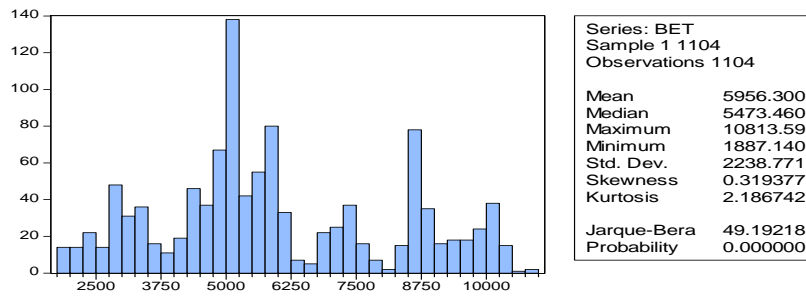
Figure no.2 Histogram for BET

Series: DJIA	
Sample 1 1104	
Observations 1104	
Mean	11047.38
Median	11131.82
Maximum	14164.53
Minimum	6547.050
Std. Dev.	1781.657
Skewness	-0.310289
Kurtosis	2.150426
Jarque-Bera	50.91706
Probability	0.000000
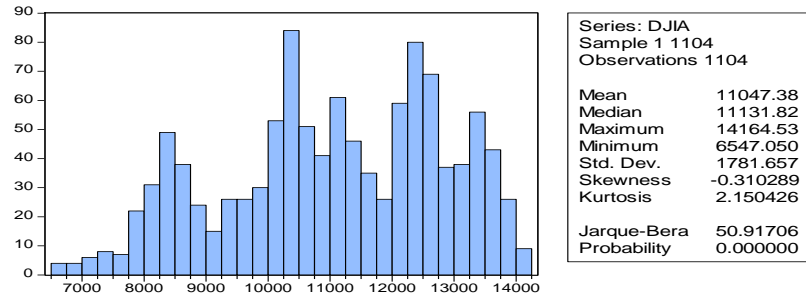
Figure no.3 Histogram for D.J.I.A

Series: NIKKEI_225	
Sample 1 1104	
Observations 1104	
Mean	12134.02
Median	10546.44
Maximum	18842.40
Minimum	7054.980
Std. Dev.	3262.861
Skewness	0.591384
Kurtosis	1.911103
Jarque-Bera	118.8933
Probability	0.000000
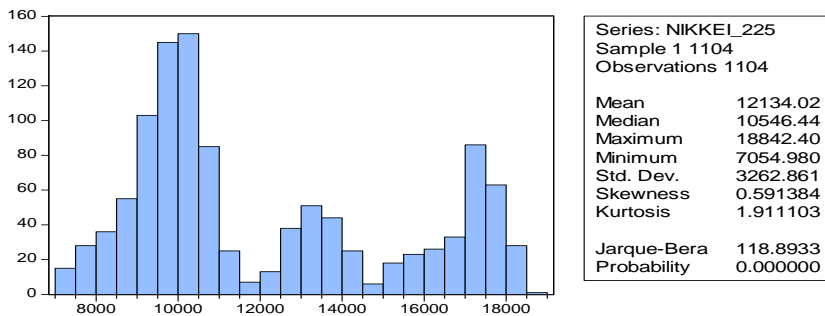
Figure no.4 Histogram for NIKKEI 225

Series: FTSE100	
Sample 1 1104	
Observations 1104	
Mean	5489.896
Median	5602.670
Maximum	6732.400
Minimum	3512.090
Std. Dev.	784.1823
Skewness	-0.512419
Kurtosis	2.324777
Jarque-Bera	69.28599
Probability	0.000000
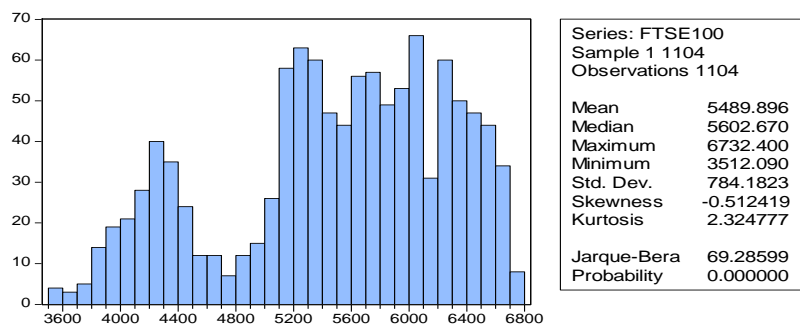
Figure no.5 Histogram for F.T.S.E 100

Table 1 : Augmented Dickey-Fuller Test for BET

Null Hypothesis: BET has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic based on SIC, MAXLAG=21)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.212788	0.6709
Test critical values:	1% level	-3.436062	
	5% level	-2.863950	
	10% level	-2.568104	

Table 2 : Augmented Dickey-Fuller Test for D.J.I.A index

Null Hypothesis: DJIA has a unit root
Exogenous: Constant
Lag Length: 2 (Automatic based on Modified HQ, MAXLAG=21)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.126481	0.7072
Test critical values:	1% level	-3.436073	
	5% level	-2.863955	
	10% level	-2.568107	

Table 3 : Augmented Dickey-Fuller Test for F.T.S.E 100 index

Null Hypothesis: FTSE100 has a unit root
Exogenous: Constant
Lag Length: 4 (Automatic based on SIC, MAXLAG=21)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.470544	0.5484
Test critical values:	1% level	-3.436084	
	5% level	-2.863960	
	10% level	-2.568109	

Table 4 : Augmented Dickey-Fuller Test for NIKKEI 225 index

Null Hypothesis: NIKKEI_225 has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic based on SIC, MAXLAG=21)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-1.541329	0.5124
Test critical values: 1% level	-3.436062	
5% level	-2.863950	
10% level	-2.568104	

Table 5 : BDS Test for BET index

BDS Test for BET

Dimension	BDS Statistic	Std. Error	z-Statistic	Prob.
2	0.200340	0.001589	126.0616	0.0000
3	0.341422	0.002517	135.6650	0.0000
4	0.440159	0.002985	147.4721	0.0000
5	0.508891	0.003098	164.2868	0.0000
6	0.556323	0.002974	187.0621	0.0000
Raw epsilon		3479.311		
Pairs within epsilon		858216.0	V-Statistic	0.704139
Triples within epsilon		7.03E+08	V-Statistic	0.522202

Table 6 : BDS Test for D.J.I.A index

BDS Test for DJIA

Dimension	BDS Statistic	Std. Error	z-Statistic	Prob.
2	0.195285	0.001454	134.3375	0.0000
3	0.332609	0.002296	144.8809	0.0000
4	0.428061	0.002715	157.6609	0.0000
5	0.493821	0.002810	175.7496	0.0000
6	0.538640	0.002690	200.2356	0.0000
Raw epsilon		2718.140		
Pairs within epsilon		856236.0	V-Statistic	0.702515
Triples within epsilon		6.97E+08	V-Statistic	0.517666

Table 7 : BDS Test for F.T.S.E 100 index

BDS Test for FTSE100

Dimension	BDS Statistic	Std. Error	z-Statistic	Prob.
2	0.191830	0.001770	108.3731	0.0000
3	0.326151	0.002799	116.5053	0.0000
4	0.419367	0.003316	126.4634	0.0000
5	0.482938	0.003438	140.4884	0.0000
6	0.526180	0.003297	159.6085	0.0000
Raw epsilon		1182.011		
Pairs within epsilon		856574.0	V-Statistic	0.702792
Triples within epsilon		7.04E+08	V-Statistic	0.523310

Table 8 : BDS Test for NIKKEI 225 index

BDS Test for NIKKEI_225

Dimension	BDS Statistic	Std. Error	z-Statistic	Prob.
2	0.201981	0.001843	109.5794	0.0000
3	0.343962	0.002919	117.8356	0.0000
4	0.443466	0.003462	128.0802	0.0000
5	0.512764	0.003594	142.6669	0.0000
6	0.560855	0.003452	162.4910	0.0000
Raw epsilon		5369.395		
Pairs within epsilon		857508.0	V-Statistic	0.703558
Triples within epsilon		7.07E+08	V-Statistic	0.525603

APPLICATION OF CHAOS THEORY TO EMERGING CAPITAL MARKETS

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This article provides an analyses of emerging capital markets based on chaos theory. Emerging capital market is characterized by deep functional, structural and institutional malfunctions. This particular category of capital market is characterized by certain particularities such as : high volatility, the existence of bubbles, panic, speculation, anomalies, high-risk investment opportunities, high returns, a low level of liquidity, reduced capitalization, diversification benefits for investors in developed markets, strong correlation with developed capital markets, reduced number of transactions, insufficient development of financial instruments, exchange rate instability and many others also. Chaos theory is a revolutionary concept which analyzes the behavior of complex and unpredictable dynamical systems, such as emerging capital markets. Insignificant variations of the initial condition of a nonlinear dynamical system may produce very sharp variations in the long term behavior of the analyzed system, namely the emerging capital market. Chaos theory provides an effective alternative to traditional models and especially to Efficient Market Hypothesis.

Keywords : chaos theory, fractals, emerging capital market, efficiency, the butterfly effect, R/S analysis

JEL Classifications : C58, G11, G14

1. Introduction

In essence, chaos theory is an antagonistic and controversial manner to expect the unexpected. A more sophisticated way of expressing this is that small changes in the initial conditions lead to drastical changes in the final results. Capital markets are very complex and unpredictable. Capital markets' chaotic behavior and non-liniarities, complication and uncertainty, unexpected booms and crashes are some of the most challenging problems. The chaos theory, which utilizes nonlinear mathematics to identify the underlying rules of evolving systems, provides extraordinary insights into the dynamics of the financial markets [Chorafas, 1994].

The capital market is a complex and dynamic system with noisy, nonstationary and chaotic data series (Peters, 1994). Some researchers are suggesting that such complexity is an intinsic characteristic of such system. The interesting thing about the chaotic dynamics of capital markets is its great ability to generate dramatic movements which appear to be random, with higher frequency than linear models. Obviously, this chaotic behavior of capital markets in general, but especially of emerging capital markets is a non-linear deterministic process, because linear models can only generate four types of behavior : oscillatory and stable, oscillatory and explosive, nonoscillatory and stable and oscillatory and explosive (Hsieh, 1991). The non-linear models are much more complex and can generate a much more varied types of behavior.

The capital market has always been one of the most popular investments due to its high returns (Kuo et al., 1996). Because of that, capital market modeling is an area of interest to capital traders, quantitative finance specialists, investment professionals and applied researchers. One of the most controversial issue in the recent past is probably whether the capital market can be

predict in a satisfactory manner or not. Howerer, there is always some risk to investment in the capital market due to its unpredictable movements. Thus, an appropriate prediction model for capital market forecasting would be highly valued and useful, being an issue of a major interest. [Birău, 2011c]

2. Chaos theory – an unconventional alternative to traditional finance
Chaos theory is a relatively new and provocative paradigm that can be used for modeling nonlinear, dynamic systems as the capital market. It is very difficult, if not even impossible to compress in a brief definition the meanings of chaos theory on the capital markets .

Chaos theory analyzes complex motion and the dynamics of sensitive systems, such as the stock market. In addition, chaos theory is an attempt to demonstrate that order does exist in apparent randomness. Remains to be established whether this theory is actually a solution to the problems of emerging capital market or it is just a complement to traditional theories.

For a long time there was the perception that events are either randoom and completely unpredictable, or deterministic and perfectly predictable. The essence of chaos theory is that chaos and order, determinism and randomness, smoothness and roughness can coexist in an unexplained form of symbiosis.

Chaos theory does not involve the identification of a pattern from the past and applying it to the future. The centre of interests is current stock market behavior, which is generated by the individual fractal behaviour of investors [Birău, 2011b].

According to Kellert : "Chaos theory is the qualitative study of unstable aperiodic behavior in deterministic nonlinear dynamical systems." The idea of chaos is seen as "The property that characterizes a dynamical system in which most orbits exhibit sensitive dependence" [Lorenz, 1993].

According to Eugene Fama, who developed the Efficient Market Hypothesis : "an efficient market is defined as a market where there are large numbers of rational, profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants".

Efficient Market Hypothesis suggests that any information is available to all investors or market participants, so stock prices always incorporate and reflect all relevant information. In consequence, the price of a stock should reflect the knowledge and expectations of all investors or market participants. An idea widely accepted in this respect was that price changes were independent and, in addition, prices apparently followed random walks.

Technically, in an efficient market, no investment strategy can earn excess risk-adjusted average returns, or average returns greater than are warranted for its risk (Barberis and Thaler, 2003).Thus, a long-term investor has no advantage compared to a short-term investor. The risk is the same in both cases. In opposition, according to chaos theory, a long-term investor incur less risk than a short-term investor.

Fractal Market Hypothesis is an alternative to Efficient Market Hypothesis and it is based on chaos theory. The antagonism between the two theories is more than evident. Actually, Fractal Market Hypothesis is a new and different approach which was developed to provide an alternative solution to the difficulties faced by the traditional theory in explaining certain financial phenomena.

Consequently, it becomes impossible to identify price changes from one period to another, even if it's weeks, days or hours. This feature defines the charts as fractal curves and make available to users a wide range of mathematical and computer analysis methods.

According to Peters, through the Fractal Market Hypothesis, we can understand why self-similar statistical structures exist, as well as how risk is shared distributed among investors.

Fractal Market Hypothesis is based on certain assumption. Thus, is emphasized that investors did not react immediately to the information they receive and of course, the manner in which they interpret that information may be different.

A central concept in the framework of this theory is the stock market liquidity. The Efficient Market Hypothesis does not mention at all liquidity. This aspect is very important considering the fact that the most dramatic crashes were caused by the lack of liquidity. As a consequence, a lack of liquidity constrains investors to accept any price whether it is fair or not.

A liquid stock market is a stable market. However, a stock market is stable when it consists of a large number of investors which have different investment horizons. In contradiction with Efficient Market Hypothesis, the Fractal Market Hypothesis suggests that information is valued according to the investment horizon of the investor [Birău, 2011b].

In another train of thoughts, prices reflect a combination of short-term technical and long-term fundamental valuation (Blackledge and Murphy, 2011). Despite this fact, short-term price changes have a predisposition to be more volatile than long-term price trends.

3. The Butterfly Effect and its implications

In a dynamic system such as the emerging capital market, any change, no matter how insignificant it may seem, can degenerate into a highly unpredictable behavior.

The butterfly effect it is actually a metaphor that explains the reason why dynamic systems like the emerging capital market can't be predicted for a long period of time. It is practical impossible for an investor to anticipate the influence of every single insignificant factor affecting the emerging capital market. Accordingly, it is also useless to believe in a perfect forecasting.

The butterfly effect discovery was itself a hazard. The meteorologist Edward Lorenz developed in the 1960s an unsophisticated meteorological model based on differential equations. He was running simulations of weather on his computer using this model. One day, Lorenz wanted to review a particular sequence of data and to repeat one of the simulations for a longer time, but instead of repeating the whole simulation, he decided to start the second run somewhere in the middle. To achieve that, he used data printouts and inserted the initial conditions at some point near the middle of the previous run and re-started the meteorological model estimation.

The result was impressive but contradictory and inexplicable. Although it should have perfectly coincided, the second run matched at first the data from the first run, but subsequent they had completely divergent paths. The explanation for this bizarre result is very simple. Lorenz had not respected the initial conditions exactly, because the computer stored numbers to an accuracy of six decimal places, while the printout of results reduced the numbers to only three decimal places. The difference was obviously inconsequential. Or rather it seemed to be at first…

The result obtained by Lorenz from the two runs of the model is presented below :

Fig.1 Lorenz experiment

Lorenz's discovery of immense importance refers to the fact that a very small difference, respectively something less than one part in one thousand, in the initial conditions led to great

changes in the weather predicted by his model over time. Actually, sensitivity to initial conditions represents one of the main features of the chaos theory.

Extrapolating this discovery in the field of capital markets, we conclude that the most insignificant perturbation of input parameters can cause a huge change in the outcome because of a high sensitivity to initial conditions.

Lorenz has spotlighted in a very plastic manner this revolutionary discovery, by addressing the following rhetorical question :

"Does the flap of a butterfly's wings in Brazil set off a tornado in Texas?"

It is possible that an seemingly insignificant information to trigger an "earthquake" on the emerging capital market, or even more, a financial crash with global implications?

The emerging capital market equilibrium can be changed very fast and quite facile, so it is very likely that some dramatic event to occur at a particular moment of time.

4. R/S analysis

R/S analysis or Rescaled Range analysis is a statistical methodology used to identify the presence or absence of trend in time series, based on the calculation of the Hurst exponent. By its characteristics, stock market does exhibit the persistence of trends so it is perfect for using this method of analysis.

R/S analysis was originally developed in the early 20th century by the hydrologist H. E. Hurst. At that time he was working on Nile River Dam project, being concerned with the storage capacity of the resulting reservoir.

Dissatisfied with the results obtained with standard analysis, Hurst developed his own methodology. He was aware of Einstein's research on brownian motion, respectively about the way he managed to identify the irregular motion of a particle suspended in a fluid.

Einstein conducted an exhaustive research on brownian motion. He demonstrated that a microscopic particle collided at random from all sides by other particles in the surrounding liquid will accomplish a statistical law according to which the distance the particle passes will increase only by the square root of the time. In other words, the distance covered by the random particle is directly related to the square root of time. The mathematical formula is the following :

$$R = kT^{\frac{1}{2}}$$

where R signify the distance covered, k is a certain constant and T is time index.

Starting from the previous formula, Hurst proposed a generalization of brownian motion. In this respect, he used rescaled range analysis so his methodology can be applied on a time series with extended applicability. Hurst generalized equation is :

$$R/S = kT^{H}$$

where R/S signify the rescaled range, k is a certain constant, T is time index and H is referred to as the Hurst exponent.

The calculation of Hurst exponent enables us to evaluate how chaotic the time series is.

To complete the R/S analysis model, it is necessary to calculate the sample standard deviation :

$$Sr = \sqrt{\frac{1}{r}\sum_{i=1}^{r}(x_i - u)^2} \text{ for r = 1, 2, …,n.}$$

where u is the mean for the time series values : x_1, x_2, x_3…..x_n.

Finally, the adjusted range Rr is now normalized by dividing by S_r

$$(R/S)_r = \frac{R_r}{S_r} \text{ for r = 1, 2, …,n.}$$

The Hurst exponent can be approximated by plotting the log(R/Sn) versus the log(n) and solving for the slope through an ordinary least squares regression :

$$\log(R/S_n) = \log(c) + H \cdot \log(n) \text{ (Peters, 1994)}$$

For obtaining the expected $\{(R/S)_n\}$ values for the analyzed process it is necessary to use the following formula :

$$E(R/S)_n = \left(\frac{n-0.5}{n}\right)\left(n \times \frac{\tau}{2}\right)^{-\frac{1}{2}} \times \sum_{r=1}^{n-1} \sqrt{\frac{n-r}{r}}$$

In addition it is used the V-statistic which estimates the breaks in the R/S plot in an easier manner and serves as an adequate measure of cycle length in the presence of noise. The V-statistic is defined as :

$$V_n = \frac{(R/S)_n}{\sqrt{n}}$$

One aspect worth mentioning is the fact that the influence of the present on the future can be evidenced as a correlation coefficient:

$$C = 2^{2H-1} - 1$$

Regarding the interpretation of Hurst exponent values, some aspects should be highlighted. Obviously, if H=0.50 then the correlation coefficient C=0 so we are dealing with a independent process. This case is characterized by certain particularities, such as : time series is random, events are random and uncorrelated. In other words, the present does not influence the future.

Another situation is that when $0 \leq H < 0.50$ then time series is antipersistent. If the time series has been up in the previous period, it is expected to be down in the next time period. Of course, the converse is also available. The intensity of this antipersistent behavior depends on how close H is to zero. Implicitly, the closer H is to zero, the closer C moves toward –0.50, or negative correlation. (Bohdalová and Greguš, 2010).

If $0.50 < H \leq 1.00$ then then we discuss a situation involving persistent time series. It is important to mention that a persistent time series implies long memory effects. Technically speaking, the present does influence the future. If the time series has been up (or down) in the previous period, it is expected to be up (or down) in the next time period. The intensity of this persistent behavior depends on how close H is to 1, because a high value of H implies less risk.

The R/S analysis was used for distinguishing random and non-random systems, the persistence of trends and duration of cycles [Vacha and Vosvrda, 2005].

5. Conclusion

Capital market in developing countries, known as emerging capital market, represents a distinct category which is generally associated with high returns, explosive volatility and diversification opportunities for investors in developed capital markets. Emerging capital markets are less efficient than the developed market given their functional, structural and institutional malfunctions.

Chaos theory represents a significant progress in understanding a dynamic, complex, unpredictable, nonlinear systems such as the emerging capital market. Assuming that emerging capital market is a chaotic system and not just purely random, chaos theory is in sharp contradiction with Efficient Market Hypothesis. A market in which prices always "fully reflect" available information is called efficient. The most important issue regarding efficient market theory is that it is not possible to outperform the market over the long-term. Chaos theory contradicts deeply and argued this conventional principle of traditional finance.

Emerging capital markets behavior is extremely haotic and difficult to predict, so it is not an unusual or an impossible fact that seemingly minor events can cause major perturbations in the

final outcome. In other words, very small and insignificant variations in initial conditions can generate extremely significant differences in the final event.

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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.
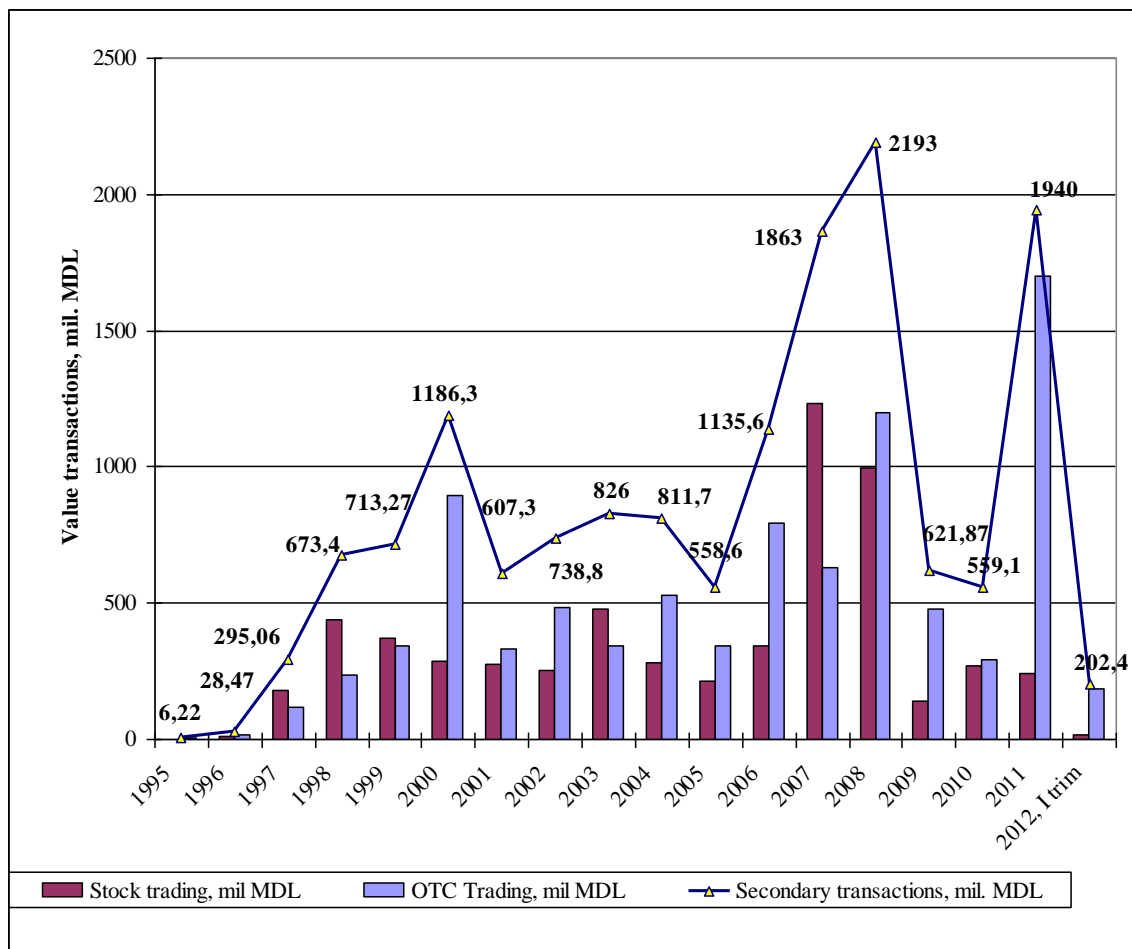
Fig. nr. 1. Dynamics secondary transactions recorded in the Republic of Moldova in 1995 - first quarter 2012.

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.
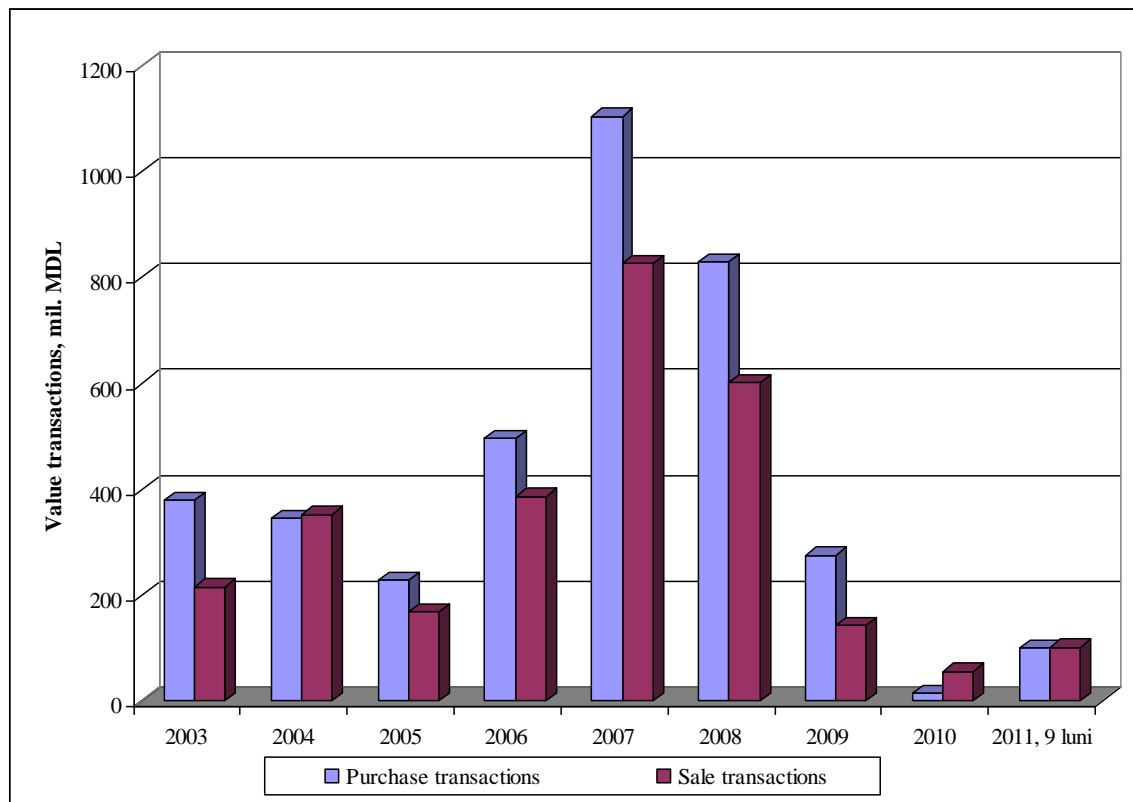
Fig. nr. 2. Dynamics of purchase and sale transactions recorded on the secondary market of RM with participation of foreign investors in the period 2003-9 months, 2011.
Source: made by author based on annual reports of NCFM (NSC) for the years 2003-2011.

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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THE IMPACT OF FINANCIAL CRISIS UPON THE INFLATIONARY PROCESS IN ROMANIA

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The intensification of financial turmoil in September 2008 has determined a contraction of economic activity in most countries around the Globe. Because the real GDP dynamics influence the evolution of consumer prices, the effects of financial crises have been reflected upon inflation rate. The aim of this paper is to estimate the inflationary impact of the financial crisis and to analysis of the channels through which the financial crisis has affected inflation rate in our country.

In order to estimate the inflationary impact of international financial crisis, we have used multifactorial regression model regarding inflation rate and leading factors in which we included a dummy variable. Analyzing the causes of inflation rate in 2007-20011 period, we had found gross average salary being the principal cause of inflation, because its increasing had not been accompanied by the increasing of labour productivity. The growth of the real net salary had been accompanied by the production growth (2007-2008) and on the other hand, by the uncertainty regarding the future evolution of incomes (2009-2010) and, therefore, did not create inflationary pressures upon consumer demand. The results show the positive impact of financial crisis, but a very low one. The effects of financial crisis have revealed upon inflation rate through international prices, consumer demand, leu currency exchange rate fluctuation.

In the context of financial crisis, the financial system has become more vulnerable, and, therefore, the necessity of maintaining financial stability slows down the disinflationary process.

The necessity of maintaining financial stability and reassessing the crediting involves avoiding strong increase of interest rate; we identified a positive and strong relationship between the share of overdue and doubtful loans in the total credit portfolio and interest rate on the interbanking market at the three months. Also, another factor with negative impact upon the quality of credit portfolio is the national currency depreciation. We can state that the financial sector is another channel through which financial crisis influences the inflation rate in Romania.

Keywords: financial crisis, inflation rate, financial stability, recession, depreciation
JEL classification: E31, G01, C32

1.Introduction

Defined by Alan Greenspan as a „tsunami of credits which appears once in a century ", the actual crisis, also called subprime crisis, is a financial crisis determined by the sudden decrease of liquidities in the credit global market and in the bank systems, caused by the failure of companies which invested in subprime mortgage. Being considered as the biggest crisis after the Great Depression from 1929, the current financial crisis entered the acute stage in September 2008, having a major impact upon economy, both on international and Romanian economy level. Most of world economies, especially the ones of the United States, European countries and Japan have registered the most severe economic contraction since 1929.

For example, in Malaysia exports and industrial production and, therefore, investments decreased. The result was that GDP increased only with 0,1% in the forth trimester of 2008 compared to an average of 5,9%, registered in the first nine months of the year (Soo Khoon and Lim Mah-Hui 2010: 8).

Although the economic growth was of 3,2% in Africa, the impact of financial crisis was seen in all its leading factors: the demand and the prices of commodities decreased, the capital flows,

especially the direct foreign investments have registered a significant decrease. As a result of commodities prices decrease for the year 2009, an inflation rate of 8,7% has been predicted, which signifies a decrease with 2,2% towards the year 2008 (Kasekende, Ndikumana şi Rajhi 2009: 5).

2. The empirical evaluation of the leading factors of inflation in Romania in the 2007-2011 period

In our country, the inflationary process was accelerated in the first trimester of the year 2008, reaching its maximum level, of 9,04%, in July, before it was mitigated to 6,3% in December.

The inflation rate changed its decreasing trajectory, registered in the second period of the previous year, reaching the value of 6,71% at the end of the first trimester of the year 2009. The evolution was due to the increase of the oil price on international markets and of pressures posed by volatile prices. Starting with the second semester, the growing rhythm of prices had to slow down until October, the annual inflation rate decreasing with 2,41%. The breakdown of decreasing evolution of inflation rate in the fourth trimester 2009 is due to cigarette producers of bringing forward the inflationist impact of exchange rate, taken into account in excise calculation.

In the first semester of year 2010 we remark a moderation of inflation rate, even if excises increased, so did the administered prices and pressures done by the ascending evolution of oil prices on international markets. The increase of indirect taxes (VAT, excises) has lead to accelerating inflation rate, in July 2010 the increase of consumer prices against the previous month being of 2,58%, the effect disappearing after a year.

To estimate the inflationary impact of international financial crisis, we have used an econometric equation regarding inflation rate and leading factors in which we included a dummy variable:

$$CPI = a + b * gsal + c * rsal + d * CPIext + e * M2 + f * dummy \text{ where, (1)}$$

CPI – consumer price index;
gsal – gross average salary;
rsal – real net average salary;
CPIext – external inflation rate;
M2 – monetary aggregate M2;
dummy – dummy variable which takes into account the value 1 in September 2008 – September 2011 period and 0 for other period of the sample.

To establish the econometric model we have used monthly data which were collected from the monthly bulletins of the National Bank of Romania (NBR), the official statistics of the National Institute of Statistics and Eurostat regarding the consumer prices index, the gross average salary, the net average salary, the euro/leu exchange rate, the consumer price index from EU, the monetary aggregate M2. The external inflation is calculated as a sum between the inflation rate from EU and leu depreciation against the European currency. The series of data used were expressed in indices with fix basis, December 2006 and then logarithmised. Also, the prime difference operator was applied. We have done the estimation of parameters by using the least square method. The values of parameters are shows in Table no. 1.

R- squared coefficient shows us that 66,26% from variation of inflation rate is explained by the variation of factors chosen in model. Prob(F-statistic) < 0,05 signifies the validity of the regression model. The regression coefficients are significant in a confidence level lower than 10%.

The results of the tests show us that rising the average gross salary with 1 percentual point leads to rising inflation rate with 0,6%. The relatively high influence of gross salaries upon consumer prices is explained by the fact that the rising rhythm of labour productivity in the year 2007-2008 has been low (1,84%, respectively 4,59%), while the gross average salary has incresed with 23%,which means an average rising of unitary salary cost with 19,26%. In the year 2009 the rate

of increase of unitary salary cost has decreased at half (10,51%), due mainly to a significant decrease of rhythm of rising salaries, those rising with only 8,45%. The slowdown of economic growth in the year 2010 and the diminishment of budgetary salaries have lead to a reduction of unitary salary cost with 5,10%.

Table 5: The statistics of regression equation regarding inflation and its leading factors

Dependent Variable: DL_IPC
Method: Least Squares
Date: 12/25/11   Time: 15:27
Sample(adjusted): 2007:02 2011:09
Included observations: 56 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DL_SALB	0.602247	0.075544	7.972146	0.0000
DL_SALR	-0.623610	0.073322	-8.505062	0.0000
DL_IPCEXT	0.045395	0.023138	1.961922	0.0554
DL_M2	-0.078568	0.025802	-3.045009	0.0037
DUMMY	-0.001692	0.000984	-1.719000	0.0918
C	0.003304	0.001063	3.106746	0.0031

R-squared	0.662613	Mean dependent var		0.004711
Adjusted R-squared	0.628874	S.D. dependent var		0.004924
S.E. of regression	0.002999	Akaike info criterion		-8.679839
Sum squared resid	0.000450	Schwarz criterion		-8.462837
Log likelihood	249.0355	F-statistic		19.63952
Durbin-Watson stat	1.805808	Prob(F-statistic)		0.000000

Although in the years 2007-2008 the real net average salary has risen with approximately 15%, the regression coefficient show us a negative relationship between this and inflation rate. But in those years, the consumer demand has been supported by an increase in the aggregate supply and, therefore, it has not created inflationary pressures. The inflation rate has diminished with 0,62%, to 1 percentual point rising of the real salary. The negative relationship between those two variables can be explained by the financial crisis which created uncertainty among population and, therefore, the rising of incomes did not transform into consumer demand. Although in the year 2009 the real net average salary has risen with only 2,01%, the deposits of non-government residential customers have risen in real terms on average with 8,04%, while in the year 2010 there has been a decrease in real terms of the net average salary and an increase of 0,31% of deposits.

The national currency depreciation against the euro in the period July 2007 – January 2008 (17,84%) and August 2008 – February 2009 (21,46%) has lead to an inflation rate increase with 0,04%. Also, the inflation rate variation is explained by the EU inflation rate whose annual values have been between 1% (2009) and 3,7% (2008). The relatively low impact is explained by the share of imports in the consumer basket, of 35% in the analysed period.

According to the quantitative equation of money , the liquidity injection creates deflationary pressures in the moment of rising economic growth in a superior evolution from the money supply. But, the rapport of the rising indices of the two indicators, although it has significantly decreased (compared with the previous years) in the years 2008-2010, it has remained overunitary, the lowest values being registered in the year 2008 (1,09) and in the year 2010 (1,08). The restriction crediting explains the decrease of consumer prices with 0,07% to a decrease with 1% of M2 monetary aggregate. For example, if in the years 2001-2008 the non-government credit has had average annual risings (in real terms) of 42-43%, in the year 2009 the

growth rhythm of non-government credit has decreased to 6,76%, so that in the year 2010 the mass of non-government credit would diminish with 3,88% against to the previous year.

The coefficient associated to the dummy variable suggests the *insignificant influence of financial crisis upon consumer prices*. We notice that *the impact was negative*, leading a *decrease with 0,001% of inflation rate*, despite the strong economic contraction in the year 2009.

The direct impact of financial crisis was minor, because the Romanian bank system has not been exposed to toxic assets, and because the National Bank of Romania has taken action upon time over economic directions. But, indirectly, the international financial crisis, and especially its consequence – the recession – spreads out over the Romanian economy on many channels (Isărescu 2009: 4). On the trade channel, the growing rhythm of rising exports slows down or even reduces. On the financial channel, it limits access to external financing and, therefore, it decreases the crediting volume. On the exchange rate channel, reducing the external financing has reflected the national currency depreciation. On the confidence channel, it has registered a diminishment of investments in the East – European countries. On the wealth and balance channel, it has been a deterioration of the net assets of population and companies, as a result of high share of currency credits and a decrease of assets prices from speculative values.

On one hand, reducing exports and, on the other hand, diminishing credit volume have influence up aggregate demand and, consequently, upon consumer prices.

The intensification and development of crisis have generated a reduction demand on world wide scale, reflected in a sharp decrease of economic activity. The recession registered in most of EU state members was seen also in the Romanian economy in the fourth trimester of the year 2008, Romania having an economic growth of only 3,15%. Starting with the year 2009 the financial crisis impact upon national economy has considerably increased. The massive reduction of internal demand has determined a contraction of economic activity, the negative dynamics of real GDP being of 7,1%.

The worldwide economic downfall from the second half of the year 2008 has lead to a rapid decrease of commodities price, those registering negative values during October 2008 – October 2009. The annual variation of oil price has had a strong downfalling evolution in the period August – December 2008 (from 47,11% to -48,89%), maintaining until July 2009 to over -40% values. Unlike this, the non-energy commodity prices have registered a lower decrease, with the most important one registering in March 2009 (-24,9%).

Therefore, the decrease of commodities prices on the international market has had a positive impact upon inflation rate from Romania in the fourth trimester of the year 2008 and during 2009.

The positive impact of economic activity contraction upon inflation rate was counterbalanced by the negative influence developed by the leu currency depreciation, explaining, thus, the almost null value of the coefficient associated with the dummy variable.

In this context (of economic recession and leu currency depreciation), the financial system has become more vulnerable, with effect upon the disinflationary trend.

3.The analysis of relation between price stability and financial stability
According with the opinion of the National Bank of Romania governor, financial stability has a great importance for price stability, the incapacity of maintaining financial stability leading to an reinflamation of inflation. In order to avoid a conflict with financial stability it is necessary an appropriate rhythm of disinflationary process.

According with *The Report of financial stability* for the year 2005, Romania had a high financial stability, without imminent risks, because the risk of credit was noticed and kept under control by the supervising authorities and the sector of nonbanking financial institutions which have credit activity and could not be a source of systemic risk due to the low volume of this market.

In the year 2009 the bank system has dealt with a major vulnerability, that is the credit risk, as a result of the financial crisis. The impact of financial crisis upon financial stability in Romania was an indirect one, on the channel of real economy and the one of bank liquidity (National Bank of Romania).

Tabak et.al. (2010) analyses the role of monetary policy in assuring financial stability in Brazil in the period 2003-2009. The results show that the increase of interest rate reduces the credits activity and also, increases the volume of non-performing credits.

Calculating the correlation coefficient for the period January 2002 – August 2008 in Romania between the *share of overdue and doubtful loans in the total credits portfolio* and *interest rate on the interbanking market in the three months*, we notice a *strong and positive relationship* between the two indicators (the correlation coefficient being 0.75). Therefore, the slowdown of inflationary process though the increase of interest rate leads to deterioration of quality of credits portfolio, threatening the stability of the financial sector.

On the other hand, rising the interest rate can encourage the foreign currency denominated credit, risking to destabilize the financial system in case of national currency depreciation. Because the interest rate on the national market was relatively high, a level justified by the high rates of inflation, it has stimulated the foreign currency denominated credit.

In the period 2002-2004 the volume of overdue and doubtful loans, calculated as a share in the total credit portfolio, has been between 0,28 and 1, having periods of rises and downfalls. The quality of credit portfolio improves in the following period, registering also a relatively low volatility. This evolution is justified by the national currency appreciation against to the European currency.

We can notice from Figure 1 an acceleration of the indicator in the same time with the financial crisis beginning, in September 2008 due to national currency depreciation. Because approximately 60% from the non-government credit total is represented by foreign currency denominated credit, the leu depreciation has determined a deterioration to the portfolio of receivable having by the banking sector over the nonbanking clients.

Therefore, between the *leu depreciation and the overdue and doubtful loans there is a positive and medium intensity relationship*, the correlation coefficient between the two indicators being of 0,57%.
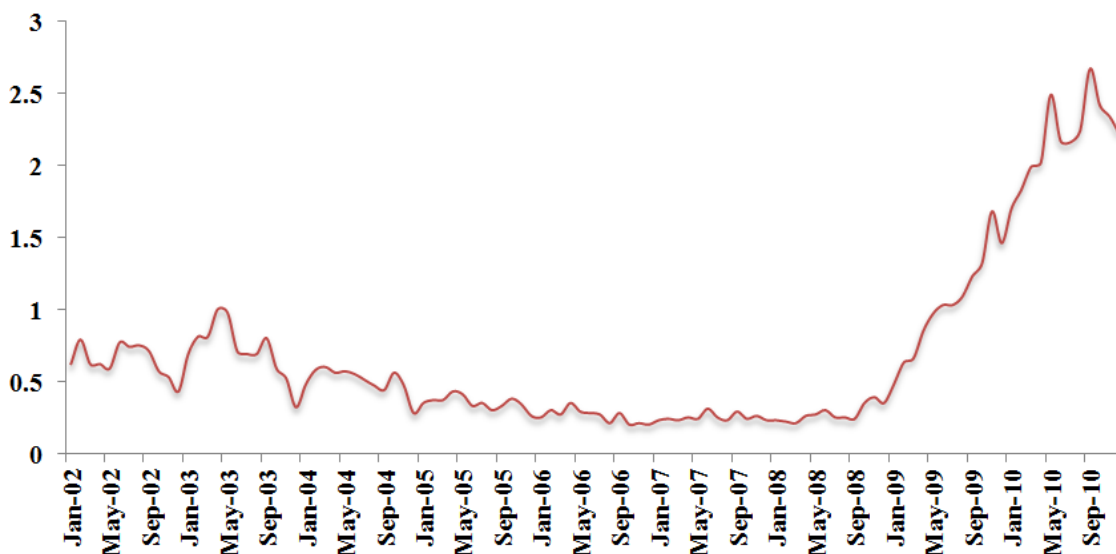
Figure 11: *The evolution of overdue and doubtful loans in Romania (2002-2010)**
Note: share in total credit portfolio, net value

Consequently, the National Bank of Romania measures of avoiding leu depreciation in order to assure financial stability are in concordance with price stability, the leu depreciation being an essential factor of price increase. In this case, there is no *compromise between the price stability and financial stability.*

Also, the volume increase of overdue and doubtful loans is justified, on one hand, by the increase of unemployment up to 7,8% in the year 2009 and, on the other hand, by slowdown rhythm of increasing real salary in the year 2009 (2,01), respective its decrease in the year 2010 (-3,96%).

Although in the period 2001-2003 the leu currency has registered a significant depreciation against the dollar and the euro, the share of foreign currency denominated credit was between 57,97% and 62,34%. The option for foreign currency denominated credit is justified by the presence of interest differential between the leu and foreign currency denominated credit. For example, in this period, the average difference between ROBOR – 3 L and EURIBOR – 3 L was 25,51%.

4.Conclusions

The effects of financial crisis upon inflation rate have been positive (decreasing commodities prices, economic activity contraction), but also negative (leu currency depreciation). Because the impact of sharp reduction of internal and external demand and significant decrease of commodities prices has been counterbalanced by the leu depreciation against the European currency and dollar, the effect was almost null.

The necessity of maintaining financial stability and reassessing the crediting involves avoiding strong increase of interest rate in the case of inflationary pressures manifestation. Because the overdue and doubtful loans is preponderant, the national currency depreciation represents another factor with negative impact upon the quality of credit portfolio and, implicitly, upon financial stability in Romania.

Therefore, the rising of risks regarding financial stability in the context of financial crisis and the measures adopted by NBR slow down the disinflationary trend. From this point of view, we can state that the financial sector is another channel through which financial crisis influences the inflation rate in Romania.

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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

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.

Lichiditatea sistemului bancar

- Lichiditate imediată (scala din stanga)
- Indicatorul de lichiditate (scala din dreapta)
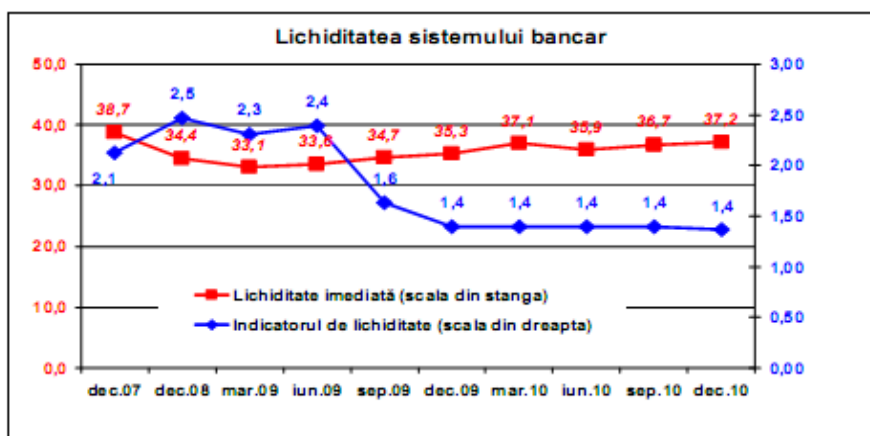
Source: NBR

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 Europen System of Central Banks. In order to assure a discount of the inflation while maintaing the sustained economic growth, the NBR experts, diverse specialists and independent analists 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 inflational 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.

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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 unrecognized. 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

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 all, 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 indentified 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:
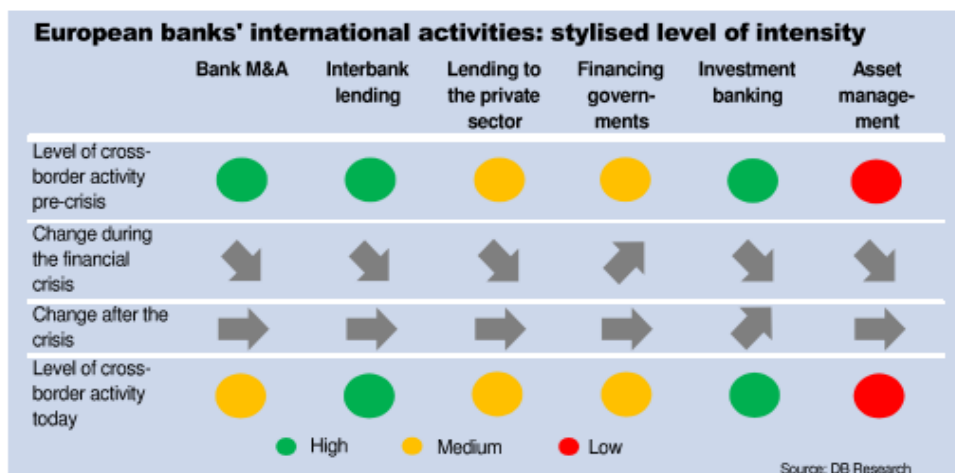
Source : Schildbach, Jan "*Home, sweet home? International banking after the crisis,*" Deutsche Bank Research, June 2011

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:
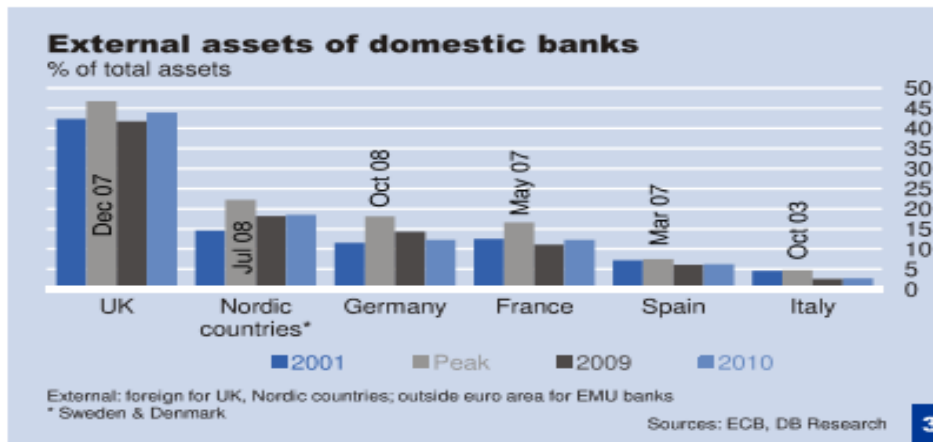
External assets of domestic banks
% of total assets

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.
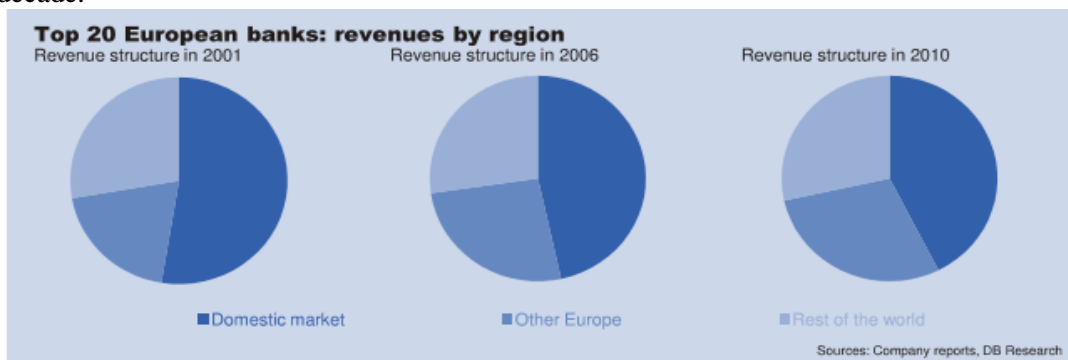
Source : Schildbach, Jan *"Home, sweet home? International banking after the crisis,"* Deutsche Bank Research, June 2011

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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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 happen[68]" (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.

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[68] 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 valuated 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 behavi*or – 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**[69]:
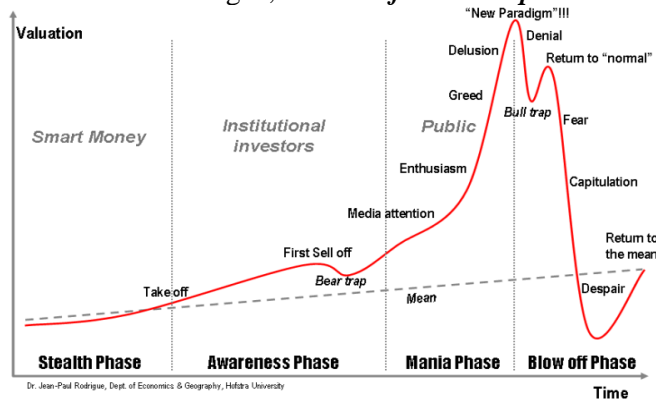
Main Stages in a Bubble according to Jean Paul Rodriguez
source: http://people.hofstra.edu/jean-paul_rodrigue/jpr_blogs.html

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

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[69] 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.

PATHWAYS TO SUSTAINABLE BANKING MANAGEMENT

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This paper describes one of the major challenges of the future: the sustainable development of the society. Sustainability is now increasingly recognized as central to the growth of emerging market economies. For the banking sector, this represents both a demand for greater social and environmental responsibility as well as a new landscape of business opportunity. Several years ago, the main part of the banks did not consider the social and environmental problems relevant for their operations. Recently, the banks began to realize the major impact of the sustainable development over the way of ulterior development of the society and, implicitly over the way of creating of the banking value in the future. In this context, the development of a banking management system, based on sustainable principles represents one of the provocations of these days.Starting from literature in the sustainable banking management field in this paper are presented several relevant issues related to risk management in the context of sustainable banking financing: the need to implement the sustainable management principles in financial and banking industry; the role of banks in sustainable development of society; social and environmental risk management policies, events that have shaped the role of the banking sector in sustainable development; international standards regarding sustainable banking management such us: Equator Principles for sustainable investment projects' financing or GRI principles for sustainable reporting. Furthermore, we developed a practical case study related to the implementation of sustainable banking management at Bank of America.
Keywords: sustainable development, sustainable banking management, environmental and social risks, Equator Principles, GRI Principles.
JEL Classification: G21

Introduction

Sustainable development is one of the key themes in the twenty-first century and in the same time a problem that need solution as soon as possible. The role of banks in the achievement of sustainable development is significant considering the intermediary role that they play in society. This intermediary role is both quantitative and qualitative. Due to their efficient credit approval systems, banks are well equipped to weigh risks and attach a price to these risks. Through such price differentiation, banks can foster sustainability. Banks can also develop more sustainable products, such as environmental or ethical investment funds. In addition, there is great scope for banks to improve their internal environmental performance.

Literature Review

The literature in the sustainable banking management field is not too rich because the idea of this management is rather new. The main innovation in this field belongs to some researcher such as:
Bouma, J., Jeucken, M. and Klinkers, L. (2001) wrote a book, "***Sustainable Banking – The Greening of Finance"*** with significant impact on banking activity related to sustainable development. In order to understand the banks towards sustainability Jeucken identified four stages: defensive, preventive, offensive and sustainable banking. Jeucken highlighted important differences between regions, countries and banks with regard to sustainable banking. The book looks at perspectives and case studies on how various changes in the financial sector are moving banks in the direction of sustainability. The authors approach five central themes in their book: the policies of banks, transparency and communication, environmental investment funds, environmental risks and their repercussions for banks' products, and the role of governments, NGOs and multilateral banks.
Stigson. B, president of the World Business Council for Sustainable Development (2004) underlines the idea that transparency and communication are relevant to a number of stakeholders, including social investors and necessity for banks to elaborate a system of metrics and reporting

with cross-comparable an indicator which represents the management tool that will allow banks to measure the link between environmental, social and economic performance and shareholder value. **Schaltegger, S. and Figge, F. (2005)** speaks about the necessity and importance of sustainable development funds. They believe that sustainable development funds as financial markets seek to reduce risk by incorporating environmental and social performance into investment decisions. "*Risks that have been turned down by proactive asset managers will end up with those asset managers that do not yet have the appropriate screening and assessment methods in place*" write Schaltegger and Figge.

The International Finance Corporation (IFC) (2007) found that: (a) individual banks had to devise their own business case for sustainable banking, (b) reputation and branding had become the top reason for many banks to integrate sustainability, (c) the benefits outweighed the costs, and social and environmental risk management improved the quality of a bank's portfolio and lowered insurance liabilities and compensation claims.

Scholz, W. R. (2006) investigates decision processes in banking, which are connected with environmental risks and options. He found that incorporating sustainability criteria in lending processes will lead to credit decision processes, which have positive economic, environmental, and social outcomes. Banks - as lenders - have an important influence on economic processes and significant impact on sustainable development. He tried to incorporate sustainability aspects in lending processes by creating implementation models, which are useful for the banker´s day-to-day business.

One of the most known publication in this field is *"The dos and don'ts of sustainable banking"* wrote by **Gelder, J. W.** member of BankTrack. The book provides an overview of actions which the banking sector can take to become more sustainable and in order to achieve a performing sustainable banking management. Also, there are presented methods and guidelines for implementation in practice the principles and commitments of sustainable banking.

Other findings indicated that the Equator Principles contribute to long term sustainable investment (**Seuren, T. 2009**). **Hoepner,** A.(2010) highlighted the importance of social, environmental and ethical issues for the risk management, reputation and performance of banks and other financial institutions.

Regarding Romanian literature in this field, there is no book covering sustainable banking management issues to date. There are only a few papers that approaches the sustainable banking management issue as **Eremia, A. & Stancu, I. (2006) 's** article "Banking Activity for Sustainable Development", and Stancu, I., Armeanu, D. & Bălu, F.(2006) " The role of Banks in the Sustainable Development of Society".

Sustainable development

Over the past 30 years, with the remarkable growth in the global economy, there are also a number of pressing constraints on development, and entrenched negative trends, such as economic disparity and poverty, over-consumption of resources and environmental deterioration (OECD, 2002:5). These social and environmental issues awakened humanity to carefully think how to protect the our planet, this led to the 1972 UN Conference on the Human Environment in Stockholm as well as later the creation of United Nations Environmental Program (UNEP).

Since the 1980s, sustainable development, as a new concept for human development, has been one of the most popular terms in usage due to an ever increasing awareness of social and environmental issues. The World Commission on Environment and Development (WCED), also known as the Brundtland Commission, in its report - "Our Common Future," defined sustainable development as follows: *"Humanity has the ability to make development sustainable - to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs."* (WCED, 1987:43).

Sustainable development want to make simultaneous equilibrium between economic effectiveness, social equity and environment for creating a good governance framework aims debate and solve the matters pose by our actual development.

Sustainable banking

The "sustainable banking" concept was introduced in literature by Bouma, J., Jeucken, M. and Klinkers, L. in 2001. The authors choose to define "sustainable banking" in a broad sense. "*The term is dynamic*," and the editors write, "*because its definition changes over time; also, it has no clear borders – the relationships of banks with their stakeholders makes the concept relevant to actors other than just the banks themselves*."

The assessment of sustainable banking management performance takes into account the adoption and implementation of international standards of sustainable development. The main international standards covering financial and banking sector are:

Equator Principles – regarding the financing of sustainable investment projects

Global Report Initiative Principles (GRI Principles) – for reporting of sustainable activities

The Equator Principles are a set of voluntary environmental guidelines created to manage environmental degradation that results from large scale developmental projects. On June 4, 2003, ten international banks adopted these guidelines, and by the end of June 2006 this number has grown to forty. In July 2006, the Equator Principles were revised, increasing their scope and strengthening their processes. According to the revised principle EPFI (Equator Principles Financial Institutions) members are requested to identify and finance only the investment projects that comply with the following ten Equator Principles:

Principle 1: Review and Categorisation
Principle 2: Social and Environmental Assessment
Principle 3: Applicable Social and Environmental Standards
Principle 4: Action Plan and Management System
Principle 5: Consultation and Disclosure
Principle 6: Grievance Mechanism
Principle 7: Independent Review
Principle 8: Covenants
Principle 9: Independent Monitoring and Reporting
Principle 10: EPFI Reporting

EPFIs use a system of social and environmental categorisation, based on IFC's environmental and social screening criteria, to reflect the magnitude of impacts understood as a result of assessment. These categories are A/B/C scoring system like "high, medium or low environmental or social risk".

The **Global Reporting Initiative (GRI)** is a framework of internationally accepted guidelines and principles for companies and organizations to report on corporate responsibility and sustainability performance. The GRI aims to develop a voluntary reporting framework that will elevate sustainability reporting practices to a level equivalent to that of financial reporting in comparability, auditability and general acceptance. This will be a welcome and efficient supplement to the questionnaires, interviews, press releases, media reports and other sources of information traditionally used for screening in investment decision making – social/ethical and mainstream.

Bank of America's Initiatives for Sustainable Development Financing

Bank of America Corporation is an American multinational banking and financial services corporation headquartered in Charlotte, North Carolina. It is the second-largest bank holding company in the United States by assets. Bank of America serves clients in more than 150 countries and has a relationship with 99% of the U.S. Fortune 500 companies and 83% of the Fortune Global 500.

Bank of America has great performance as regards sustainable banking. In 2011 Bank of America was the deserved winner of the Sustainable Bank of the Year Award. This prize was a reward for the dedication in the field of durability and their attention for social, environmental and financial values during their operations. Since 2007, the bank invested over 11,6 billion dollar in the improvement of climate change, as part of their ten-year plan of investing 20 billion dollar. Bank of America is the first large American bank that invests in forest preservation, wind power, ecological housing and organization that combat global warming.

The Equator Principles are a set of voluntary guidelines developed to address the environmental and social issues arising from financing projects. The Principles were adopted by Bank of America, and became a core part of a wider approach to managing sustainability risks in lending and investment. The Bank of America's actions regarding sustainable banking take into consideration two major lines: the social impact and the environmental impact. So, the actions for sustainable banking can be classified in two main categories: *actions with social impact* and *action with environmental impact.*

 Actions with social impact

- organizes training programs for employees, learning and development are essentials in a fast-changing industry and as a result Bank of America regularly revises its training programs;
- conducts some surveys regarding the commitment, motivation and satisfaction of employees;
- bank's employees volunteered over a million hours in nonprofits and community organizations, like Free Arts NYC;
- funds innovative arts and culture organizations, like the North Carolina Dance Theatre in Charlotte;
- supports the revitalization of neighborhoods across the U.S., like Fells Point in Baltimore;
- invests in education for persons outside the company: last year, Bank of America gave over $200 million to nonprofit and community programs like a youth baseball clinic in Boston, part of their 10-year, $2 billion philanthropic goal.

 Actions concerning the environment

- *Energy Efficiency*. Bank of America provides financing for a wide range of construction projects and facility improvements that enhance the energy efficiency of newly constructed and existing commercial buildings, federal, state and local government buildings, hospitals and schools. Bank of America has increased its focus on investing in and financing the development and use of cleaner renewable energies. Recent examples include:

Solar

 - Bank of America's renewable energy finance team arranged the financing for a $23.9 million lease to a major solar company for the installation of photovoltaic solar power generation systems at seven Walmart and Sam's Club retail locations in Southern California. The photovoltaic systems provide enough power to meet up to 30 percent of each location's energy needs. The solar leasing deal helps advance Walmart's commitment to supply its stores with 100 percent renewable energy;

Wind

 - Bank of America provided $43.6 million in tax equity to Peace Garden Wind Funding, a new wind power tax equity partnership managed by NextEra Energy Resources, the largest North American generator of renewable wind and solar energy. Peace Garden Wind consists of two

wind farms in North Dakota capable of generating sufficient power to serve more than 55,000 homes in that and nearby states.

- Carbon Market Services

Bank of America Merrill Lynch operates an active carbon market services business that provides risk management, market access and liquidity, and structured finance to a variety of corporate clients looking to offset carbon emissions or manage their carbon exposure.

- Conserving Water

In 2010, were saved 36 million gallons of water from projects in the U.S., contributing to a 2.67 percent reduction in use from 2008 baseline. Savings from 2010 water projects resulted in a cost savings of $221,000. Fifteen percent of the savings can be attributed to fixture projects, such as sink aerators and updated low-flow bathroom fixtures, while the remaining 85 percent resulted from irrigation projects on the grounds surrounding facilities.

- Recycling

Throughout U.S. operations, were recycled nearly 1,996 metric tons of workplace waste in 2010. By the end of the year, recycling of plastic, aluminum and cardboard was available in 43 million square feet of the owned and leased space. Waste and recycling program enhancements in the U.S. alone resulted in annual cost avoidance of $565,000 in 2010.

- Environmentally Friendly Cleaning

At the end of 2010, Bank of America had sustainable cleaning practices in 77 million square feet of operational real estate in the U.S., nearly two-thirds of their global portfolio.

Bank of America's strategy on sustainable banking provides, among others, the annual publication of a report on the group's activities in this direction.

Conclusions

Under the general global trend toward sustainable development the banking sector, has been involved due to its very significant role in economic life. Therefore, interest in sustainable banking has gradually grown and has come to be regarded as a goal for the banks to pursue. The banking sector has taken some steps to stimulate sustainable development. However, because of the critical role finance plays, much more needs to be done. International institutions must continue to increase the awareness of banks and hence stimulate new product development. The World Bank must draw attention to the relationship between the environmental impacts of investments and financing decisions. And banks themselves must engage further with their customers, rating agencies, insurance companies, competitors and governmental policy-makers.

The study regarding the implementation of Sustainable Banking Management principles at Bank of America, demonstrated that: Sustainable Banking Management is a key aspect of Bank of America's corporate governance and one of the strategic goals of the bank. Bank of America regards sustainable development as a major part of its specialized strategy management and operation for sustainable finance. Focused on the energy conservation and emissions reduction, Bank of America demonstrated to the world that the key to globally sustainable development lies in ensuring that the planet, the people and corporations can benefit on a mutual basis.

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USAGE OF ACB-MININD SOFTWARE IN THE CBA ANALYSIS FOR FINANCING INVESTMENT PROJECTS THROUGH EUROPEAN FUNDING IN CORRELATION WITH THE FINANCING FROM THE BANKING SYSTEM

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The extension of the European Union with the first "wave" of new members in 2004 and later with the second "wave" of members in 2007 brought new opportunities for the countries in Eastern Europe, being obvious that "effective utilisation of EU support can foster the success of their economic performance". Financing investment projects proposed by the SMEs can be realized through several financial sources internal and external, from which two of the most common external sources constitute from subsidies-grants and through banking system. One of the most important financing programme present in Romania, available for SMEs is SOP IEC, which awards grants for investments proposed by production companies. This financing program encourages its beneficiaries to combine the European grant with private funds mostly provided through the banking system. The paper analyzed the methodology used in Cost Benefit Analysis and also The ACB-MININD software which is compulsory to be used for the CBA analysis of these investment projects links for the first time elements of analysis used by the European Commission with elements of analysis used by the banking system. In this context the present article tries to analyze how the ACB-MININD software links the main elements of Cost-Benefit analysis such as NPV or IRR with elements of the bankability software which are mainly used by the banking system such as: cash-flow analysis, loan/interest payment and financial sustainability. Also are presented the links between the banking sector and the external financing sector in the field on investment projects. As final conclusions of this paper we will demonstrate the theoretical and practical role of cost-benefit analysis - financial component to select the best applications that will be proposed for funding under the European grant programs and to link them to the banking system in order to ensure a proper co-financing for these investment projects.
JEL Codes: G17, G21, F35, O16, H43, C63, C61
Key words: Banking, Loans, Grants, Cost Benefit Analysis, NPV, IRR

1. Introduction

A notion which is under debate in the recent years, from economical, social and political point of views: the non-reimbursable funding/grants is quite ignored by the scientific economics community. The grant concept, which is called also external financial assistance, developed initially from free transfer of specialized goods and services to fund transfers (Moger, 1999 and Kanbur, 2003). In the same time Stiglitz (2003) observes that for a long period of time and even now the World Monetary Fund and the World Bank link their strategic grants to reimbursable funding: loans provided by the banking system. Other studies especially Lerick and Meltzer(2002) in Quarterly International Economics Report, Carnegie Mellon - Gailliot Center for Public Poverty, draw attention that in case of loans contracted through World Bank or other institutional banking lenders some of the loans were transformed into grants since some of the beneficiary countries were not able to pay them back, so their debts were finally erased.

The extension of the European Union with the first "wave" of new members in 2004 and later with the second "wave" of members in 2007 brought new opportunities for the countries in Eastern Europe, being obvious that "effective utilisation of EU support can foster the success of their economic performance" as it is considered in a KPMG(2011) report from 2011. Moreover the integration of Romania into European Union brought new opportunities for the Romanian

private enterprises both concerning the accession of their products and services to the single market and also accession of additional co-financing for funding their business infrastructure investments (Droj, 2010).

Under these circumstances most of the specialists consider that access to European funding and its efficient absorption constitute a key issue in these years both at the level of state level decision makers, at the level of financing institutions and at the level of the decision makers within the companies. Financing investment projects proposed by the SMEs can be realized through several financial sources internal and external, from which two of the most common external sources constitute from subsidies-grants and through banking system. In the recent years a very close relations seemed to be established between the banking sector and the financial aid sector.

In the same time the banking sector evolved and created specialized services which are dedicated to the above mentioned beneficiaries with the goal of supporting development, carrying out or co-financing projects implemented under the European Structural Funds. Lack of experience in this field shown by both at the level of the applicants for Structural Funds, at the level of the management authorities and, finally, at the level of the banking system which is requested to ensure additional funding creates serious obstacles to achieving a higher absorption capacity of EU structural funds in Romania. (Fundația Șoros Romania, 2009 și Departamentul pentru Afaceri Europene, 2009)

Also can be noticed the lack of a methodology for implementation of funding programs adapted to the Romanian realities. Another major problem is that most financial programs lack correlation of economic and financial indicators of the European Commission to those requested by the banking sector, so that the beneficiaries of European structural funding are finding themselves in the situation where they are unable to access bank credit which is needed to secure co-financing or fund its cash-flows required to implement the proposed investments.

In this context the current paper is dealing with analysing the linkages between the cost benefit analysis requested by the EU management authorities and the credit analysis, performed by the banks. This constitutes a topic of major interest for both potential beneficiaries and the management bodies, and the banks so they can prepare specific to banking products. From the vast field of study concerning structural funds we proposed to approach as the main themes in this research paper the following: identification of a European funding programme operating in Romania, realization of a correlation between the performance indicators within the benefit-cost analysis requested by European and those requested by the banking sector.

2. Considerations over the Cost Benefit Analysis and its linkage with the banking sector– Literature Review and Research methodology

One of the main goals of these European Funding programmes are to implement the European Union Cohesion policies. As its main instruments and for improvement of the competiveness of the "weaker" regions were established the European Regional Development Fund (ERDF) and the European Social Fund (ESF), otherwise known as the Structural Funds, as well as the Cohesion Fund. Through these instruments European Commission invests in thousands of projects across all of Europe's regions to achieve its primary task: to promote economic and social cohesion by reducing these disparities between Member States and regions (European Commission, 2009).

In this context, the private companies benefit of increased opportunities for accessing European Funding which gives them a better chance for increasing their competitiveness and for extending distribution of their products and services on the entire European market and beyond. The most important production infrastructure financing programme for the Small and Medium Enterprises(SME) operating in Romania is considered to be the Sectorial Operational Programme "Increase of Economic Competitiveness" (further referred to as SOP IEC) which offers financial

support for the consolidation and modernization of productive sector through investments(Guvernul României, 2009).

Even in 2008 edition of the "*Guide to COST-BENEFIT ANALYSIS of investment projects - Structural Funds, Cohesion Fund and Instrument for Pre-Accession*" edited by the European Commission(2008) is highlighted that cost-benefit analysis can help public decision makers to identify projects that will maximize net social benefits and thus determine the order of priority infrastructure works will be made and how public policy decision making.

As it is mentioned in the above referred document the investment decisions are at the core of any development strategy, all other elements such as: economic growth and welfare depends on productive capital, infrastructure, human capital, knowledge, total factor productivity and the quality of institutions (European Commission, 2008).All these elements involve – in a certain measure – decision making regarding investing financial sources at present time in the hope of obtaining future uncertain benefits.

In order to take the decisions, the decision makers need appropriate tools for comparing costs and benefits of various types: economic, social or ecological investment projects that are ongoing over several years. Cost-benefit analysis is not an exact science, is seen as having many limitations which are generally based on approximations, working hypotheses and estimates due to missing data or due to inability providing all possible situations. The financial analysis is considered the key element of the Cost Benefit Analysis both by the financing organization and the banks (Trenca 2006, Trenca 2008 and Stancu 2006) or by other financial institutions which will ensure the co-financing of the investment. The goal of the financial analysis is to use the predictions such as cash-flows to calculate relevant indicators especially the Financial Net Present Value (FNPV) and the Financial Internal Rate of Return (FRR), respectively in terms of return on the investment cost, FNPV(K) and FRR(K).

While Cost-benefit analysis goes well beyond financial ratios considering the project, most project data on costs and benefits is provided by financial analysis. This analysis provides decision makers information on inputs and outputs, their prices and the structure of income and expenditure over the analyzed period (European Commission, 2008).

The methodology used for the determination of the financial return is the Discounted Cash Flow (DCF) approach. This implies some assumptions as are mentioned in the methodology:

   - Only cash inflows and outflows are considered;

   - The project cash flows it should be based on the incremental approach;

   - After the aggregation of cash flows occurring during different years it is adopted an applied an appropriate financial discount rate in order to calculate the present value of the future cash flows.

According to the methodology (European Commission, 2008) the Net Present Value of a project is the sum of the discounted net flows of a project. The NPV is a very concise performance indicator of an investment project: it represents the present amount of the net benefits flow generated by the investment expressed in one single value with the same unit of measurement used in the accounting tables.

$$(1) \ \ NPV = \sum_{t=0}^{n} a_t S_t = \frac{S_0}{(1+i)^0} + \frac{S_1}{(1+i)^1} + \cdots + \frac{S_n}{(1+i)^n}$$

The Internal Rate of Return (FRR) is defined as the discount rate that zeroes out the net present value of flows of costs and benefits of an investment, that is to say the discount rate of the equation below(European Commission, 2008:212):

$$(2) \ NPV(s) = \sum [S_t/(1+IRR^t)] = 0$$

Since the goal of this study is to use the ACB-MININD software in CBA analysis for financing investment projects through European funding in correlation with the financing from the banking

system in the following chapter we will set a case study using a project proposed by a Romanian production company which tries to access SOP IEC funding in 2011.

3. Case study – Usage of ACB-MININD Software in the CBA analysis for financing investment projects through European funding in correlation with the financing from the banking system

As mentioned above we selected a test company, which intended to access European funding to co-finance its infrastructure investments. The company is a market leader in its field of activity: plastic manufacturing and intends to increase its production capacity and to improve its competitive advantages on the Romanian market. In order to realize this an ambitious investment programme was started to build a new production facility and to increase the quality of their products. The project was proposed to be financed under SOP IEC and was based on the data provided by a detailed the technical project and by the price offers. The company performed a financial analysis using the official software provided by the management authorities within the programme: ACB-MININD Software which is available online at: http://acb.minind.ro/ACB/index.php (Guvernul României, 2012). These results were later compared with the bankability analysis, in order to ensure future bankability of the project. The particularities of this software is that it requests and processes information which is delivered by the banking institutions regarding proposed co-financing or implementation loans.

In order to secure financing of its investment the selected company has to fulfil several financial criteria established by the SOP IEC Programme. According to the Guide of SOP IEC Programme, in order to obtain financing for an investment project FNPV(K) is requested to be higher than 0 and FRR(K) to be between 0 and 9. For the mentioned project the mandatory discount rate was established to 5%. The analysis was realized both on the implementation period of the project (2 years) and on the operation period of the investment realized within the project(7 years). A challenge was made to obtain both the financial sustainability of the project and also to ensure its bankability.

Figure 1 Presentation of the Financing sources (Currency: Thousands RON)

Assumptions regarding financing	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
EU Funds for Financial AID									
Eligible value of the project	4020.2	6691.4							
Non – eligible value of the project	0	0							
Required Financial Aid	2543.5	3813.0							
Private finance									
Own budget	0	0							
Loans	7605.0								
Other financial flow									
Loans payment	741	741	1415	1814	1814	1814	1628	1072	104
Interest payment	914	879	739	502	447	357	268	299	166
Income Tax	110.1	110.1	175.2	179.8	216.8	221.7	253.8	260.0	272.5
Royalties	28.6	28.6	28.6	28.6	28.6	28.6	28.6	28.6	28.6

Source: Made by the author

The first step was to analyse its bankability and to establish the maximum eligible loan and to analyze the loan payment using the bankability software provided by the bank. Once these information were established were introduced in the ACB-MININD Online application. The first step was to analyse its bankability and to establish the maximum eligible loan and to analyze the loan payment using the bankability software provided by the bank. These can be seen in the above figure. Once these information were established were introduced in the ACB-MININD Online application. In this circumstance all the financial sources and the equivalent financial costs are introduced in the financial analysis including the loan payment, the interest payment, royalties, income tax.

Figure 2 Financial Performance Indicators (Currency: Thousands RON)

Financial Performance Indicators	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Incremental Income									
Operating income with project	23917.6	23917.6	26084.6	26142.1	26314.6	26372.1	26503.1	26642.1	26789.1
Operating income without project	23917.6	23917.6	23917.6	23917.6	23917.6	23917.6	23917.6	23917.6	23917.6
Total Incremental Income	0	0	2167.0	2224.5	2397.0	2454.5	2585.5	2724.5	2871.5
Incremental expenses									
Operating expenses with project	-14368.1	-14368.1	-15549.9	-15567.4	-15649.9	-16824.4	-15859.1	-16094.7	-16262.2
Operating expenses without project	-14368.1	-14368.1	-14393.1	-14398.1	-14408.1	-14408.1	-14408.1	-14408.1	-14408.1
Total operating expenses	0	0	-1156.8	-1169.3	-1241.8	-1416.3	-1451.0	1686.6	-1854.1
Investment costs with project	-3972.5	-6469.0	37.8	-147.4	-299.0	-252.0	-350.8	-489.4	-523.7
Investment costs without project	140.0	130.0	125.1	14.7	-75.1	-94.7	-106.1	-134.4	-162.4
Total investment expenses	-4112.5	-6599.0	-87.3	-162.1	-223.9	-157.3	-244.7	-355.0	-361.3
Residual value with project	0	0	0	0	0	0	0	0	6750
Residual value without project	0	0	0	0	0	0	0	0	0
Total residual value	0	0	0	0	0	0	0	0	6750
Cash Flow	-4112.5	-6599.0	922.9	893.1	931.3	880.9	889.8	682.9	7406.1
Financial Performance Indicators	2.83%								
VANF/C	-1114.5	THE PROJECT CAN BE FINANCED BY EUROPEAN FUNDING!							
VAN benefits	12944.2								
VAN financial costs	-14058.8								
B/C	0.9								

Source: Made by the author

As can be seen the second step was to analyse the financial performance indicators and to determine if FNPV(K) is higher than 0 and FRR(K) is between 0 and 9. Also the ratio benefits/costs its analyzed as well. The conclusion is that the project can be submitted for European financing.

Figure 3 Financial sustainability of the project (Currency: Thousands RON)

Financial Sustainability of the project	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Positive Cash flow									
Financial resource of project	10148.5	3813	0	0	0	0	0	0	0
Financial Income of project	23917.6	23917.6	26084.6	26142.1	26314.6	26372.1	26503.1	26642.1	26789.1
Total Incremental Income	34066.1	27730.6	26084.6	26142.1	26314.6	26372.1	26503.1	26642.1	26789.1
Negative cash flow									
Operating expenses with project	-14368.1	-14368.1	-15549.9	-15567.4	-15649.9	-16824.4	-15859.1	-16094.7	-16262.2
Investment costs with project	-3972.5	-6469.0	37.8	-147.4	-299.0	-252.0	-350.8	-489.4	-523.7
Loans payment	741	741	1415	1814	1814	1814	1628	1072	104
Interest payment	914	879	739	502	447	357	268	299	166
Income Tax	110.1	110.1	175.2	179.8	216.8	221.7	253.8	260.0	272.5
Royalties	28.6	28.6	28.6	28.6	28.6	28.6	28.6	28.6	28.6
Total negative cash flow	-20134.3	-22595.8	-17870.8	-18239.2	-18455.3	-18497.7	-18388.3	-18143.7	-17357.0
Other cash flows	-73.7	-532.0	1199	1264	1348	1370.3	1400.9	1436.6	1489.6
Total cash flow	13858.1	4602.8	9412.8	9166.9	9207.3	9244.7	9515.7	9935	10921.7
Cumulative Cash Flow	13858.1	18460.9	27873.7	37040.6	46247.9	55492.6	65008.3	74943.3	85865.0
Conclusion of the Cumulative Cash Flow Analysis	THE PROJECT IS SUSTAINABLE!								

Source: Made by the author

In figure 3 the Financial Sustainability of the project is analyzed by using also the information provided by the credit analysis from the banking system. As observed all elements of financial sustainability were considered: since in the beginning only operational expenses were presented in this stage were included also other payments and was analyzed the real capacity of the company to ensure financing resources for loans payments, interest payments, income tax or royalties. Afterwards the project is declared sustainable both by the management authorities of the programme and by the banking system.

4. Conclusions

Since, in the past, the financial analysis performed according to CBA methodology had several inconsistencies with the bankability analysis, an important step seems to be taken by using practical bankability financial information within the ACB analysis. As can be seen from the

presented test case the authors consider that, in this context the ACB Minind application can only be the beginning of reforming the ACB methodology and in the future this approach should be further extended and common solutions accepted by all stakeholders: structural funds management authorities, banking sector and private/public beneficiaries to create common indicators or analysis methodology in order to ensure both the financial sustainability, according to EU regulations and fulfilment of bankability criteria which is requested by the banking sector in order to ensure co-financing of the projects. This research should be further continued by development of a set of common indicators based on both methodologies.

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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 recomended. 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

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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 ne 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 cental 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 contruction and explicit variable stipulations.

III. Measuring central bank independence and it's connection upon inflation in several developed and developing countries

Analyzing the ecomic 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 attibute 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 vallue is based noy 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 oin the central bank statue.

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 Zeeland, Norway and Japan who exhibit lower tenures of the Governor and the Board Members which overlap the political cycle, appoitment 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 Zeeland 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 countries[1]

Country	P_{PL}[1]	Ranking	P_{GC}[2]	Ranking	P_{TA}[3]	Ranking	I[4]	Ranking	I[5]	Ranking
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 Zeeland	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 Zeeland, 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 startegy.

Overall, the corelation with the inflation rate in the developed country group is the following one: the highes 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 Zeeland, 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 Zeeland – 10 percent).

Table 2

Measuring central bank independence and its' relationship with the inflation performances in developing countries[1]

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.

[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.

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 exibits 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 Goovernment 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 establisheh 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 CRUCIAL ROLE OF CENTRAL BANK TRANSPARENCY IN ASSESSING THE MONETARY POLICY COMMITTEE MECHANISM

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In the past, central banks used to be very reserved regarding their activities, strategies and monetary policy decisions and actions. As central banks become more and more independent, transparency gained importance based upon accountability arguments. An important fact for adopting an increasing central bank transparency lies in its importance of influencing the development of expectations. The concept of central bank transparency has emerged in the economic literature relatively later than some other key concepts. The widespread agreement of an inflation targeting regime and a more transparent central bank is desired by the most central banks around the world in the context of the need of the public disclosure of macroeconomic models, the quarterly time series for indicators like: inflation, output, budgetary deficit, public debt, interest rate, inflation expectations, the public announcement of the monetary policy decisions, objectives and targets, the publication of some key monetary tools like: inflation report, financial stability report, monetary policy committee report, annual report. These are all key issues in the construction of a more transparent and independent central bank in the context of a good global governance. Moreover, for the fruitful success of the central bank, latum sensu, and monetary policy, stricto sensu, it must be encompassed a complex monetary policy committee mechanism. This complex mechanism must by edowed with the collegial approach of the monetary policy committee, structure of the voting mechanism within the committee, the importance of the person which announces the changes within the interest rates and the public disclosure of these information's enriched in a communication strategy. This communication strategy is very important for assessing and public understanding of the central bank's actions but also for communicating the objectives, targets and forward looking approaches of the monetary policy in the global context of the transmission mechanism.
Keywords monetary policy strategy, collegial entity, central bank independence, democratic accountability, transmission mechanism
JEL Classification E50, E52, E58

I. Introduction

Transparency has become a prominent feature of the monetary policy during the last twenty years, but the systematic evidence on central bank transparency has been elusive due to the lack of data. In recent years, specialists from the academic field and central banks' analyze and assess the most important trends towards a more transparent and open central bank.

Authors like (Touffut 2008: 2) emphasis that in recent years, a great number of central banks have moved in the direction of greater transparency about their objectives, procedures, rationales, models and data. The author suggests that the problem is whether this trend is widespread and whether it is likely to be transitory or enduring.

Other authors like (David 2009: 19) suggest that within increasing the independence of the National Bank of Romania, and by adoption of the inflation targeting strategy in 2005 the Romanian central bank have become more transparent and accountable.

In the view of (Nier 2005: 343-344) while the hope is that enhanced transparency may improve incentives, *ex ante*, it is less clear whether transparency is necessarily a good thing, *ex post*, when a bank might have hard time and provision on information might have a destabilizing effect.

One of the most comprehensive studies regarding central bank transparency is the one of (Eijffinger and Geraats 2006: 1-21) and presents a transparency index for monetary policy that is based on the disclosure of information relevant for the monetary policymaking process. The authors have come to the conclusion that central bank transparency exhibit important dynamics because the scores for several central banks' have increased significantly over time, especially for economic and policy transparency.

II. Theoretical approach regarding the need of central bank transparency within the communication mechanism

Transparency refers to the physical property of an object to transmit light, which means one can see through it. When applied to concepts, transparent means clear; so colloquially it conveys a positive attitude. In an economic context, a useful economic definition of transparency can be formulated as the presence of information; lack of transparency, or opacity and finally to asymmetrical information.

The study of (Neuenkirk 2011: 1-13) examine the influence of central bank transparency and informal central bank communication on the formation of market expectation. The author have come to the conclusion that using the Eijffinger & Geraats transparency index lead to a smaller bias in expectations and to a reduction in the variation of expectations. Specialist as (de Haan et al. 2007: 1-8) conclude that the trend towards a greater transparency by the central banks it is justified by central bank accountability, because central bank transparency is beneficial from the economic point of view, but it is not clear what constitutes an optimal communication strategy.

Regarding the monetary policy communication mechanism (Farvaque et al. 2009: 534-536) reveal the collective decision approach of today's monetary policy. This feature of modern central banks' implies that a decision has to be taken among committee members' which is likely to affect policy rates, especially if monetary policy committees are heterogenous. Other authors like (Berk and Beirut 2011: 800-801) emphasis that when monetary policy committee members' disclose and discuss the arguments behind their view on interest rate, the quality of the collective decision should be higher compared to merely taking a simultaneous vote.

Despite pursuing monetary policy based on inflation targeting strategies, central banks in Czech Republic, Hungary and Poland have adopted very different communication styles (Rozkrut et al. 2007: 178-200). However, the authors conclude that central bank "talk" does influence the behavior of the financial markets. Other authors like (Ehrmann and Fratzscher 2007: 143-144) suggest that the communication at the Federal Reserve, Bank of England and European Central Bank is generally seen as a tool to prepare markets for upcoming decisions, as it becomes more intense before committee meetings and particularly so prior to interest rate changes.

III. The impact of central bank transparency upon the monetary policy committee

As the central banks' become more independent, the importance of central bank transparency and accountability and their degree of openness about the decision-making process emerged. This is the reason behind the recent reform undertaken by the central banks in increasing the degree of transparency in their monetary policy process. Consequently, it was established the importance of the collegial approach of the decision-making entities of the central banks. For those reasons, in recent year many central banks', especially in developed and industrialized countries, have

established Monetary Policy Committees for the collegial approach of the decision-making process.

Table 1 reveals and highlights the most important central bank transparency indices in a chronological manner measured by the author in some developed and industrialized countries. Moreover, table 1 presents also some key aspects in the monetary policy committee design and mechanism with a possible implication for a good global governance of the central banks. We must suggest that this approach was addressed only in the developed countries, because of the studies made by the authors in this direction, but also because of the transition process regarding the monetary policy committee in the emerging and the developing country group.

The indices for measuring central bank transparency has those of the (Siklos 2002: 10), (de Haan and Antembrink 2003: 5-6), (Eijffinger and Geraats 2002: 17-18) and (Dumiter 2009: 88-89). Analyzing the empirical results of these indices we can observe that the most transparent central banks' are those of Canada, New Zeeland, Sweden, United Kingdom and European Central Bank. At the opposite side are countries as: Australia, Japan, Norway, United States of America.

Table 1

Measuring central bank transparency and it's comparison with the technical variables of a performing monetary policy committee framework

Countries	Siklos (2002)	de Haan & Amtenbrink (2003)	Eijffinger & Geraats (2002[2004])	Dumiter (2009)	Size of committee	Background of MPC members	Organization of meetig	Interest rate proposals	Independence
Australia	6.5	-	8	-	9	CB, ACA, BC	No fixed order	Governor	Free discution encouraged
Canada	9.5	16	10.5	10	6	CB	No fixed order	Staff	Board members receive advice from independent advisors
Japan	8.5	-	8	5.71	9	CB, ACA, BC, GOV	Order changes every meeting	All board members	Voting induces members to think individ

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								ually
New Zeeland	9.5	16	13.5	10	9	CB, BC	No fixed order	Gover nor	No applic able
Norway	6	-	-	9.64	7	CB, ACA, BC, BC	Gover nor starts the discus sion, anyon e	Gover nor	Comm ittee memb ers are expect ed to make own contrib utions
Sweden	10	-	12	10	6	CB	No fixed order	Gover nor	Memb ers say what they think
United Kingdom	10.5	17	12.5	9.64	9	CB, ACA	No fixed order, any person can raise any issue	Gover nor	Memb ers make speech es and appear in Parlia ment
United States	10	11	10	8.21	12	CB	No fixed order, probab ly chairm an domin ates	Chair man	FED Presid ents briefed by their own staff; limited scope for

									dissent
European Central Bank	6	15	10	9.64	18	CB	Chief Economist starts the discussion	Chief economist	Govrnors briefed by own staff

Source: Author's elaboration based on Siklos (2002), de Haan & Antembrink (2003), Eijfffinger & Geraats (2002[2004]), Siklos, Bohl & Wohar (2010).

The four most transparent central banks according to these indices exhibit, in general, *inflation targeting* strategies with a more complex and comprehensive approaches on disclosing macroeconomic data and models, proving information on a timelier basis presenting *forward-looking* analyzes of monetary policy and a complex communication strategy. These central banks have also complex monetary policy committees with a special focusing on: medium sizes of their monetary policy committee (minimum of 6 members in Canada and maximum 18 members in ECB), the backgrounds of their monetary policy committee members suggest that they derive, in general, from the central bank (CB) and academics (ACA), there is, in general, no fixed order in the organization of the meeting, the Governor makes the interest rates proposals and there is a *room to maneuver* regarding the independence of the monetary policy committee members, these members can make speeches and appear in front of Parliament.

In the less transparent countries we can observe that these central banks haven't a transparent monetary policy strategies, because of non-adopting the *inflation targeting* strategy, promoting a very secretive monetary policy, with a very complexes websites and hard to find information or to access document and a lower degree of openness. Regarding the structure of the monetary policy committee mechanism we can observe the following: the monetary policy committee members derive from central bank (CB), academics (ACA), commercial banking sector of financial sector (BC), there is, in general, no fixed order in the organization of the meeting or this order in change at every meeting of the committee, the Governor makes proposals regarding the interest rate proposals, and it is encouraged free discussions between the committee members regarding the independence and openness of the monetary policy committee.

IV. Conclusions

Over the last five years it can be noticed that many central banks around the world reported major reforms in the filed of communication: the publication of endogenous interest rate forecasts, votes of minutes, a reduction in the release time of minutes, a higher frequency of communications, more frequent appearance to legislative bodies. Moreover, we can observe that, in some instances, there has been made a reduction in the number of policy meetings in order to make them coincide more closely with the release of key economic data, and the phasing – out of *forward guidance* – in favor of more direct means of communication.

Central bank communication can be identified as the provision of information by the central bank to the public regarding such matters as the objective of the monetary policy, the monetary policy strategy, the economic outlook, the outlook for future policy decisions.

Many central banks with similar monetary policy objective follow, nonetheless, fundamentally different communication policies; these policies have been developed over time. It is notable to

focus upon the current practices by examining the different types of central bank signals first by *content* and last by *sender*.

Our study wanted to reveal the importance of central bank transparency with a special focusing on the degree of openness of the central banks and its' impact upon monetary policy committee design and mechanism. The results show that the more transparent central bank, more easier it will be to implement and assess a more complex and versatile monetary policy committee which will be able to ease and facilitate the right monetary policy decisions. However, we can observe that central bank transparency was especially quantified in the developed countries with a special focus on the Euro zone, but also on some other developed countries like: United States and Canada. These results suggest that the future studies regarding central bank transparency and its' impact upon the monetary policy committee mechanism must focus also upon some emerging and developing countries for evaluating the transition upon a more transparent and open central bank and of the construction of a suitable monetary policy committee design and mechanism.

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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 influxes.

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 influxes 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 o strong dependence not only of the currencies of these countries but also of the macroeconomic background in rapport with the external financial influxes. 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 influxes. This aspect determined real imbalances after the triggering of the financial crisis. The retreat of the financial influxes 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 am 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.

Acknowledgment

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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 Co-operation 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.

1. 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.
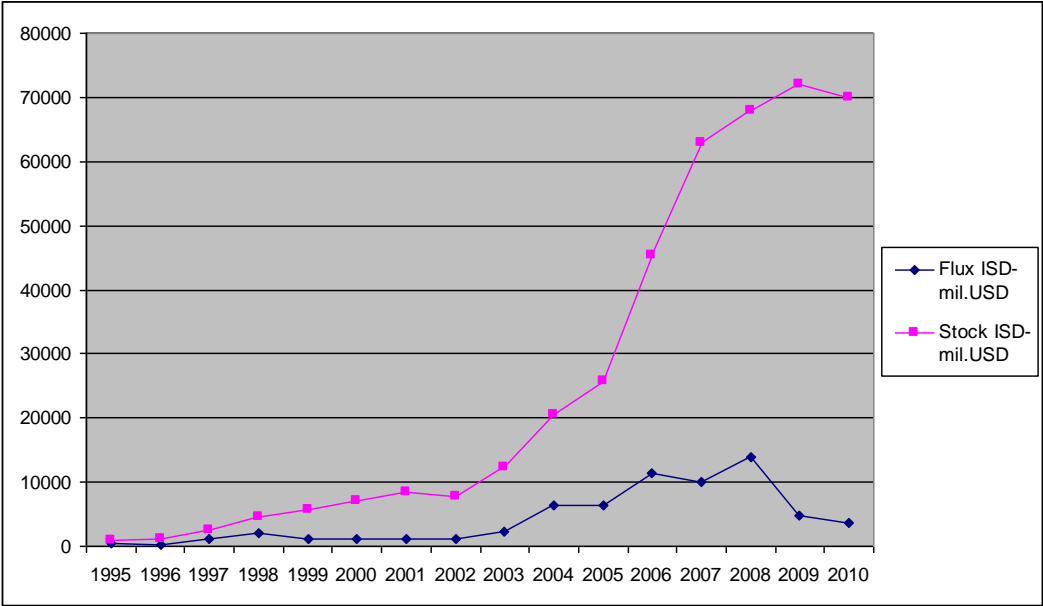
Source: Report of the National Bank of Romania

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%).
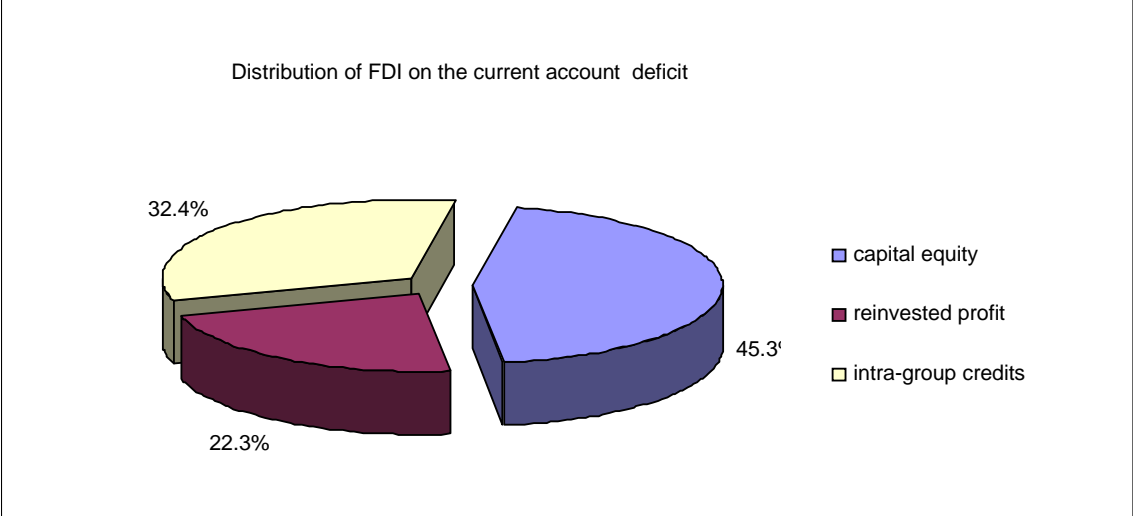
Source: Report of the National Bank of Romania

Figure 2. The structure of attracted foreign direct investments
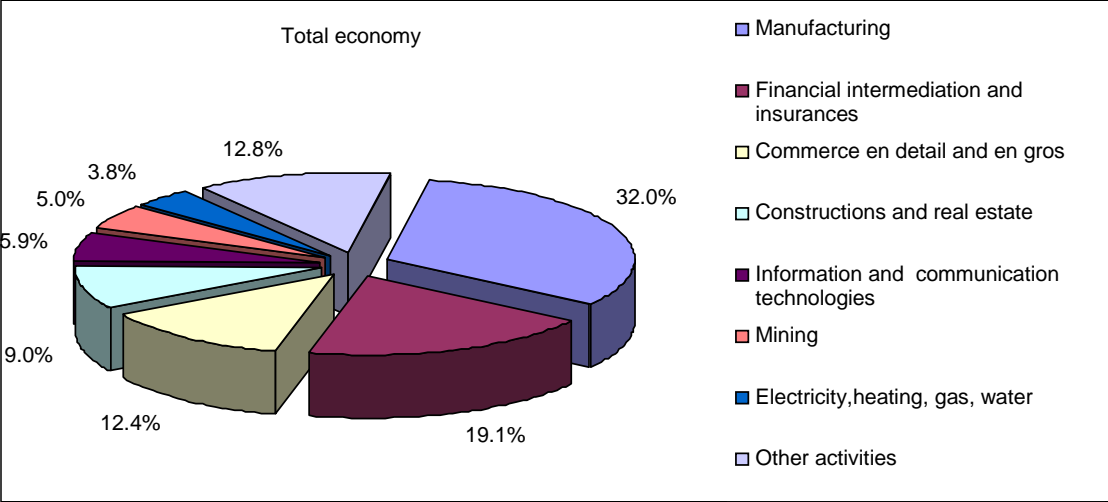
Source: www.reportereconomic.ro

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%).

Manufacturing

- Wood, furniture
- Oil processing, chemicals,rubber, plastics
- Computing technique,electric machines, radio-tv communications
- Textiles, garments, leather
- Metallurgy
- Means of transport
- Cement, glass, cheramics
- Food, drinks and tobacco
- Others

6.9% 6.9% 6.2% 5.9% 5.3% 4.9% 3.2% 3.9% 56.8%
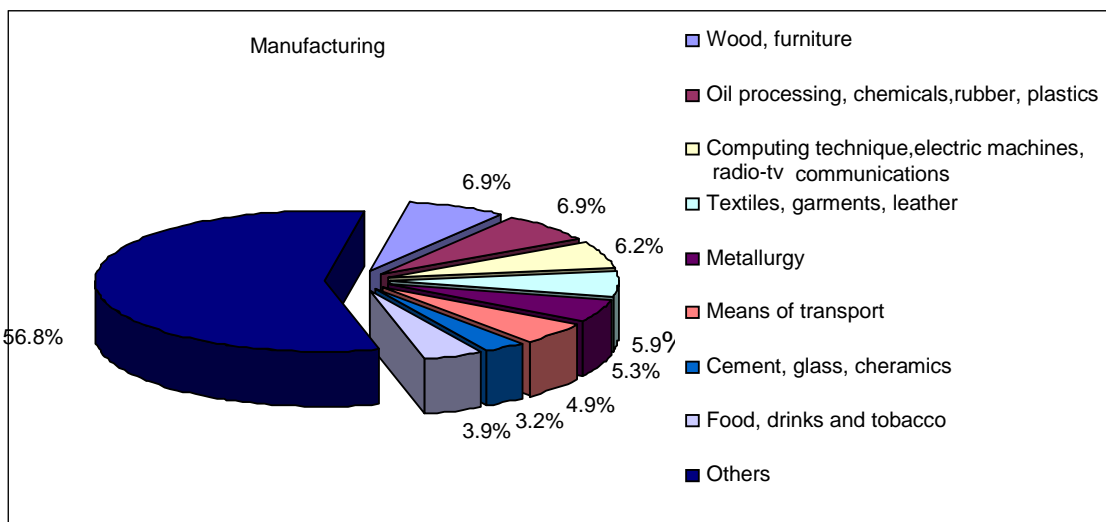
Source: www.reportereconomic.ro

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%).

Foreign direct investments

- Bucuresti
- Centru
- Sud
- Vest
- Sud-Est
- Nord-Vest
- Sud-Vest
- Nord-Est

6.3% 5.8% 3.3% 1.2% 6.5% 7.3% 7.4% 62.2%
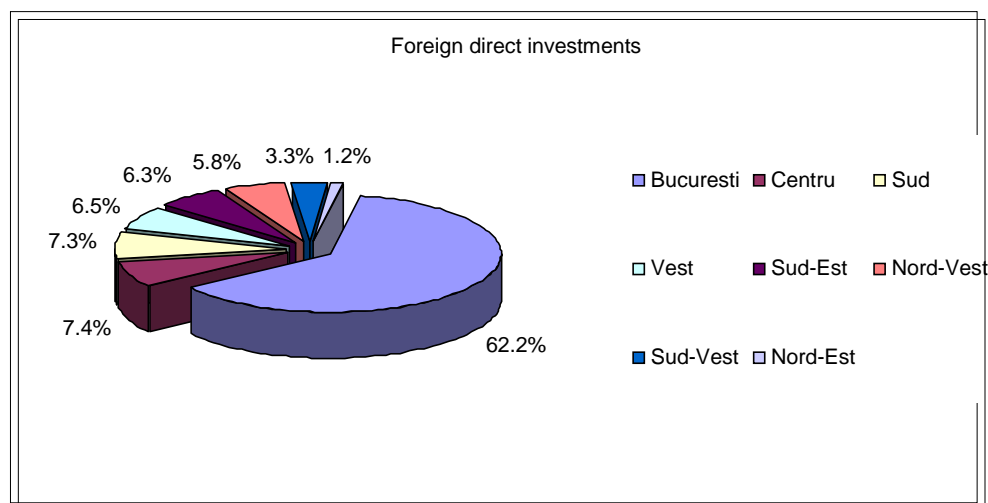
Source: www.reportereconomic.ro

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 Bucureşti-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".
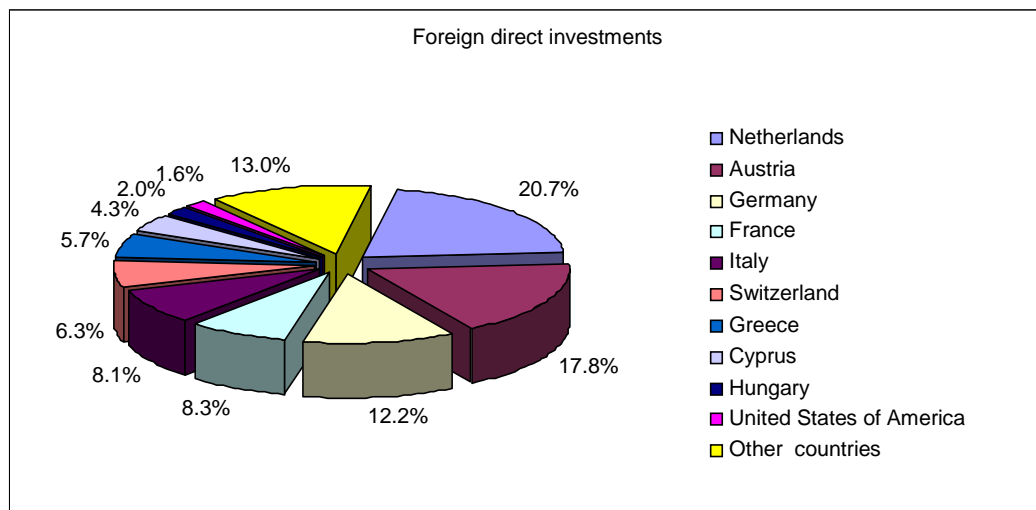
Source: www.reportereconomic.ro
Figure 6. The foreign direct investments by countries of provenience

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.

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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–Raoof (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 (Büyükşalvarci, 2010).

In the most research, the evolution of stock market indices is explained with various macroeconomic indicators. Dimitrova (2005) also tries to explain the reltionships 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 $g(\sigma^2 \mid y)$ 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 − Xˆβ) (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 βˆ and variance-covariance matrix $V_\beta \sigma^2$ y − Xˆβ, where

$$\beta\hat{} = (X' X)-1\ X'\ y\ and\ V\beta = (X' X)-1.$$

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 = β_0 + β_1 * Lei/EUR, BUX = β_0 + β_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 (R^2)	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 (R^2)	0.1869			
Correlation coefficient (R)	0.4323			

Source: Own computation

The table 1. and table 2. shows the function coefficients of determination (R^2), 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 indioces means the SSR, that is the regression deviation of Sum of Squares, namely the estimated BET and BUX (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 $SSE = \sum(y_i - \widetilde{y_i})^2$. 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 hypotesis, 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 excahnge rates changes between 2005-2011
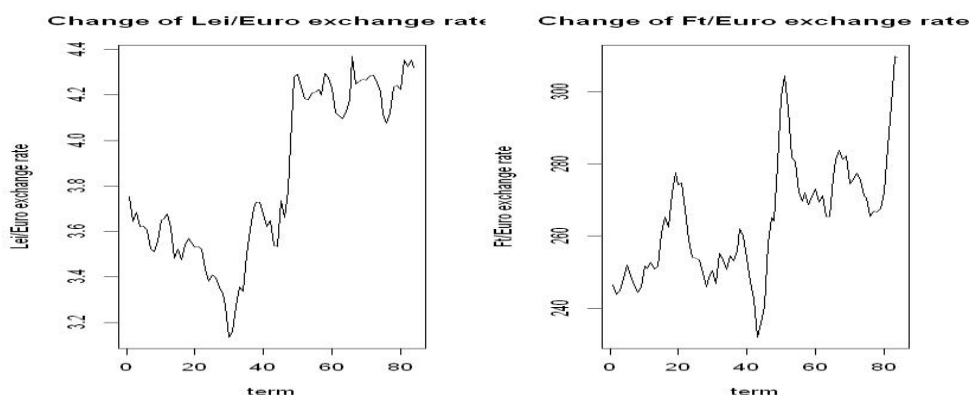
Source: Own computation

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
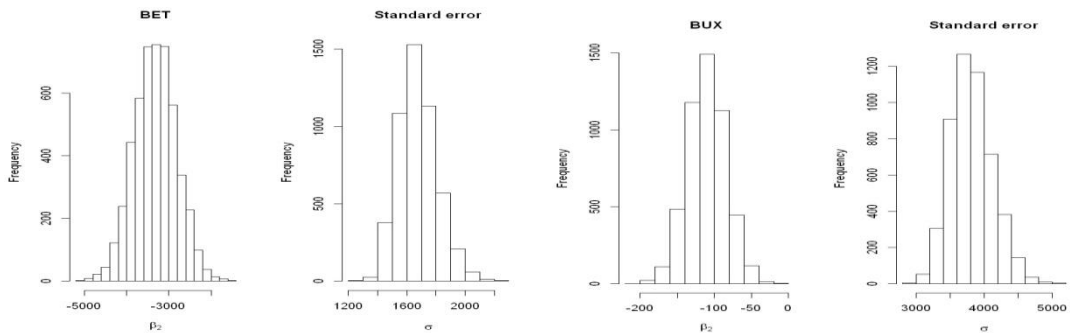
Source: Own computation

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
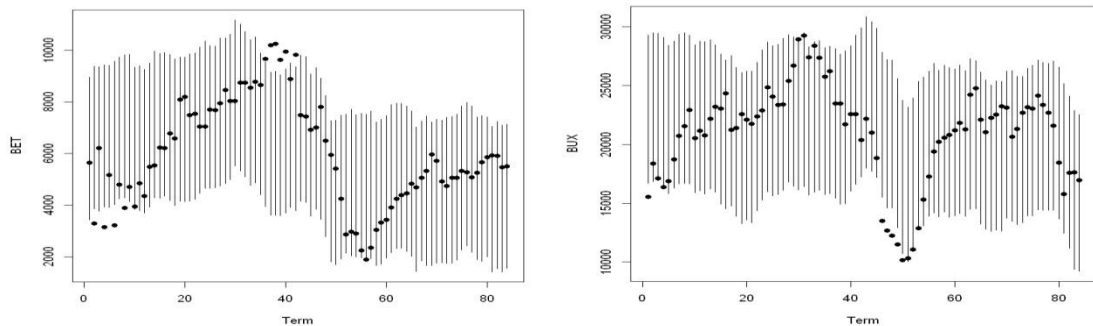
Source: Own computation

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 ROMANIAN CARD MARKET

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This paper presents an analysis of the Romanian card market in the last decade, based on the statistic data, against other Eastern European Countries and its perspectives in the next years. The use of cards is important for banks, due to the significant interests and tax gained this way, but Romanian market is still underdeveloped because of the population behavior in the payment area and due to the lack of the card acceptance infrastructure at the merchants for a long period of time. In Romania, there are still many cards with a cash-withdrawals function, but the Romanian card industry has a great potential, because it was underdeveloped. The crisis was an opportunity on the market cards because the credit products have dropped significantly and banks had to develop other banking products, realized the importance of the cards and began to invest in infrastructure.
Keywords: payments cards, Romania, ATMs.
JEL Classification: G20, G35.

1. Introduction

The Romanian card products have adopted many features of similar products offered in Western Europe and North America, but were adapted to the specific Romanian.

The first cards that appeared in Romania were the debit cards. Their role was to accustom the population with the electronic payments and to get rid of the use of the cash. These goals remain valid and will still take several decades before most people will understand this. The main purpose of this paper is to present the development of cards as a payment method in Romania, against other Eastern European countries, if this payment method was largely accepted by the Romanian population and merchants and what commercial banks have succeeded to promote their issued cards. In terms of banks offering debit cards, they are an efficient and inexpensive modality to attract short-term cash in the economy. The card balances, even if in many cases are relatively small, summarized, are a financial resource that can be recovered with a yield higher than interest paid. The success of debit cards was provided by promotion to pay salaries. Payroll cards provide certainty to their regular use by at least one or two feeds with wages and as many withdrawals. Commercial banks often exerted pressure on companies to introduce cards to employees (Dedu and Ganea 2002: 63).

The credit cards have seen a boom in recent years due to diversification of loan products. The success of consumer leads to a greater measure of consideration about the facilities offered by credit cards. Some banks have tried to limit the use of credit cards to withdraw cash withdrawal fees by introducing prohibitive or simply by limiting cash withdrawals to a certain amount (usually a percentage of the amount borrowed).

2. The evolution of the cards market in Romania

The card market in Romania is booming recording, especially in the recent years, outstanding performances in terms of number of users of this payment instrument, but also on the volume or number of transactions.

Although we are close of what is happening in Europe, the use of a smaller measure of cash, Romania is still far behind the rest of European countries in the number of POS terminals and card acceptance network. The cards market development potential in Romania is very high and this will be beneficial for banks, but also for manufacturers of equipment and technologies specific to the cards (Figure 1).

The card is convenient and profitable for the bank customer to a certain level. This is why in 2010 banks go on various promotions for cards, especially for the credit.

For years the bankers tirelessly promoting the use cards instead of cash, but, paradoxically, does not accept electronic payments from their desks even units where utility bills or taxes are paid only in cash. Several banks have installed their own POS cashiers, but can be used only for cash disbursement (an operation similar to withdrawing cash from ATM, just for when these machines are not functional). Banks can not operate as merchant system, for which the POS installed in their agencies can only make cash withdrawals can not accept payments. Theoretically, the customer may withdraw such cash to make payment of the invoice, but such an operation is commissioned as such by not calling card payments segment, which are free.

Romania will very quickly reach a penetration of credit cards as high as in developed countries, where statistics show that per person are about 2.5 to 3 cards in the wallet. On the local cards market, their penetration is currently very low, only 0.6 cards per person, but the market potential is high. Reported active population, every Romanian has 1.2 cards in his wallet. Currently, between 60% and 80% of cards are standard on the Romanian market, being used as a form of payment and cash withdrawal from ATMs, and the rest are part o the Premium cards, including Gold and Platinum cards (Figure 1 and 2).
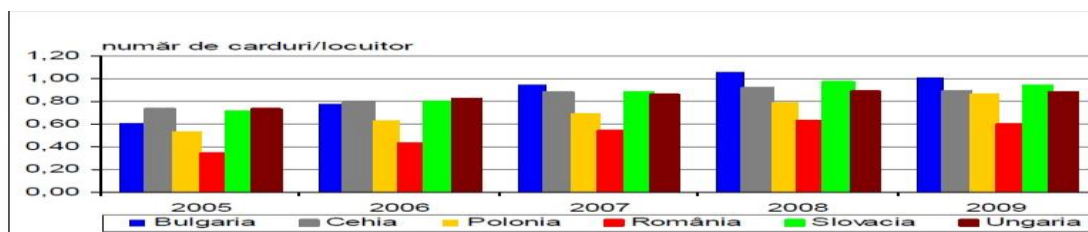
Figure 1: Evolution of the cards for payments/habita in some Eastern European Countries

Source: www.bnro.ro

All Visa card transactions in Romania increased by 23.2% in number, and 32% in value, while the number of Visa cards increased 5.4% to 6.2 million cards in July 2010 (Figure 3). Also, the Romanians spending at retailers that have a Visa card rose by 43.5%, while the number of transactions of the retailers increased by 42.5%. Percentage of purchases with Visa represented 2.2% of all personal expense this meaning that 1 euro every 45 euros spent in Romania was paid with a Visa card. More than a quarter of Visa transactions were made at retailers in 2010, which is a big step from the previous year, with about a fifth of transactions accounted for card payments in shops.
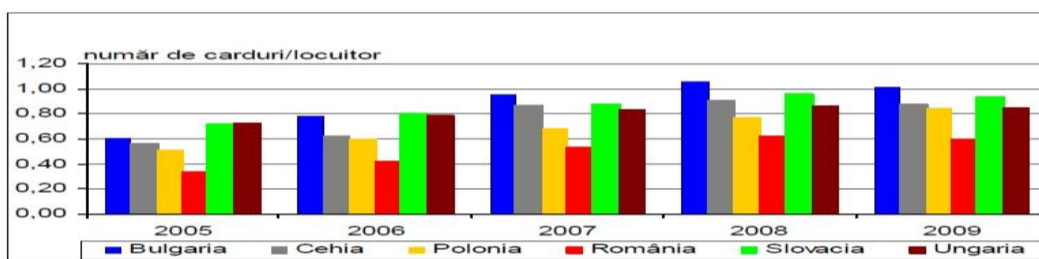
Figure 2: Evolution of the cards for cash-withdrawals/habita in some Eastern European Countries

Source: www.bnro.ro

In the report of the year (2009 - 2010), 26% of Visa transactions were made to traders, while the volume of expenditure in the Visa stores was 12%. This means a constant success compared to 2008, when merchant transactions represented 22% of total transactions and 11% of the total. The average value of purchase transactions is 45 euros, and at a similar level to 2008. The solid increased of the Visa Europe in Romania was supported by the development of the merchants that accept Visa payment card, where recorded steady increased, reaching a total of 74,479 locations in the whole country, with 23% more compared to 2008. The number of cards issued by banks in Romania amounts to 24.66 million at the end of 2009, according to figures from the National Bank of Romania, however, of these, 22,680,000 were valid and were only 11.45 million active cards
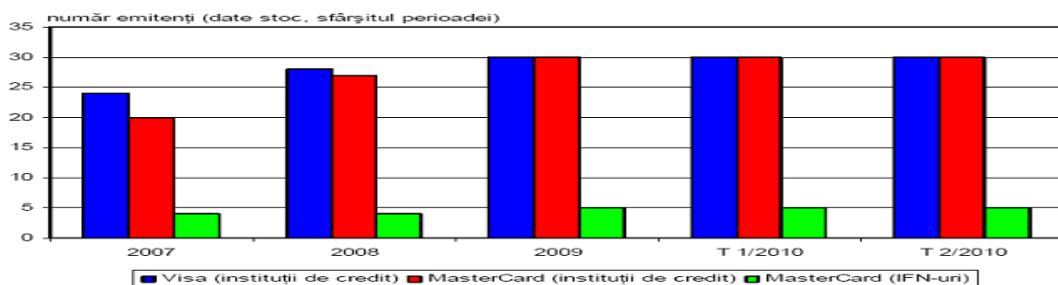
Figure 3. **Evolution of the number and types of cards issuers from VISA and Mastercard**
Source: www.bnro.ro

According to BNR (Figure 3), the number of issuers MasterCard (IFNs) in 2007 was less than 5, keeping the same number for 2008 and in 2009 and early 2010 this figure increased to 5. Regarding Visa (credit institutions) the number of issuers has increased significantly from 24 in 2007 to 27 in 2008, reaching 30 in 2009 and early 2010.MasterCard (credit institutions) had the following evolution: the 20 issuers in 2007, 26 issuers in 2008 and in 2009 and early 2010 a total of 30 issuers. After 13 years of the launching of the first card, in Romania were circulated 21.8 million cards. Regarding the evolution of the number of debit and credit cards, is clearly observed that the flow function has a much higher total number of cards than credit function. Also, debit cards are used in transactions more than credit cards (Figures 4 and 5).
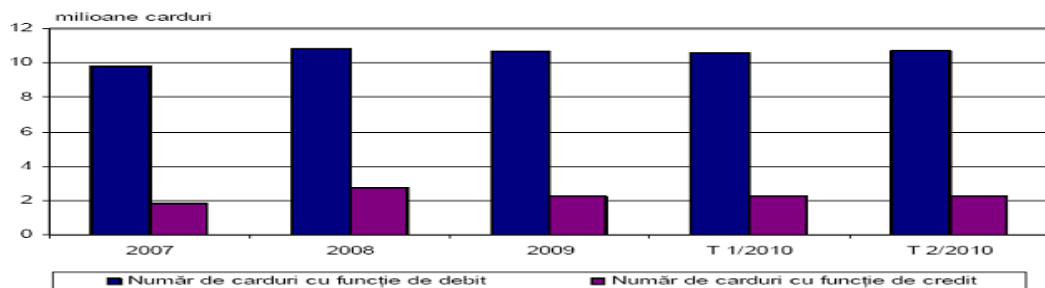
Figure 4 - Evolution of the credit and debit cards in Romania
Source: www.bnro.ro
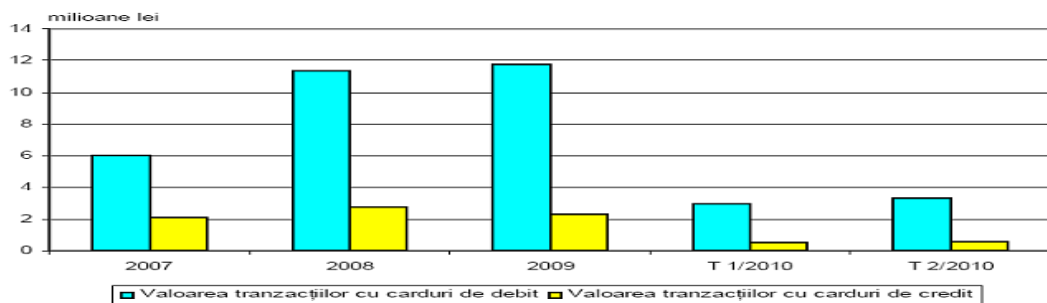
5 – Evolution of the value of transactions with credit and debit cards

Source: www.bnro.ro

Although BCR ended 2009 with a portfolio of cards below the one of 2008, even fewer signed contracts with merchants to accept, BCR has still ranked first in two indicators (counted seven), being the only issuer that bring this about.
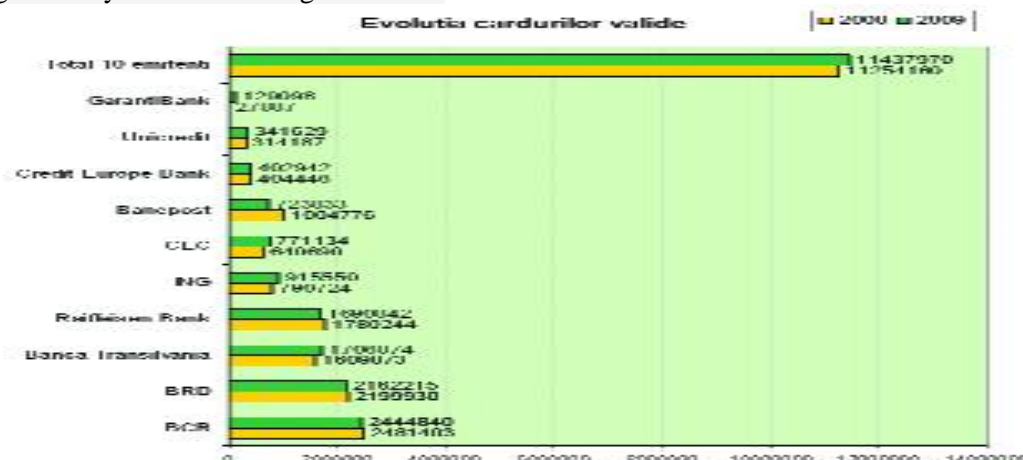
Figure 6. Valid cards evolution in the last decade in Romania (2009 against 2000)

Source: www.bnro.ro

Therefore, regarding the number of ATMs installed and the number of products launched on the market, BCR held first position. Several other banks were market leaders, but only at one criteria: CEC for the number of new cards in circulation – 130.000, Garanti Bank for the number of the POS (2600), UniCredit Tiriac Bank for the number of contracts signed with retailers (over 6400), Transilvania Bank for the number of the open card accounts (117600) and ING for the use of cards, an increase of 6.7 million transactions from the previous year. The crisis did not mean, necessarily, reducing or postponing investment projects but, rather, increase efficiency by reducing unnecessary costs. So it was massive portfolio adjustments by removing those accounts/cards that were inactive and not generating than maintenance costs for banks and traders who did not realize transactions. Figure 6 shows that half of the top 10 issuers - which hold over 80% of the market - signed in 2009 under the 2008 level in the portfolios of valid cards in circulation.

As a business policy, found that banks relied on credit cards have greatly increased acceptance network. The best example is Garanti Bank, an institution that has made the fastest growing credit card portfolio in absolute terms (over 65,000 cards), while tripling the network of traders. We'll see if taking this risk, to credit on card of a population marked by unemployment and pay cuts, will prove a winning card. Regarding utilization, it appears that all issuers have improved performance in 2008. The exception is only Bancpost. Perhaps, after aggregation with

registered credit cards, the result could be comparable to 2008 - which anyway is a great performance, since the card portfolio of Bancpost decreased by almost 300,000 in 2009.
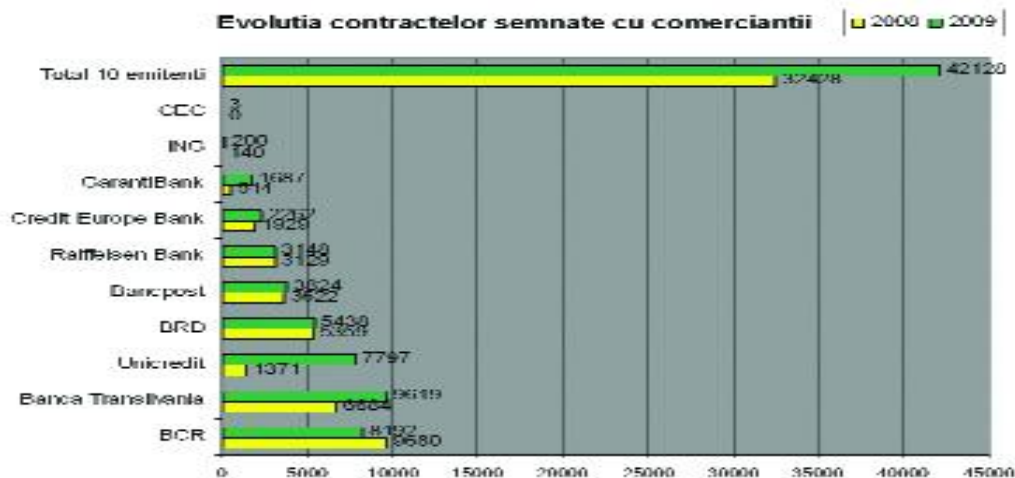
Figure 7. The evolution of the contract signed with the commerciants
Source: www.bnro.ro

From the annual increases related key market indicators cards, it appears that banks expect a change in behavior of the users who ultimately will increasingly exploit the fact that payment to the merchant is not commissioned. Reducing costs is a burning issue for both banks and any family budget. The figures for 2009 show clearly that most investments were made in the development of merchant acceptance, where there is a growth rate of 30%. Basically, the same number of cards, we have the third most merchants where you can make an extremely wide range of shopping (Figure 7).

3. Conclusions

The Romanian cards market has seen growth in the recent years as one of the most active region in all its elements: issuance, dynamic installation of new POS and ATM terminals, volumes of payment transactions or cash withdrawals. Although the first cards were issued to us about 16 years ago, cardholders behavior was still a nascent market, that just 12.5% of transactions are made at merchants (Dedu, Enciu and Ghencea 2008: 45).

The card industry has great potential in the private sector, especially in crisis situations, especially for the survival of SMEs and to finance products on the market. At the population level, there is willingness to replace the payment with cash by electronic payment instruments, especially if there are benefits in use of them (no fees are charged, are offered loyalty programs). In sum, cash payment remains the most commonly used payment method and payment card in stores is becoming more and more appeal to those who resort to this method of payment. However, the benefits of cards are less known by the population, no fees to pay by card in store. The payment of the utilities directly to the ATM is also an interesting option for the customers, and increase from the point of view of the use and the relevance for the customers. Online payments and Internet Banking service are paying less visible ways, and intention to use them in future is lower. Generally, they are perceived as effective and attractive methods, but difficult to use, which inspires little confidence and are less accessible (Radulescu 2007: 137). The crisis was an opportunity on the market cards because, before this moment, the use of these banking products for transactions was at a fairly low level. Banks were not giving much attention to promoting cards and holders were using them only to withdraw money from ATMs. In addition,

the acceptance of these merchant banking products was quite low. However, with the crisis, banks have realized the importance of the cards and begin to invest in infrastructure. Increasingly, many institutions have begun to focus on customer loyalty programs to promote the increased of the use of cards. Overall, 2009 was a good year for specialized market: the number of jobs increased the number of cards and transactions increased. This trend was maintained, in some measure, also in 2010. As a general conclusion, continuous monitoring and adaptation of the market will become necessary. Existing customer is more demanding, more educated and less tolerant in relation to suppliers of all kinds and especially those of financial services.

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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.

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 specfica 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 found 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
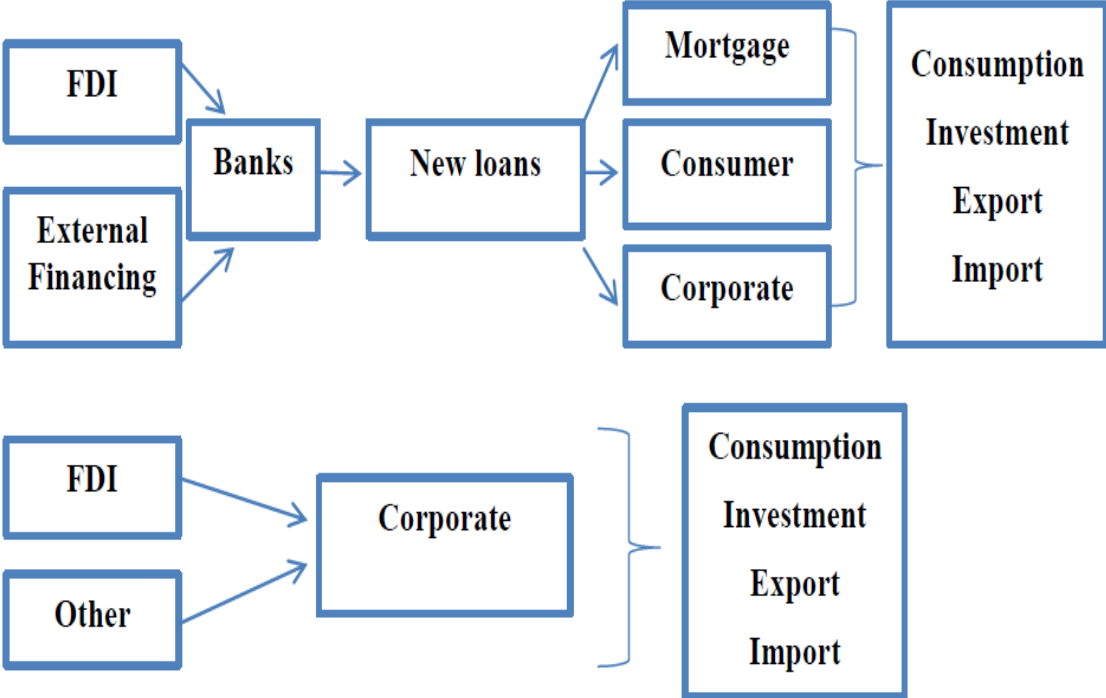
Source: Mitra, 2011;

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
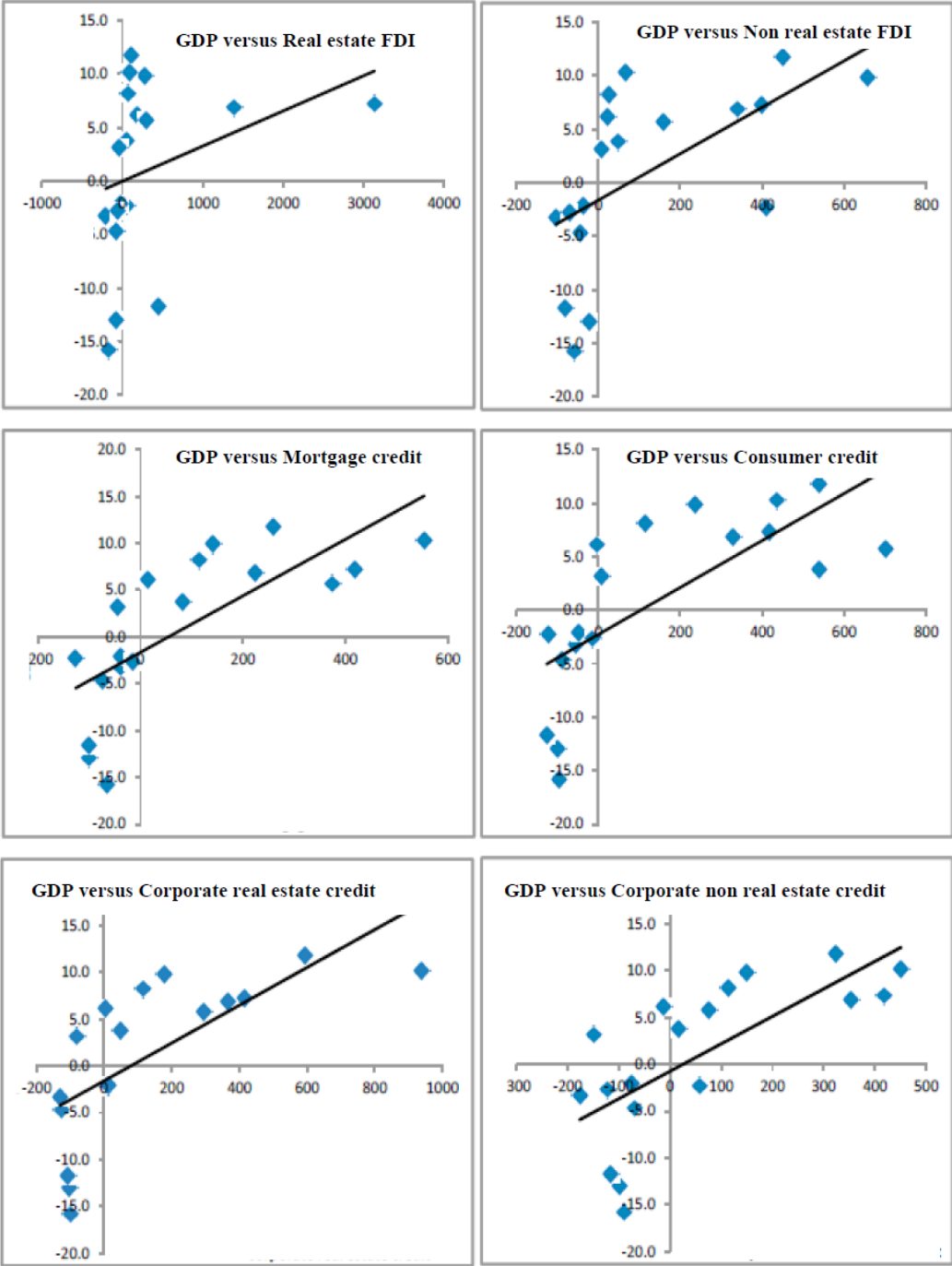
Source: Mitra, 2011;

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, beeing a proportional relationship. However, these relations depends on the sectors in which there are 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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CONTROLS ON CAPITAL MOVEMENTS

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Until recently, capital mobility was encouraged across national borders, because it was considered that such capital can seek the highest rate of return. However, recent global financial developments have shown that, due to contagion, the mobility of capital flows can cause severe financial imbalances.
In the context of globalization, liberalization or maintaining controls on capital flows is a current topic, more debated by economists.
This topic is very important, due to the impact of liberalization decision or maintaining controls on capital flows has on the overall macroeconomic framework. The paper analyzes the relationship between capital flows' control and the income per capita, the degree of central bank independence, democracy country, the foreign exchange regime. Also, it analyzes the effectiveness in time of capital controls, taking account of financial system development and potential risks of instability. Over time, it was observed that a period in which they have imposed restrictions on capital movements was followed by a removal of such restrictions, and vice versa. Cyclic change of capital movements regime corresponds to the cyclic evolution of the global economy.
Full capital account liberalization led to the emergence of currency and financial crises, so that the idea of maintaining controls on capital is not rejected by economists. After a full liberalization of capital flows, there is a change in the mentality of an increasing number of economists, who support the maintenance of controls, in a gradual liberalization.

I.Introduction

Liberalization of capital flows is one of the four single market freedoms: free movement of persons, goods, services and capital. Liberalization of capital flows has been undertaken in many countries around the world, the methods used being different.

Periods of restrictions on capital movements were followed by periods of removal of these restrictions, and vice versa.

Thus, the nineteenth-century liberalism was followed by the imposition of severe restrictions on international movement of capital and foreign trade in the interwar period. The post-war period has four distinct phases:

-phase immediately following the end of the war, when they were taken several measures to liberalize capital movements;

-late '60s, when this trend is reversed, and a large number of countries impose new restrictions on capital flows;

-'80s, when orientation changes again to liberalization;

-in 2011, when after the global financial crisis, it was observed that the large capital flows caused severe financial imbalances, thus it seems that the trend is changing, again, to the contrary.

The cyclical change in capital movements regime corresponds to the cyclic evolution of the global economy.

Currency and financial crises arising from full liberalization of capital account have led economists not to reject anymore the possibility of maintaining controls on capital. Thus, the stage of complete liberalization of capital flows is now followed by a phase of maintenance of controls, in a gradual liberalization.

II. The results of the research

Lipschitz, Lane and Mourmouras (2002) believes that "although capital controls can distort inter-temporal allocation of resources and can be used as an excuse to relax macroeconomic discipline, they can provide temporary protection for emerging economies to volatile capital flows, like interbank loans and portfolio investment". Barry Johnston (1998) said that "the full liberalization of capital transactions and transfers does not mean abandoning all rules and regulations related to foreign transactions".

Capital controls are seen as tools used by governments, in order to earn income. Controls limit the residents' ability to direct their funds residents to foreign investment, in order to avoid financial balance domestic inflation (Alesina and Tabellini, 1989). Authorities may raise reserve requirements on domestic financial institutions, thereby reducing the flow of services costs without eroding the rate of inflation. This perspective suggests that most likely controls are used where the domestic financial system is well regulated and reserve requirements can be used to require financial institutions to control public sector obligations. Epstein and Schora (1992), Alesina, Grilli and Milesi - Ferretti (1994), Quinn, Inclan and Toyoda (2001), Milesi - Ferretti and Razin (1998), Bai and Wei (2000), all considered it unlikely to maintain controls in countries where central banks have a high degree of independence.

Most studies show a negative association between controls maintenance and income per capita. Mean, the more developed is the country, the more likely to be removed restrictions on capital flows. In the current period is noted that all countries with high income have already removed controls on capital movement.

Another area of literature examines the association of the controls with the exchange rate regime. Largely, it is recognized that capital mobility increases the difficulty of operating a stable currency. For countries with fixed exchange rates, is unlikely to have an open capital account (Leblang, 1997; Milesi - Ferretti, 1998, Leblang, 1999, Garrett, Guisinger, and Sorens, 2000).

Many economists believe that democracy is positively associated with capital account liberalization (Quinn, 2000; Garrett, Guisinger, and Sorens, 2000). Thus, democracy is seen as a mechanism used to resolve social conflicts, resorting to forced financial repression and inflation. Democracy provides an impetus for recognition of rights, including international economic rights of residents, who have a greater ability to support the removal of restrictions on their investment options (Dailami, 2000).

According to IMF (1999), in the period 1993-1997 were 106 cases that have introduced new controls on capital, the majority of them restricting their most open positions of banks in transactions with non-residents and credit expansion. The reasons are different, or maintain monetary policy autonomy in a fixed rate regime, or limit the volatility of financial markets within a variable course.

Various studies have shown that the effectiveness of controls on capital is limited in time, because there are ways to avoid them (Johnston, 1998). The more developed financial system, the financial intermediaries are easier to avoid some sort of control.

Peter Garber (1998) highlights the risks to avoid prudential controls over capital. He argues that whether a uniform tax on all gross capital inflows, the gross transactions will move offshore and students will eventually apply only net inflows.

Also, if you require different controls that allow investments in shares, but limited short-term investments with fixed interest, then capital flows will enter the path of the least closed. Often, developing countries have preferred a fixed exchange rate regime to control inflation, considering the exchange rate as a nominal anchor for prices. This policy option has its risks, which can be mitigated through controls on capital. In the specific context of fixed exchange rates, capital controls aim is or to improve the effectiveness of monetary policy, or to prevent speculative attacks.

In the mundellian traditional model, the capital controls allow the central bank to hold authority over monetary policy under a fixed exchange rate (Johnston, 1998, Edison and Reinhart, 2001). The cost of capital movement between the host country and the world requires a difference between interest rates in the country and abroad. In particular, a type of aggregate demand crisis, if requires a tax on capital outflows, the central bank may maintain, at least for a time, an interest rate below the international level. Conversely, if the central bank wants to limit capital inflows in an overheated economy, will enter a kind of tax on capital inflows, targeting an interest rate higher than that which would satisfy the interest rate parity condition.

Another issue refers to the controls that want to prevent speculative attacks on exchange rate parity. Incentives for a speculative attack are high: if the attack fails and the central bank manages to defend the parity, the speculator loses only interest for the period, but if the attack succeeds, causing the local currency depreciation, gains can be very large.

To deal with speculative attacks, governments may set ceilings for short-term loans granted by non-resident banks, and limit their interventions term market, they can also limit foreign currency outflows. Offshore markets for its currency, which generally escapes supervision of the central bank, should be closed. These are emergency measures, compared with prudential measures that are used in normal times (Edison and Reinhart, 2001). During the Asian crisis, Malaysia has introduced such emergency measures.

In the context of flexible exchange rates, capital controls motivations differ. Currency fluctuations are usually associated with loss. By imposing a cost on capital inflows and outflows in the short term in a flexible exchange rate regime, can achieve greater stability in capital flows. However, there are risks that cannot be neglected in the fact that reduced volatility of flows can cause high volatility of asset prices (stocks, exchange). Perhaps, controls on capital transfers adjustment costs from quantity to prices (Calvo and Rodriguez, 1979).

If monetary policy is exclusively dedicated to maintaining price stability, the country can only rely on fiscal policy to counter a negative demand shock. However, according to traditional mundelliane analysis, assuming perfect capital mobility, fiscal policy in a small open economy is completely ineffective in a flexible currency regime: any increase in public spending increases the interest rate, rate is estimated and the net exports fall. At the end of adjustment, additional deficit induces a current account deficit further, without real impact. In this context, a tax on capital inflows will limit their volume, will moderate the appreciation and could support a counter-cyclical fiscal policy effectively (Dăianu ed., 2002).

Regardless of the currency regime, capital inflows cause real appreciation of national currency. Net capital inflows have counterbalance the trade deficit. If the trade deficit is used to finance value investment projects, should not be any cause for concern. However, if foreign saving serves financing the budgetary deficit, consumption of imported goods or speculative real estate investments, things can be different. How the two destinations cannot be separated (and even if they could, financial intermediaries would find ways to avoid), it is very difficult to achieve selective controls to prevent speculative flows, but to support good investments (Dăianu ed., 2002).

In general, economists that have conducted empirical research tend to agree that, the controls that are intended to reduce the aggregate capital inflows were not very effective, but have contributed to changing the structure of foreign flows for long-term financing (Montiel and Reinhart, 1999).

Recent financial crises and financial instability reveals major risks that may be associated with short-term capital investments. Economic policy measures, which seek to limit this type of investment seem attractive lately.

One of these measures is the introduction of the Tobin tax. James Tobin, Nobel laureate for economics, suggested that any international transfer of capital would be subject to a small ad valorem taxes and the fees to be inversely proportional to the duration of the investment. For example, a fee of 1% (which means 2% for the round-trip of a particular capital) is equivalent to

an annualized 27% tax, if the funds are only one month in the country, than a fee of 0.2% annualized, if funds are 10 years. Tobin viewed this measure as a means of limiting the mobility of capital, which would allow the central bank to regain a degree of control over monetary policy, in a fixed exchange regime. Note that this tax penalizes both inflows and outflows of capital. Therefore, it may be helpful in reducing the aggregate flows, but not necessarily net flows. However, for a developing country, with little capital outflows, a Tobin tax would reduce the net volume flow.

Another measure of short-term investment is the establishment of the unpaid discriminatory reserve requirements. This measure affects only the capital inflows, not the capital outflows. It is generally imposing different reserve requirements for banks lending to nonresidents, and can be extended to any type of capital. Usually, the regulations define these reserves as a percentage of borrowed capital and impose a minimum interval of time for these deposits. So, stocks are not necessarily the same duration as the loan of which have been established. Reservations are unpaid, so involves an opportunity cost. This can serve to reduce capital inflows, on the whole, or to change the structure of capital inflows, if the distinction between different maturities of financing. Introducing this form of capital control implies an increase in domestic interest rate and a decrease in the forward premium, which could arise from a sharp depreciation of the exchange rate.

If you want to remove all capital inflows, this measure will be applied indiscriminately. If you want to discourage short-term inflows, it may be a short period of deposits in reserve (about one year). Thus, with higher external loan maturity, with the lower cost that the measure it induces the debtor.

As noted, the Tobin tax and deposit formation unpaid, for a year, for any investment, may discourage short-term funding. If short-term loans become more expensive, other forms of financing, such as foreign direct investment (FDI) become more attractive. Do not forget, however, that foreign investors may demand a higher risk premium for long-term loans. In this case, debtors could assume short-term financing risks, than to face a lack of funding at an interest rate that seems reasonable to them (Rogoff, 1999).

III. Conclusions
- Inverse relationship between maintenance checks and income per capita. Mean, how the country is more developed, the more likely to be removed restrictions on capital flows.
- Unlikely to maintain control in countries where central banks have a high degree of independence.
- Democracy is positively associated with capital account liberalization.
- Effectiveness of capital controls is limited in time, because there are ways to avoid them. The more developed financial system, the financial intermediaries are easier to avoid some sort of control.
- Existence of risks, in the case of avoiding prudential controls over capital.
- Regardless of the currency regime, capital inflows cause real appreciation of national currency.
- Overall, controls that intended to reduce the aggregate capital inflows were not very effective, but have contributed to changing the structure of foreign flows in favor for long-term funding.
- Recent financial crises and currency instability reveals major risks that may be associated to short-term capital investments. Measures to limit this type of investment: Tobin tax, unpaid discriminatory to hold minimum reserves.
- After a full liberalization of capital flows, there is a change in the mentality of an increasing number of economists, who support the maintenance of controls, in a gradual liberalization.

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THE INFLUENCES OF INFLATION ON THE MONETARY POLICY INTEREST

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In the context of sovereign debt crisis in Europe, a crisis entirely felt also in the direct relation between credit institutions, the National Bank of Romania (NBR) adopted a monetary policy strategy meant to determine the reinforcement of its image, by initiating in the autumn of 2011 a new series of reduction of the monetary policy interest rate and implicitly the appropriate resizing of liquidity conditions. By increasing the role of liquidity adjustment, the European Central Bank (ECB) succeeded to determine in the money market the decrease of interbank rate interests under the interest rate level of monetary policy.

The direct inflation targeting strategy used by the European Central Bank in applying its monetary policy has the first criterion of implementation the expression of inflation target in terms of „headline inflation" (consumer price index - CPI) given that the economic market in Romania is familiar with this indicator. Also, the main criterion considered by the investment segment of the market to achieve capital infusions in economic transactions is represented by the consumer price index, this one ensuring the necessary transparency related to the effects of inflation phenomenon. A strong argument supporting the use of consumer price index in monetary policy is represented by its upward flexibility towards the limited effectiveness of monetary aggregates in sizing inflationary anticipations.

The downward slope of inflation phenomenon, in whose depreciation the evolution of consumer price index, whose positive trend surprised the European Central Bank, played a significant role, determined adjustments in the monetary policy strategy of the National Bank of Romania and at the same time the achievement of the inflationary target proposed with a direct effect on the monetary policy interest rate.

The same measure to reduce the key interest rate is outlined in the monetary policy of the European Central Bank and it is mainly due to the decrease of inflation phenomenon, although at the end of 2011 important quantities of liquidities were introduced in the financial system. It remains to be analysed to what extent the inflation phenomenon will be possible to manage under the conditions of the renewal of economic instability in the euro area and to which direction this aspect will influence the monetary policy of the National Bank of Romania.

Keywords: inflation, monetary policy, interest rate, monetary policy strategy, CPI
JEL Codes: E31, E42, E52, E58, E63

Introduction

The formal nature of the subject proposed should lead us to a strict analysis of the result of the National Bank of Romania monetary policy after getting over a year, respectively 2011, which exceeded positively the inflation forecast.

In other words, the monetary policy strategy of NBR, respectively targeting inflation had the expected efficiency while the positive response of the real economy, even unexpected in relation to the forecast came to support this strategy.

To what extent the tendency to respect the inflation forecast is sustainable, NBR explains us in the *Inflation Report in February 2012* which includes a more or less relevant analysis of the evolution of inflation in the last year, but synthetic, instead, effective leverages of the analysis of forecast compliance are given only in terms of monetary policy proposals, although as we can see the trend rate of monetary policy is in decline.

On the other hand, with reference to the NBR arguments we are somehow prompted to analyse this decrease, starting with 2nd November 2011 from 6,25% to 6,00% of monetary policy rate and compared to the onsumer price index evolution which at the beginning of 2012 , respectively until March enrolled to a slightly descendent trend.

The credibility of NBR forecasts was slightly shaken by the positive evolution of real economy, but not on the downside, only anticipatively, which determined an immediate reaction of the

European Central Bank in the sense of decreasing the monetary policy rate. We can see thus in the NBR reaction a decisive influence generated by the inflationary phenomenon.

The risks to which we submit in terms of actual inflation need to be treated in the light of euro area, an area where intermediate forecasts are in terms of a moderate recession with signs of stabilization given that the inflation weighted 2, 3% in European Union (EU) and 2,1% in the euro area. It is not insignificant that in this area the forecast was scaled upward due to higher energy prices.

Regarding this matter and the strategy of monetary policy in the euro area the Commission Vice President responsible for Economic and Monetary Affairs, Olli Rehn (2012) declared: „*Although the growth observed recently is stagnating, the European Economy gives signs of stabilization. The overall economic sentiment indicator remains low, but the tension in financial markets began to decline. Many of the key measures were taken to ensure the financial stability and to establish the necessary conditions for the sustainable growth and the creation of jobs. If we take decision actions, we can overcome the situation and move from stabilization to economic growth and employment.*"

Highlights of monetary policy strategy in view of National Bank of Romania and The European Central Bank

The monetary policy practiced over the last seven years by NBR starting with 2005 was based on the declared strategy of inflation targeting. This strategy aims clearly the consumer price stability by respecting a proposed inflation target.

Although the final objective of monetary policy under this approach is the consumer price stability, the intermediate or operational objective is to meet the inflation target in the amount self-imposed or imposed by the government, a key element of this strategy representing the specification of target inflation.

Basically the purpose of monetary policy is to stabilize consumer prices regardless the monetary mass in circulation, the target being the level proposed and accepted of inflation, taking into account the fact that the presentation of inflation forecast allows the controlling of tendencies and inflation expectations and, on the other hand, the real situation of a significant time lag between increasing the amount of money in circulation and accelerating inflationary trends. NBR adopted and maintained a relatively distinct condition in the European Central Bank strategy basically to apply its monetary policy, both before and after Romania entered the EU and which firstly gives a central role to its coin when applying its policy, considering that by controlling monetary mass we can avoid the long-term inflationary phenomenon and secondly, a secondary role in stabilizing prices in the euro area through an assessment of their progress.

It is true that the markets where the two banks perform their duties – NBR and ECB – are differentiated by not using the same monetary standard and the forecasts about the phenomenon of inflation are apparently inconsistent, however, due to the possibility of free movement of goods and services in the European Union, the consumer price index connects the policies practiced by the two institutions.

As we can observe from the evolution of the consumer price indexes, these are used as significant benchmarks in determining the development of inflationary phenomenon while the control policy of inflation and achievement of inflationary threshold in NBR determined the correlation of interest rate with the trends identified in real economy.

The inflation target projected in NBR is to maintain the inflation rate at 3% for 2012 and 2, 5 % for 2013 while the European Commission report estimated that in 2012 the inflation rate of Harmonized Consumer Price Consumer (HCPI) will be of 2, 3% in UE and 2, 1% in euro area.

The evolution of monetary policy interest rate and consumer price index in inflation report

Coming back to monetary policy instruments used by NBR in the strategy that aims to achieve its forecasted inflation threshold we can clearly notice that the monetary policy rate plays a

significant role, its reporting to the inflation being the decision support in the operations used by NBR on the money market.
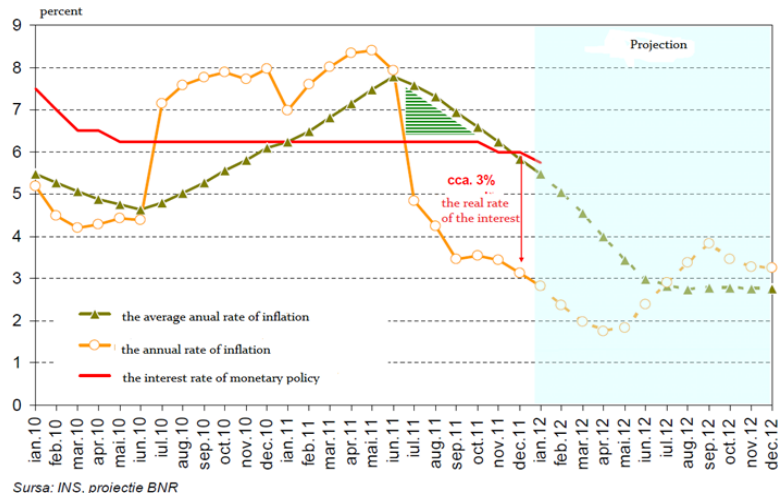
Chart no 1. Forecasted inflation and interest rate of monetary policy (projection 2012)

Source: National Institute of Statistics (INSSE), projection of NBR in the speech "Targeting the inflation. Quarterly inflation", report – February 2012, Mugur Isărescu - NBR Governor

Also this comparative report of the interest rate of monetary policy to inflation determines the inflation target proposed by the European Central Bank.

For the main open market operations of the National Bank of Romania, which are currently one week repo operations, conducted by fixed rate tender interest, the interest rate is the interest rate of monetary policy.

Also, starting with May 2008 the amount of interest of permanent facilities – deposit facility and credit facility – granted by the National Bank of Romania is circumscribed a margin of +/- 4% with the interest rate of the monetary policy.

It is obviously that the repo operations should be carried within a week because they create the early intervention of the European Central Bank over the level of the interest rate of monetary policy in case the interventions in meetings establishing the exchange rate does not produce the desired effect.

Table no 1. Interest rates of monetary policy and permanent facilities

(% p. a.)			
Valid from:	**Monetary policy**	**Credit facility**	**Deposit facility**
30 March 2012	5.25	9.25	1.25
3 February 2012	5.50	9.50	1.50
6 January 2012	5.75	9.75	1.75
3 November 2011	6.00	10.00	2.00
5 May 2010	6.25	10.25	2.25
30 March 2010	6.50	10.50	2.50
4 February 2010	7.00	11.00	3.00

(% p. a.)			
Valid from:	**Monetary policy**	**Credit facility**	**Deposit facility**
6 January 2010	7.50	11.50	3.50
30 September 2009	8.00	12.00	4.00
5 August 2009	8.50	12.50	4.50
1 July 2009	9.00	13.00	5.00
7 May 2009	9.50	13.50	5.50
5 February 2009	10.00	14.00	6.00

Source: National Bank of Romania

Also as we have shown the inflation impact is given by the evolution of CPI in the same extent that the sizing of ECB is done in relation to the *Harmonised Index of Consumer Prices.*

Table no. 2. Consumer price index for March 2012 totally and on groups of goods and services and the interest rate of inflation

	March 2012 towards:			The averate rate of inflation between 1I- 31III	
	February 2012	December 2011	March 2011	2012	2011
Total	100,42	101,42	102,40	0,5	0,7
Food goods	100,64	102,18	99,06	0,7	1,4
Non food goods	100,32	101,12	103,93	0,4	0,5
Services	100,20	100,70	105,40	0,2	-0,1

Source: INSSE Press release no 85/10.04.2012
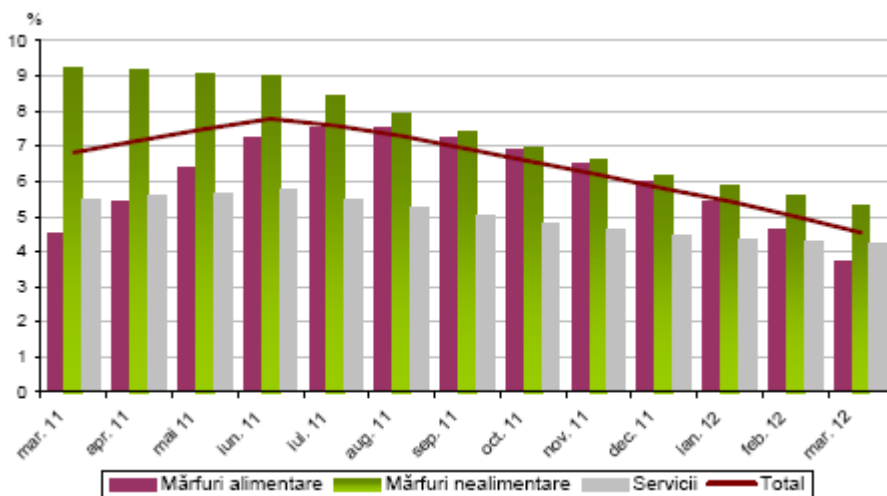
Chart no 2. The average unfixed rate of CPI on 12 months
Source: INSSE Press release no 85/10.04.2012

So CPI inflation is closely connected to the evolution of the interest rate of monetary policy used by the European Central Bank in its monetary policy strategy.

Table no 3. Harmonized consumer price consumer historic and projection

	2006	2007	2008	2009	2010	2011	2012
Belgium	2.3	1.8	4.5	0.0	2.3	3.5	2.7
Germany	1.8	2.3	2.8	0.2	1.2	2.5	1.9
Estonia	4.4	6.7	10.6	0.2	2.7	5.1	3.1
Ireland	2.7	2.9	3.1	-1.7	-1.6	1.2	1.6
Greece	3.3	3.0	4.2	1.3	4.7	3.1	-0.5
Spain	3.6	2.8	4.1	-0.2	2.0	3.1	1.3
France	1.9	1.6	3.2	0.1	1.7	2.3	2.2
Italy	2.2	2.0	3.5	0.8	1.6	2.9	2.9
Cyprus	2.2	2.2	4.4	0.2	2.6	3.5	2.8
Luxembourg	3.0	2.7	4.1	0.0	2.8	3.7	2.7
Malta	2.6	0.7	4.7	1.8	2.0	2.4	2.1
Netherlands	1.7	1.6	2.2	1.0	0.9	2.5	2.0
Austria	1.7	2.2	3.2	0.4	1.7	3.6	2.4
Portugal	3.0	2.4	2.7	-0.9	1.4	3.6	3.3
Slovenia	2.5	3.8	5.5	0.9	2.1	2.1	1.6
Slovakia	4.3	1.9	3.9	0.9	0.7	4.1	1.9
Finland	1.3	1.6	3.9	1.6	1.7	3.3	3.0
Euro area	2.2	2.1	3.3	0.3	1.6	2.7	2.1
Bulgaria	7.4	7.6	12.0	2.5	3.0	3.4	3.0
Czech Republic	2.1	3.0	6.3	0.6	1.2	2.1	3.0
Denmark	1.9	1.7	3.6	1.1	2.2	2.7	1.8
Latvia	6.6	10.1	15.3	3.3	-1.2	4.2	2.5
Lithuania	3.8	5.8	11.1	4.2	1.2	4.1	2.6
Hungary	4.0	7.9	6.0	4.0	4.7	3.9	5.1
Poland	1.3	2.6	4.2	4.0	2.7	3.9	3.5
Romania	6.6	4.9	7.9	5.6	6.1	5.8	3.0
Sweden	1.5	1.7	3.3	1.9	1.9	1.4	0.9
United Kingdom	2.3	2.3	3.6	2.2	3.3	4.5	2.7
EU	2.3	2.4	3.7	1.0	2.1	3.1	2.3

Source: The press release of the European Commission: "Intermediate forecasts for the euro area: a moderate recession with stabilizing signs", Brussels, 23.01.2012

Conclusions

The behaviour of the evolution of the interest rate of monetary policy relative to inflation and the fact that the European Central Bank applied a significant correction of this rate following the economy reaction and resizing the real inflation positively led us to realize this analysis.

It must thus consolidate the credibility of the NBR as through the signals of the market, inclusively through establishing an interest rate of monetary policy related to an inflation target strictly forecasted, we can determine the reinforcement of the image of real economy and the development of investment sector.

Through his messages and his goals the NBR will be able to create an accurate picture over the inflationary trends and also over the viability of long-term investment.

The enlargement of investments due to the accurate determination of inflationary expectations generates successive increases in consumption of goods and services and also relocation of available manpower.

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LENDING IN FOREIGN CURRENCY AND CURRENT CHALLENGES AT EUROPEAN LEVEL

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In recent years, most countries in Central and Eastern Europe, Member States of the EU, that we selected for the analysis (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania) have recorded a significant expansion of lending in foreign currency, which was one of the major factors of the accelerated growth of loans to economy. Such developments have led to an increase of indebtedness in foreign currency of the non-financial private sector, especially of the households and of the accumulation of major macroeconomics and financial imbalances.

The extremely negative implications of lending in foreign currency on financial stability in most countries under review, outlined clearly in the context of the current crisis, determined the focus of the policymakers concern, both at European and national level, regarding the issue of foreign currency loans, which became one of the most discussed issues on the agenda of the monetary-financial authorities.

The aim of our research is to comparatively underline, based on the example of the panel countries, a few stylized facts about lending in foreign currency, and also the main factors which determined the growing share of loans in foreign currency, the risks for financial stability generated by the loans denominated in foreign currencies and the challenges that arise for the monetary-financial authorities, both at national and European level, in the current context and in the post crisis period.

The methodology used in our paper starts with an extensive literature review in order to underline the importance of the research theme approached. The analysis is based on information and statistical data provided mainly by the official statistics of the ECB, IMF, EBRD, Raiffeisen Research, different reports, studies and researches.

Through the content of our research we want to underline the crucial importance of a rigorous monitoring of the foreign lending activities undertaken by the central banks and the supervisory authorities in order to limit the risks and to ensure the financial stability at EU level.

Key words: foreign currency loans, New EU member states, risks, tools, financial stability
JEL code classification: G21, E44, E51

1. Introduction

In the pre-crisis period, most countries from Central and Eastern Europe, Member States of the EU (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania), taken in the analysis, experienced a rapid expansion of lending in foreign currency, which was assessed (Unicredit 2011: 19), as one of the engines of the powerful economic growth because without domestic long-term financing sources of local banks and high domestic interest rates, the use of international funding in foreign currency by the domestic banks have supported local economic growth. On the other hand, foreign currency lending has become a source of instability by feeding the unsustainable economic growth and also the consumption boom.

Extremely negative implications of lending in foreign currency on financial stability in most countries under review, outlined clearly in the context of the current crisis, determined the focus of the policymakers concern, both at European and national level, regarding the issue of foreign

currency loans, which became one of the most discussed issues on the agenda of the monetary-financial authorities.

The aim of our research is to comparatively underline, based on the example of the panel countries, a few stylized facts about lending in foreign currency, the main determinants of the growing share of loans in foreign currency, the risks for financial stability generated by the loans denominated in foreign currencies and the challenges that arise for the monetary-financial authorities, both at national and European level, in the current context and in the post crisis period.

The rest of the paper is organized as follows: *the second part* is dedicated to a literature review; *the third part* reflects a few stylized facts about lending in foreign currency and the main determinants of growing share of loans in foreign currency; *the fourth part* discuss the main risks generated by the expansion of lending in foreign currency and current challenges faced by the policymakers, at national and European level. Our study ends with concluding remarks.

2. Literature review

Lending in foreign currency, the determinants and the risks which they present to financial stability were the subject of numerous studies. Thus, Basso, Calvo-Gonzales and Jurgilas (2007) have argued in the performed analysis, on the example of the 24 countries with economies in transition, that the main determinants of lending in foreign currency was the dollarization of loans to the private sector, the presence of foreign banks that had an easy access to external financing and the interest rate differential between local and foreign currency instruments. In a similar way, Rosenberg and Tirpak (2008) using panel regression analysis for the period 1999-2007 show, on the example of new member states from the European Union and Croatia, that between the main factors that caused a significant increase in foreign currency loans was the interest rate differential between loans in domestic and foreign currency and the extent to which lending is based on funding from abroad rather than domestic deposits.

In the study realized by Csajbók-Andras et al. (2010) in which they analyze household foreign currency borrowing in 10 new EU Member States, the authors confirm among the determinants of lending in foreign currency, the importance of the interest rate differential and exchange rate volatility, and also add as a determinant of the foreign currency loans, the institutional features of bank lending, such as the prevalence of variable versus fixed rate loans.

The study realized by Zettelmeyer, Nagy and Jeffrey (2010) on the example of emerging Europe highlights as the main determinants of lending in foreign currency, which are also the best predictors on the share of lending in foreign currency, inflation volatility, the differential between local currency and foreign currency interest rates and foreign financing of domestic banks.

Another significant issue addressed in the literature in this area regarding foreign currency loans refers to the role of the monetary policy in limiting growth of these types of loans. Thus, besides the mentioned authors there are other authors such as Sirtaine and Skamnelos Sirtaine (2007), Hilbers et al. (2006), Brzoza-Brzezina et al. (2010) which showed that foreign currency loans can be problematic for central banks, in terms of a restrictive monetary policy in order to limit excessive credit growth which may lead to increased foreign currency denominated loans.

Our paper complements the specialized literature on the approached subject, in particular, by highlighting and discussing current issues of high interest for policymakers, both at national and European level regarding lending in foreign currency.

3. The dynamic of lending in foreign currency and its determinants

Extremely rapid growth, expressed through two digits, of loans to economy and the majority share of loans in foreign currency was a significant common feature of financial intermediation for all countries analyzed in the study, except the Czech Republic and Poland. In agreement with the literature (ECB 2010a: 162) it seems that there is a strong link between rapid growth of loans

and lending in foreign currency. The data in Fig. no. 1 shows that the countries where there were recorded the highest rates of growth of loans to the economy (i.e. especially Romania, the Baltic countries and Bulgaria, where the average yearly growth rate was about 51%, over 42% and respectively over 38%) are those where foreign currency lending has a majority position. Therefore, we can say that foreign currency lending was a significant determinant of bank lending accelerated growth in most analyzed countries.

Regarding foreign currency lending as a share of total lending (see Fig. no. 1), we remark with reference to 2008, that the countries considered in the study are distributed between two extremes, as follows: at the upper extremity are Latvia and Estonia, where the share of loans in foreign currency was of 88% and 86%, and at the lower end is Czech Republic with a share of loans in foreign currency only of 14%. Between these two extremes lie Lithuania, Hungary, Romania and Bulgaria where the share was above 50%, while in Poland the share was 34.4%.
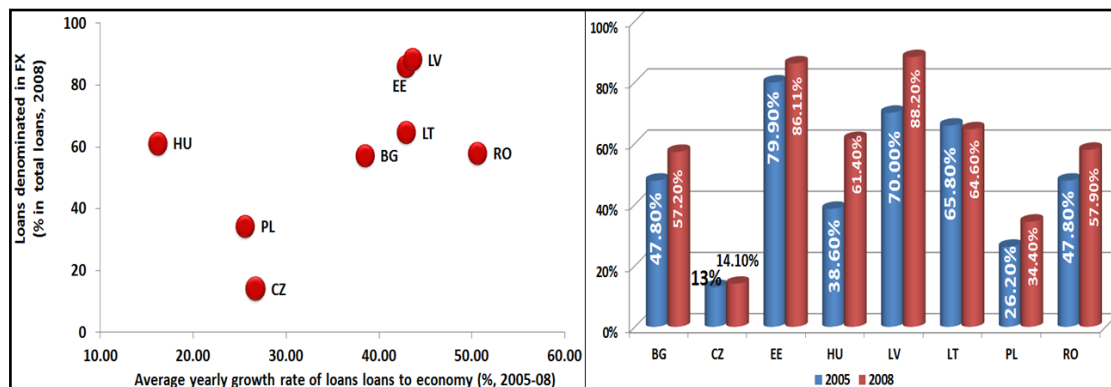
Source: Own calculations based on data provided by ECB, 2008, 2010b, IMF, Country Reports, Raiffeisen Research, 2010

Fig. no. 1: The relationship between loan growth and foreign currency lending (as a share of total lending)

The dominant position of foreign currency lending in most of the analyzed countries is the result of the action of several factors related to both supply and demand (ECB 2010a: 162; National Bank of Poland 2010: 42). Among this factors stands out in particular: on the supply side, financial market liberalization and the increase share of foreign capital on domestic banking markets, which have contributed to increased competition in banking markets and reduced domestic saving which stimulated the increased funding from international markets; in terms of demand of loans, a significant contribution to the expansion of foreign currency lending had the spreads between the interest rates for foreign currency-denominated loans and the interest rates for domestic currency-denominated loans, and also the exchange rate policy, which especially in countries with particularly currency board arrangements has encouraged borrowers to contract foreign currency-denominated loans because the foreign exchange risk was perceived to be small compared with the countries with flexible exchange rate arrangements.

The significant presence of banks with foreign capital on domestic markets and easy access to international financing, particularly through funding from foreign parent banks had a significant contribution to the expansion of foreign currency lending. Also, easy access of banks to foreign capital determined the more rapid increase of credit expansion compared with the domestic deposits, issue revealed by the loan-to deposit ratio, which in 2008 stood at over 100% in all countries, except the Czech Republic where banks have greater independence from external funding. Based on these claims, but also on the data in Fig. no. 2 we remark the manifestation of certain significant direct link between lending in foreign currency on the one hand, and the asset share of foreign banks, and loan-to deposit ratio, on the other hand.
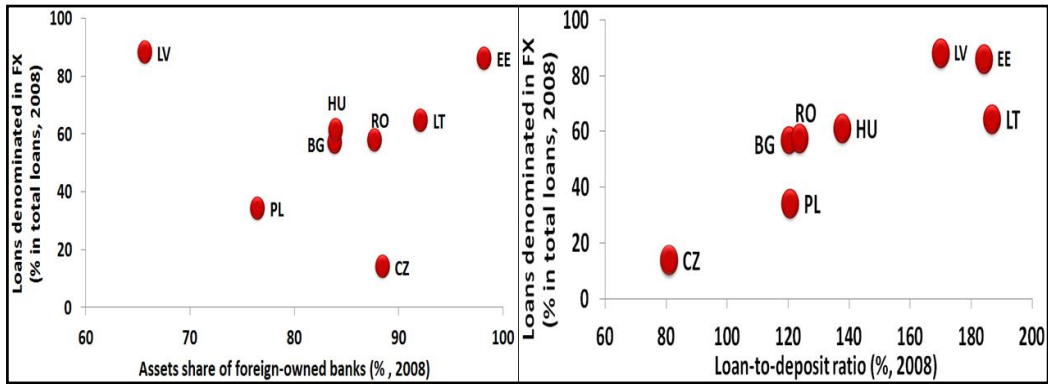
*measured by the asset share of foreign banks and by loan-to deposit ratio.

Source: EBRD, 2010 and Raiffeisen Research, 2010

Fig. no. 2: The relationship between the expansion of foreign currency lending and the dependence of banking sector on foreign capital*

4. The risks generated by foreign currency lending and current challenges

Compared with domestic currency-denominated loans, foreign currency-denominated loans involve a significant additional risk for both borrowers and lenders and the whole financial system, respective the volatility of exchange rates. Under the depreciation of national currency there is recorded an increase of the value of credit in national currency, which can have major negative implications on financial stability given that many of the borrowers do not obtain regular income in foreign currency or they are not protected from exposure to foreign exchange risk (as is the case of households and SMEs). The significant depreciation of the domestic currency means an increase of the value of debt in domestic currency, which leads to the deterioration of the ability of unhedged borrowers to repay their debt and implicitly to the deterioration of the portfolio of bank loans. In this context, it may increase the losses from loans of the banks; reduce interest income and higher provisions. Therefore, in addition to credit risk, the banks are exposed also to earnings risk.

Another major risk that can be generated by the expansion of lending in foreign currency is the risk of financing (ESRB 2011), which may increase while the banks are financed significantly from international markets, rather than retail deposits. The significant reliance on foreign funding of local banks and the manifestation of significant vulnerabilities in countries where banks have their parent banks can lead to major risks in host countries.

Foreign currency lending has major negative implications in terms of financial stability, in particular by increasing bank exposure to real estate market trends, while the foreign currency-denominated loans have a risky share in the housing loan portfolio, like the countries taken in the study, except the Czech Republic.

The expansion of lending in foreign currency and the macroeconomic and financial vulnerabilities recorded in most countries under review determined the policymakers and regulatory authorities to take, during the pre-crisis period, a series of measures, which focused in particular on offer so that foreign lending to be less attractive for banks. Such measures have resulted, in particular (Brown and Lane 2011) in higher risk weights, provisioning or reserve requirements depending on banks' FX exposure, cross-border supervisory intervention, and monitoring FX risk. In terms of demand, only some countries (notably Poland) have adopted reduction measures targeted in this regard, such as the obligation for banks to inform borrowers on the risks posed by foreign currency loans and tightening of eligibility criteria for such loans. But, overall, the efficiency of these measures was limited; especially if we consider that in the analyzed countries full capital mobility is a reality.

In the context of the crisis in most analyzed countries has been a deterioration of the economic and financial situation of the private non-financial sector, a depreciation of national currencies and increased exchange rate volatility, lower asset values, particularly of the housing, so that some unhedged borrowers could not honor their foreign currency debts, which led to a rapid deterioration in loan portfolio quality and a high percentage of bad loans, especially in Latvia, Lithuania and Romania, with a significant negative impact on the profitability of banks. On the other hand, it is surprising that in most analyzes countries foreign currency indebtedness of the private non-financial sector and especially of households, remains at a high level, fact that may threaten financial stability. These facts highlight the need to focus the efforts of policymakers to adopt new measures to limit lending in foreign currency, and especially the vital importance of the adoption of uniform measures at European level to limit the risks of foreign currency loan growth and increasing resistance in the EU financial system.

The major negative issues that may arise from lending in foreign currency in the analyzed countries, in terms of financial stability at the EU level, have determined the establishment of The European Bank Coordination – Vienna Initiative, a working group, that focus on lending in foreign currency analysis. The report prepared by the Working Group, entitled "Report by the Public-Private Sector Working Group on Local Currency and Capital Market Development" promotes as key measures to limit lending in foreign currency: the reduction of foreign currency lending to unhedged borrowers, developing local capital markets and stimulation of domestic savings.

Also, in terms of concerns for financial stability in the EU and given the systemic risks that may have the high level for lending in foreign currency, The European systemic Risk Board (ESRB) has published in October 2011 a list of seven recommendations, addressing to the EU member states, the national supervisory authorities and the European Banking Authority, in order to prevent excessive lending in foreign currency of unhedged borrowers, by improving the provision of information to borrowers regarding risks and to improve the solvency of borrowers. Regarding the effects of the recommendations made by The European Systemic Risk Board (ESRB) is still early to be able to make judgments because the Member States should, in general, implement the recommendations by December 2013, and the ESRB will monitor their progress by applying the "Comply or explain" (Fiorante 2011).

Under the present circumstances, we may state that the central banks and supervisory authorities are faced with new challenges related to the high share of foreign currency-denominated loans, given the limited domestic savings level. Thus, the authorities should channel their efforts towards designing and implementing solutions meant to develop national currency markets, to strengthen the cooperation with the authorities in the countries of origin of foreign banks, and also to thoroughly promote awareness raising campaigns among households on the risk of foreign currency over-indebtedness. Also, if we consider the significant deterioration of the quality of bank loans portfolio in some of the countries surveyed (especially in Latvia, Lithuania and Romania), we can say that a major challenge for the banking sector is "the cleaning" of the bank loans portfolio in order to ensure the recovery of lending.

Conclusions

In recent years, the extremely rapid growth, expressed through two digits, of loans granted to economy and the largest share of loans in foreign currency was a significant common feature of the financial intermediation in all the studied countries, except the Czech Republic and Poland. In agreement with the literature our paper reflects, based on statistical data, a strong relationship between loans rapid growth and lending in foreign currency, which entitles us to say that foreign currency lending can be considered as an engine of loans growth in most analyzed countries.

The expansion of foreign currency lending in most countries included in our sample was mainly due to the easy access of the banks to external financing, the spreads between the interest rates

for foreign currency-denominated loans and the interest rates for domestic currency-denominated loans and exchange rate policy from some countries, which encourage borrowers to contract foreign currency-denominated loans.

The extremely negative implications of lending in foreign currency in terms of financial stability in most countries under review, outlined clearly in the context of the current crisis, caused the focalization of the interest of policymakers, both at European and national level, to the adoption of new measures, particularly at European level, that will allow the prevention of excessive lending in foreign currency, and therefore limit its risks.

In the current context, we can say that the central banks and the supervisory authorities should target their efforts towards designing and implementing solutions meant to develop national currency markets, to strengthen the cooperation with the authorities in the countries of origin of foreign banks, and also to thoroughly promote awareness raising campaigns among households on the risk of foreign currency over-indebtedness.

Our research has some limitations related to at least the restrictions on statistical data.

In our future research, we aim to develop the issue of foreign currency lending, especially in terms of analytical approach of risks associate to foreign currency loans and the efficiency of the new measures proposed in the current context at European level to limit lending in foreign currency and to ensure financial stability.

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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 Prencipe, 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 hypnotizing 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]						
		Unstandardized Coeff.		Standardized Coeff.		
Model		B	Std. Error	Beta	t	Sig.
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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ACCOUNTING PRACTICES FROM FINANCIAL INSTRUMENTS DISCLOSURE PERSPECTIVE – THE CASE OF ROMANIAN BANKING SYSTEM

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International harmonization and convergence of accounting had gradually become one of the most challenging topic of worldwide research and a very hot debated issue in practitioners' sphere, too. Several studies have addressed both formal and material accounting harmonization along time, a wide range of instruments have been developed and various statistical tools have been used in this respect. Basing on this background, we focused our attention on Romanian banking system which is now experiencing a great challenge by finally entirely adopting IFRS after the first step from 2005 when consolidated financial statements in accordance with IFRS were required and the second one from 2009 when informative individual financial statements under IFRS begun compulsory.

Therefore, the objective of our paper is to empirically measure and compare the levels and progress of material accounting harmonization in Romanian banking sector focusing on financial instruments and their related disclosure requirements.

First studies conducted in the measurement of harmonization practices (Nair and Frank, 1981; McKinnon and Janell, 1984; Doupnik and Taylor, 1985) started at the beginning of the 80's, but were merely descriptive, focused on examining how IAS had been adopted in various countries around the world. In the earliest 90's, there were developed the first instruments for measuring material harmonization, namely the concentration indices (H, C and I Index) (Van der Tas, 1988; 1992) and various other forms of these (Archer et al., 1995), which were widely used in various research studies (Herrmann and Thomas, 1995; Aisbitt, 2001; Taplin, 2004).

Basing on these measurement tools and cconsidering the main aim of our study – to measure material accounting harmonization in Romanian banking sector – we stated four hypotheses, thus trying to answer our questions: "Are the accounting practices related to financial instruments disclosure in Romanian banking system harmonized with international requirements? Was there a progress in this respect in the latest years?"

The research methodology used for achieving our goal is based on both static and dynamic analysis using appropriate statistical tools – concentration indices (H or Herfindahl index) for measuring the improvements in financial instruments' disclosure practices,, thus pointing out the degree of material harmonization reached step by step as well as the overall progress. In this respect, firstly, we developed a disclosure checklist structured on three sections dealing with financial instruments' general disclosures, derivatives and hedge accounting and risk disclosures.

The results of the performed analysis reveal that accounting practices in Romanian banking sector as regards disclosures related to financial instruments experienced a continuous improvement both at individual and consolidated level, but the level of material harmonization is still relatively moderate. In case of individual financial reporting this can be explained by the recently introduced requirement of preparing financial statements in accordance with IFRS and only for informative purposes. Thus, by now we can talk about a real material harmonization just in case of consolidated financial reporting.

Unlike prior research studies which were focused on similar goals - to measure accounting harmonization around the world, our paper provides a particular approach on a specific business field, the banking one that was not separately explored on this topic before. Thus, we

considered for analysis its related accounting practices focusing on financial instruments disclosure, which is a particular issue, too, thus enriching the research literature on this field.
Keywords: disclosure, financial instruments, IFRS 7, banking, Romania
M10, G30

1. Introduction

International harmonization and convergence of accounting had gradually become one of the most challenging topic of worldwide research and a very hot debated issue in practitioners' sphere, too. Several studies have addressed both formal and material accounting harmonization along time, a wide range of instruments have been developed and various statistical tools have been used in this respect, but, anyway it has been argued that the assessment of the extent of measurement harmonization itself is not sufficient to determine the overall level of harmonization of accounting practices.

The aim of our study is to empirically measure and compare the levels and progress of material accounting harmonization in Romanian banking sector focusing on financial instruments and their related disclosure requirements. The reason of choosing financial instruments for assessing the extent of disclosure harmonization derives from the economic sector upon which we focused our analysis, namely the banking one, financial instruments being the most representative in any bank's activity. Thus, our analysis comprises both a horizontal and a vertical study providing an overall image upon the development of accounting practices in banking sector along time, beginning with the year 2009, trying to answer the following questions: *"Are the accounting practices related to financial instruments disclosure in Romanian banking system harmonized with international requirements? Was there a progress in this respect in the latest years?"*

For achieving our goal we selected all credit all credit institutions running their activity in our country, where information needed were made publicly available on their official websites, thus including into our study only 7 banking institutions that prepare and publish their financial statements at consolidated level and 15 banking institutions were individual financial statements in accordance with IFRS requirements were available. The reason of choosing the period 2009-2011 for performing our analysis is based on the National Bank of Romania's decision of requesting informative financial statements in accordance with IFRS for all credit institution. Consequently, if until then we should include in our sample only those banks that prepared consolidated financial statement, thus providing just a partial image about material accounting harmonization, after the year 2009, not only the scope of our analysis became wider, but also the conclusions are more representative, providing a comprehensive image upon the preparedness of Romanian banking system to apply IFRS.

Unlike prior research studies which were focused on similar goals - to measure accounting harmonization around the world, our paper provides a particular approach on a specific business field, the banking one that was not explored on this topic before. Thus, we considered for analysis its related accounting practices focusing on financial instruments disclosure, which is a particular issue, too, thus adding value to research literature on this field.

2. Literature review and hypotheses development

Material harmonization is a research where a wide variety of studies have been conducted along time aiming to examine accounting practices especially within the European Union (EU) and the Association for South-East Asian Nations (ASEAN) (Van der Tas, 1988; Emenyonu and Gray, 1992; Van der Tas, 1992; Archer et al., 1995; Herrmann and Thomas, 1995; Archer et al., 1996 Krisement, 1997), but also in the Nordic countries (Aisbitt, 2001), Japan or Australia (Tarca, 2004).

First studies conducted in the measurement of harmonization practices (Nair and Frank, 1981; McKinnon and Janell, 1984; Doupnik and Taylor, 1985) started at the beginning of the 80's, but

were merely descriptive, focused on examining how International Accounting Standards had been adopted in various countries around the world.

In the earliest 90's, there were developed the first instruments for measuring material harmonization, namely the concentration indices (H, C and I Index)(Van der Tas, 1988; Van der Tas, 1992) and various other forms of these (Archer et al., 1995), which were widely used in various research studies (Herrmann and Thomas, 1995; Aisbitt, 2001; Taplin, 2004). As time pass by, new researchers came to enrich accounting literature through comparative analysis of harmonization measurement instruments (Morris and Parker, 1998) or additional tests for measuring the significance of results achieved by using already existing indices (Canibano and Mora, 2000).

Most of these studies aiming to measure material accounting harmonization have been focused almost exclusively on quantifying differences in financial reporting practices between countries, without considering for the analysis any other characteristics of sampled used, namely firms' operating circumstances, such as sector of activity, size, performances or international listing.

Later, applied statistical methods such as: entropy based methodologies (Krisement, 1997) and log linear models (McLeay, et al., 1999; Jaafar and McLeay, 2007) have been used in material harmonization's studies.

Consequently, the results of this studies allows us accepting the tentative conclusion that "rather than a process of convergence, a combination of structural factors at the firm level that demand different accounting treatments and barriers to harmonization at the country level that restrict choice are the likely causes of persistent international differences in accounting" (McLeay, et. al, 1999).

Considering the main aim of our study – measure and compare the levels and progress of material accounting harmonization in Romanian banking sector focusing on financial instruments and their related disclosure requirements – we stated the following hypotheses:

(H1): Accounting practices from financial instruments disclosure perspective are closer to IFRS requirements at consolidated level compared with individual level

(H2): The improvement of accounting practices from financial instruments disclosure perspective in accordance with IFRS was greater at individual level compared with consolidated level

(H3/4)There has been a continuous increasing trend in improving accounting practices from financial instruments disclosure perspective in accordance with IFRS at consolidated level (H3), respectively at individual level (H4)

3. Research methodology

For achieving our goal, firstly we made a list of disclosures required by international regulations dealing with financial instruments, namely IAS 32, IAS 39 and IFRS 7, considering as well the "Disclosure checklist" used by Big Four for assessing the level of applicability of IFRS. The checklist developed ("*Financial instruments related concepts checklist*") comprises a total of 50 items to be disclosed, grouped into three separate sections related to financial instruments' general disclosures (S1), derivatives and hedge accounting (S2), financial instruments' risk concepts (S3), a brief description of these being presented below:

- the first section (S1) mainly refer to *general concepts related to financial instruments*, the accounting policies for these instruments, their main categories of classification, specifications related to reclassifications of financial instruments, reconciliation of the allowance account for credit losses (bad debts), defaults or breaches on loans payable and acceptance of financial assets as pledged or held as collateral;

- the second section (S2) dealing with *derivatives and hedge accounting* mainly refers to the general concept of derivatives and the specific concept of compound financial instruments with multiple embedded derivatives, hedge accounting and its three possible types: fair value hedge, cash flow hedge and hedges of net investments in foreign operations;

- the third section (S3) comprises *disclosures related to risks associated to financial instruments* as the followings: exposure to various risks (credit, market and liquidity risk), concentrations of risk, collateral for risks and various types of analysis related to these risk such as: quality analysis (past due / impaired assets), maturity analysis, sensitivity analysis or "value-at-risk" analysis.

For performing the proposed analysis we used appropriate statistical tools (concentration indices), thus, trying to asses the improvements in disclosure practices by reference to international accounting rules. Accordingly, the *research methodology* used, dealing with numbers and based on adopting statistic analysis for drawing our conclusions is a *quantitative* one, while the interpretation of results reached shows its *qualitative* side. Form the temporal criteria, our empirical analysis provides both static and dynamic results, thus describing the progress achieved in disclosure practices related to financial instruments in Romanian banking system for the past three years.

Considering the purpose of our study – to provide a comprehensive overview of the major improvements in financial instruments' disclosure practices in case of Romanian banking sector by pointing out the degree of material harmonization reached step by step as well the overall progress, we chose *H index (Herfindahl index)* for measuring the level of harmony achieved.

The *H index (or Herfindahl index)* is the first indicator developed by Van der Tas (1988) and used in formal accounting harmonization studies, whose values range between 0 and 1. The "0" value reveals a disharmony state, while the "1" value refers to a perfect harmony because all banking institutions in the sample are disclosing the required issues. The degree of *material (de facto) harmonization* will infer to the extent of comparability. Thus, it was pointed out that there is no benchmark for an acceptable level of harmony for the values between "0" and "1" (Emenyonu and Gray; 1992). Consequently, for result interpretation, generally, the larger the value of concentration, the higher the harmonization level achieved.

4. Empirical findings

For accepting or rejecting our hypotheses we proceeded at determining the concentration index both at individual and consolidated level for period analyzed – the years 2009 and 2010. A synthesis of the H (Herfindahl) Index reached by processing data collected using Excel software is presented In Table, followed by an analysis of results reached.

Table 1 Comparison analysis based on H (Herfindahl) Index

LEVEL:	Consolidated			Individual		
TOPICS:	2009	2010	Dif.	2009	2010	Dif.
Financial instruments - general disclosures	0.614	0.676	*0.062*	0.446	0.480	*0.034*
Derivatives & Hedge accounting	0.532	0.616	*0.084*	0.274	0.364	*0.090*
Risk disclosures	0.663	0.678	*0.015*	0.442	0.486	*0.044*
TOTAL	0.603	0.657	*0.054*	0.387	0.443	*0.056*

Source: own results

Because at the *first stage* of our analysis we proposed to provide just an overall image of Romanian disclosure practices in banking system by reference to IFRS requirements we will focus only on general results achieved on both individual and consolidated level. Thus, as H Index values from the total line of the table reveal we can conclude that even if there is a relatively moderate level of harmonization concerning disclosure practices on both levels, consolidated financial statements provide more disclosures (indices higher than 0,6 on both periods analyzed). Consequently, our first hypothesis (H1) can be accepted. We expected such a result considering that just beginning with the year 2009 all banking institutions were required to prepare their financial statement in accordance with IFRS, too, and only for informative purposes. Thus, their interest in providing the most comprehensive image of their activity was not

their purpose, these sets of financial reporting being just a practice for the real adoption of IFRS beginning with this year. Going further from the static to the dynamic analysis, we expected a greater improvement in case of individual financial statements because these were the newest ones required in accordance with IFRS and usually when you are preparing something from the second time it will certainly be better than the first time. Even if the results achieved are in our consent, thus our second hypothesis (H2) being as well accepted, unfortunately the values did not reached up our expectations, the improvement at individual level (0,056) being just slightly higher than at consolidated one (0,054).

The *second stage* of our analysis goes into details, not only by presenting the results separately for the two considered levels, but also by dividing the accounting practices from financial instruments disclosure perspective into three separate topics according to the sections of the checklist developed for collecting data. When focusing on *consolidated level*, the H index values reveal an increase form one period to another for each of the three topics considered. The highest improvement was recorded in case of disclosures related to derivatives and hedge accounting (0,084), while risk disclosures associated to financial instruments experienced the lowest evolution (0,015). However, transparency on risk information seemed to be the highest one in 2010, H Index reaching the maxim value of all (0,678). Considering the above mentioned issues we appreciate that our third hypothesis (H3) can be accepted. At *individual level*, the results reached are quite similar but an a low scale, considering the lowest level of harmonization in disclosure practices achieved by now due to the newly requirement of preparing financial reporting under IFRS. Thus, while highest improvement was recorded in case of disclosures related to derivatives and hedge accounting (0,090) similar to the above analysis, the lowest evolution appeared to be in case of general disclosures related to financial instruments (0,034). As regards the highest level of transparency ensured by individual financial statements, the values of H Index reached up to 0,486 for risk disclosures. Consequently, we are finally able to accept our last hypothesis (H4), too.

In conclusion, at both levels we identify an improvement in accounting practices related to financial instruments disclosures, which is a good sign for the "real" adoption of IFRS in Romania beginning with the year 2012. However, when looking in depth at the values reached we can assert that there is a relatively moderate level of harmonization in financial instruments' sphere, so further steps have to be taken for increasing transparency.

5. Conclusions

Accounting harmonization in Romania proved to be a difficult process with major implications in theoretical and practical approach. Banking sector is somehow special in this respect because beginning with this year international standards became mandatory for all credit institutions. Conducting an empirical study in this field is not only a topical issue, but also allowed us enriching the related literature with results from an area that was not explored before in this respect.

Aiming to provide an overall image of material accounting harmonization process in Romanian banking sector for the last years, we focused our attention on issues related to financial instruments appreciating them as "the mirror" of banking activity. Three major topics have been considered for our analysis, comprising items beginning with general disclosures of financial instruments, followed by special disclosures about derivatives and hedge accounting and finally ending with risk information disclosures.

Based on our empirical findings and considering the analysis performed for accepting or rejecting the four research hypotheses formulated, we can conclude that accounting practices in Romanian banking sector as regards disclosures related to financial instruments experienced a continuous improvement both at individual and consolidated level, but the level of material harmonization is still relatively moderate. In case of individual financial reporting this can be explained by the

recently introduced requirement of preparing financial statements in accordance with IFRS and only for informative purposes. Thus, by now we can talk about a real material harmonization just in case of consolidated financial reporting. By briefly analyzing the main topics that followed in our study we can conclude that transparency of risk information seemed to be the highest one at both levels, even if it experienced the lowest evolution of all. Also, we identified the highest improvement in case of disclosures related to derivatives and hedge accounting at both levels, too.

In conclusion, accounting for banking sector followed a positive trend meant to achieve its main goal – the convergence to international standards. By adopting IFRS beginning with the year 2012 for all banks, we can assert that the National Bank of Romania succeeded to take one more step ahead in this respect after the first one from 2005 when consolidated financial statements in accordance with IFRS were required and the second one from 2009 when informative individual financial statements in accordance with IFRS begun compulsory. Anyway, through the conclusions reached, our paper could be considered as valuable for a wide range of users: academics, researchers, practitioners for both public and banking sector.

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COMPARATIVE STUDY OF OWN FUNDS IN THE BANKING SYSTEM

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The present article has as a reserch field theoretical, methodological and practical aspects of the own funds, taking into account the line-up attempts of the romanian banking system to the requirements of the European Union, materialised in the Basel Agreement. The objectives of the research theme, presented in this paper, are mainly oriented towards own funds. We also proposed the following secondary objectives: presenting the concept approaches concerning own funds, emphasysing the tipology of own funds and pointing out their purpose in the banking activity; presenting and analyse the evolution of the own funds in Romania, for a period of 8 years (2004-2011). Even though the actual stage of the research in this field is advanced, in the romanian and foreign literature which dedicate a lot of theoretical and empiric studies concerning own funds. In our study we will use a theoretical and a practical research. The theoretical research describes the laws, reglementations and rules of application in the banking field in our country. In the practical part we will use as a research method the quality-comparative analyse by presenting details regarding bank back-ups. Despite the global financial crisis, the Romanian banking system can be considered as stable as a whole, with levels of capitalization, solvency and liquidity in accordance with consistent with prudential requirements. Tier 1, defined as the core of their sources of credit institutions through the permanent criteria, payment flexibility and capacity to absorb losses continued to overwhelmingly support a total equity. Appropriate quality of own funds is on their structure. The most important component frame our capital plus capital frame attached. The second component in terms is still represented by legal reserves. An important challenge for banks was to maintain a level of own funds accordance, in the conditions witch they were eroded by the current period losses. Tier 2 support rate of about 20 percentages of total equity and subordinated debt were the main components and revaluation reserves. Re-evaluation reserves have preserved funding contributions to Tier 2. An for evaluation of the level of capitalization of credit institutions, the central bank uses solvable indicator, as the only indicator currently regulated for this purpose. It also provides banks in Romania at the conditions for additional capital requirements related to Basel III framework to be taken by the European regulatory Capital Requirement Directive IV. As a final conclusion of the research in the own funds field we want to mention and express our opinion that the methods and techniques of managing risk, calculation of capital need permanent revision and adaptation to the changes that take place on the financial market the appearance of Basel Agreement 3, which are absolutely necessary in the actual economic and financial context. The presentation of concrete cases concerning the bank back-ups represent the personal work which completes the study concerning the analysis of managing banking risks, the role of bank back-ups in the bank capital adequacy mechanism.
Key Words: capital adequacy, own funds, Tier 1, Tier 2, Basel 3
JEL Classifications: G2/G21

I. Introduction

The present article presents the common problems of the credit institutions, introducing theoretical aspects and also practical aspects of applying a model and of interpreting risk situations, considering the attempts of alignment of the Romanian banking system to the requests of the European Union, materialized in the stipulations of Basel Accord. Considering the scientific research methodology, the following issues were set: introduction, motivation, importance and scientific research methodology, objectives, development of the article, estimated scientific results. In the introduction is being argued the research theme, the necessity and the importance of it. In the present economic-financial context, the fluid character which often brings major differences of opinion. The motivation of choosing the research theme is formulated and further the used research methodology is being presented. In the scientific research methodology, there are presented the scientific research areas, the field and the objectives of the scientific

research, and also its structure. The present research is based on a deductive approach - strictly qualitative. For analyzing all the data I used the following research methods: comparative method, document analysis, external observation. I choose this subject for scientific reasons and realistic reasons. I consider that Romania' chances, on the road to the European integration in globalization, firstly depend on its own performance, the quality of management at all levels. Romania's efficient integration within the above mentioned context cannot be achieved otherwise than through a performance superior to that already existing. The necessary performance can be achieved only with a advanced, new, modern management, with good results of own funds in the banking system.

The objectives of this study are characterization of the own funds of the Romanian banking sector, evolution of the own funds in the Romanian banking sector between the years 2004-2011 and interpretation of this evolution of the own funds in the banking system.

II. Literature review

Even though the stage of research in this field is advanced, in both romanian and foreign literature, which dedicate a lot of theoretical and empiric studies to bank own funds and their implication in the bank capital adequacy mechanism, in this moment the international crises pointed out the purpose and implications of credit institutions in the financial field.We had and we have ways to approach these problems. We want, in the allocated space, based on those already presented, to refer to the „own funds in the banking system". Referring to the literature in the field , a very useful starting for our research is the series of works developed under BIS (Bank for International Settlements engl. "central bankers' central bank, which controls the vast global banking system, with precision a Swiss watch"), economic and monetary department making a series of tests in the banking system in emerging economies in order surveillance developments The conceptual, bibliographical main support is represented by the books like „Performance and risk management in commercial banks in Romania" by Eugenia Ana Matis, Home Book of Science Publisher, Cluj-Napoca, 2009 and „Financial-accounting management of the risks in the banking activity" by Cristina Palfi, Risoprint Publisher, Cluj-Napoca, 2009 and of course, the legislation. I have been used due to their importance, new character and desire to be largely and deeper known and especially used in the scientific research and in the practical activity.

III. Research design and methodology

Considering the scientific research methodology, the following issues were set: introduction, motivation, importance and scientific research methodology, objectives, development of the article, estimated scientific results. In the introduction is being argued the research theme, the necessity and the importance of it. In the present economic-financial context, the fluid character which often brings major differences of opinion. The motivation of choosing the research theme is formulated and further the used research methodology is being presented. In the scientific research methodology, there are presented the scientific research areas, the field and the objectives of the scientific research, and also its structure. The present research is based on a deductive approach - strictly qualitative. For analyzing all the data I used the following research methods: comparative method, document analysis, external observation. I choose this subject for scientific reasons and realistic reasons. I consider that Romania' chances, on the road to the European integration in globalization, firstly depend on its own performance, the quality of management at all levels. Romania's efficient integration within the above mentioned context cannot be achieved otherwise than through a performance superior to that already existing. The necessary performance can be achieved only with a advanced, new, modern management, with good results of own funds in the banking system.

The objectives of this study are characterization of the own funds of the Romanian banking sector, evolution of the own funds in the Romanian banking sector between the years 2004-2011 and interpretation of this evolution of the own funds in the banking system. For analysis of national or international data, we used comparative longitidunal research method (showing the evolution of bank own funds in our country).

IV. Results and discussions
1. Own funds in the banking system
In Romania there is now a modern and competitive banking system, which provides circulation of the economy and domestic supplies banking products and services in accordance with trends in the European banking sector. The conceptual framework, the notion of equity is the residual interest in assets of an entity that remains after deducting liabilities. The term is also known as the wealth of shareholders or owners of the property. Bank capital can be defined as money terms of obligations to individuals and businesses who participated in the constitution. This includes all funds at its disposal a permanent (sustainable) and consists of written contributions as shareholders, related raw capital, reserves, grants, subordinated debt, provisions, benefits carried over from previous years. In the banking sector, the concept of equity capital accounting differs in that it includes some sources provided by the international banking regulations, taken over current profit for the year, and other elements assimilate. Federal Reserve Board of Governors, highlighted four important functions of bank capital: to protect uninsured depositors in insolvency and liquidation; absorption of unanticipated losses, at a rate sufficient to maintain confidence in the bank; purchase of basic equipment for banking services; restriction in regulatory terms, the undue expansion of assets.

We describe the level 1 an 2 own funds of credit institutions. A special attention is being given to the evolution of own funds on a period of 8 years: 2004-2011. According to the actual reglementations (Regulation BNR and regulation CNVM no. 18/23/2006 on own funds of credit institutions and investment firm, approved by Order BNR and CNVM no. 15/2006, published in Official Gazette no 1034?27.12.2006), the own funds of credit institutions are made of: level 1 own funds; level 2 own funds. Level 1 own funds represent a part of own funds and contain: poured and subscribed social capital, with the exception of cumulative preferential actions or the endowement capital made available for the branch in Romania by the credit institution from the third country;Capital bonuses, cashed,afferent to social capital; legal back-ups and other back-ups and also the positive result of prior financial exercises, which remain after the distribution of the profit according to the Stockholder General Meeting. Level 2 own funds contain: base level 2 own funds; additional level 2 own funds.

2. The evolution of own funds in the banking system
Components of own funds must be used at any time and priority to absorb losses, do not involve fixed costs for the credit institution and be effective at its disposal, that are fully paid. An adequate level of capitalization indicators for credit is a guarantee for financial system stability, since they are most important component of the Romanian financial market. The capitalization terminated

Credit institutions directly capacity to absorb shocks or losses arising induced exogenous domestic and international macroeconomic framework or practices inadequate risk management related endogenous banking.

Table 1. Own funds evolution and capital adequacy degree

Indicatori	31.12. 2004	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	31.12. 2010	31.06. 2011
Pondere în	100	100	100	100	100	100	100	100

Indicatori	31.12. 2004	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	31.12. 2010	31.06. 2011
fonduri proprii totale								
Fonduri proprii de nivel 1	**78.1**	**77.7**	**74.3**	**76.7**	**77.2**	**78.4**	**80.3**	**80.1**
Capital social	49.4	49.2	46.5	46.0	43.7	46	50.8	53.1
Prime de capital					3.8	4	5.7	5.8
Rezerve legale					34.6	33.4	32.3	30.2
Profitul /pierderea anului curent	17.9	14.0	11.4	10.8	-	3.75	2.5	-
Fonduri proprii de nivel 2	**21.9**	**22.3**	**25.7**	**23.3**	**22.8**	**21.6**	**19.7**	**19.9**
Împrumuturi subordonate	4.8	10.6	14.0	15.8	17.9	20.01	20.03	20.07
Rezerve din reevaluare	14.9	10.0	8.8	11.3	8.1	6.06	5.6	5.7
Raportul de solvabilitate >8%	20.6	21.1	18.1	13.8	13.8	14.7	15	14.2

(Sursa: proiecția autorului pe baza Rapoartelor anuale ale Băncii Naționale a României, Secțiunea Statistică)

Capital remains the most dynamic element of equity, another important component of which is represented by current year net profit. In the composition of additional capital, there is trend in the growth of subordinated debt financing from banks contracted. Thus, the situation for the period 2003-2004, when the additional capital was supported largely by reserves from the revaluation of assets recorded in the balance sheets of banks, in 2005 the contributions of the two elements are balanced, and the year 2006 saw real annual growth of 69 percent subordinated debt, which drove the main driver of additional capital.

The year 2006 marked slowdown in the banks' own funds, respectively, of their component fundamental equity. Thus, to a real growth rate of about 37 percent recorded for both indicators in December 2005 compared with same period last year, in December 2006 equity rose 22.2 percent and equity 18,1 percent. Although growth in real terms, the result of a banking profit recorded a slight rebound in 2006 (5.5 percent in December 2006 from 6.3 percent in December 2005) the previous year, it continues to be an important element to support capitalization of credit institutions. Evolution of the main elements to support equity of banks, Romanian legal entities (paid-up capital of shareholders and current year profit) remains divergent in 2006. Thus, capital contribution increased to 65 percent of equity in December 2006 (from about 63 percent in December 2004 and 2005), while the profit share declined to 16 percent of equity at end 2006 (from 23 percent in December 2004 and 18 percent in December 2005). Other important elements are the first equity linked capital, legal reserves, statutory reserves, other reserves.

The year 2007 saw an increase in corporate equity owned banks Romanian and, respectively, of their main components, Tier 1, a lower rate than in the past three years. Components of Tier 1

capital remains the most important element, with net profit of current year. Real growth of aggregate capital amounted to 10 percent in 2007, lower than that recorded in December 2006 (21.8 percent), respectively, in December 2005 (38 percent). However, capital position as main driver of Tier 1 was strengthened in 2007, rising its share to 65 percent, compared with 63 percent level recorded in 2004 - 2006. In 2007, the downward trend recorded in recent years aggregate solvency report, calculated credit institutions widened indicator losing 5.4 points percentage compared with the level recorded in December 2006 to 12.7 percent. The main factor responsible for this trend is continuing non-government credit expansion,while the own funds of credit institutions recorded a growth rate lower. However, the solvency ratio is maintained at an appropriate level, the higher minimum threshold required by prudential regulations applicable in Romania since 2007 year and also the European and international level (8 percent).

According to data presented by the National Bank of Romania (Financial Stability Report, 2009), note that, by continuing the trend started in 2006, the own funds belonging to banks, Romanian legal person and their main component - Tier 1, recorded in December 2008 the lowest annual rate in real terms over the last six years. This was determined both by recording the negative financial results of banks holding 10% of aggregate banking assets (with direct impact on Tier 1) and the changes in August 2008 regulations prudential, aimed at eliminating from the calculation of Tier 1 (respectively, of total equity) of the most volatile element that represents the current year profit result. Until the entry into force of said amendment, only some of the banks recorded profit amount included in the eligible reserves, because the requirements of prudential regulations in force, consisting in auditing financial result represents profit. As a result, in 2008, share capital and eligible reserves were the main elements to support Tier 1. Based on the modifications made in the banking safe reglamentation, in December 2008, the level 1 own funds decresed with more than 2% their contribution to supporting the total own funds belonging to romanian banks bussiness costumer, by majorly raising the level 2 own funds contribution, mainly based on raised volume of loans contracted by credit institutions.The proportion of level 1 own funds maintained relatively constant and in march 2009, based on the consignment of a series of banks of negative financial results. Even though the weight of level 2 own funds in level 1 own funds advanced in 2008(34%) the growing potential of this element maintains high, the credit institutions being able to appeal to secondary sources of capitalization in order to develop the banking activity. When he began the first quarter of 2008, credit institutions report solvency indicator ratio Basel II principles.

Despite the global financial crisis, the Romanian banking system can be considered as stable as a whole, with levels of capitalization, solvency and liquidity in accordance with consistent with prudential requirements. Tier 1, defined as the core of their sources of credit institutions through the permanent criteria, payment flexibility and capacity to absorb losses continued to overwhelmingly support a total equity. Appropriate quality of own funds is on their structure. The most important component frame our capital plus capital frame attached. The second component in terms is still represented by legal reserves. An important challenge for banks was to maintain a level of own funds accordance, in the conditions witch they were eroded by the current period losses. Tier 2 support rate of about 20 percentages of total equity and subordinated debt were the main components and revaluation reserves. Revaluation reserves have preserved funding contributions to Tier 2. An for evaluation of the level of capitalization of credit institutions, the central bank uses solvable indicator, as the only indicator currently regulated for this purpose. It also provides banks in Romania at the conditions for additional capital requirements related to Basel III framework to be taken by the European regulatory Capital Requirement Directive IV.

V. Implications

Lines of action taken aimed at avoiding deteriorating credit institutions in the general context of limiting investment options and restricted possibilities to attract resources. Accepting a higher

risk level by credit institutions means strengthening the level of own funds, even over the level stipulated by the bank. Capital adequacy is prominent feature in the management of any risks encountered by the credit institution. The credit institutions should manage the inherent risks. The very efficient management of risk it is essential for the success on long term of any bank. Methods and techniques of risk management, capital calculation must be continually reviewed and adapted to changes occurring in financial markets, a review of Basel Accord is absolutely necessary in the current economic and financial context. As a final conclusion of the research in the own funds field we want to mention and express our opinion that the methods and techniques of managing risk, calculation of capital need permanent revision and adaptation to the changes that take place on the financial market the appearance of Basel Agreement 3, which are absolutely necessary in the actual economic and financial context.

VI. Own contribution
The presentation of concrete cases concerning the bank back-ups represent the personal work which completes the study concerning the analysis of managing banking risks, the role of bank back-ups in the bank capital adequacy mechanism.

To conclude, be as kind as to receive my thanks and gratitude for your kindness and availability! I wish we continue a prolific collaboration with you in the forthcoming future!

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Best wishes,
Author: Ramona Tesu

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THE ADJUSTEMENT OF THE BANKING MECHANISM FOR FINANCING ECONOMY UNDER CRISIS CONDITIONS

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Development of complex financial products and necessity of reducing the costs encourages the creation of groups with multiple activities in the financial sector. Structures of financial group are also present in Romanian, and most of them are part of the international groups, provided that the financial capital is mainly foreign.

Both the benefits as well as the risks associated to the financial groups present in Romania are limited due to their orientation mainly mono-sectorial (very high weight kept by the credit institutions).

The National Bank of Romania has an intrinsic role for maintaining the financial stability, taking into consideration the responsibilities that result from its double aspect of monetary and prudential authority. The attributions afferent to the objectives of financial stability are exercised by prudential supervision and regulation of the institutions under its authority, as well as by formulation and efficient transmission of the measures of monetary politics and supervision of functioning under optimum conditions of the payment and reimbursement systems systemically important.

At the same time, it is necessary the identification of risks and vulnerabilities of the entire financial system, on the whole and separately, because the financial stability monitoring is preventive. The occurrence and development of some malfunctions, like the incorrect evaluation of risks and inefficiency of capital allocation can affect the stability of the financial and economic system.

1. Introduction

The main modifications registered in the structure of the Romanian banking system during 2009 were the following: the change of the status of Citibank Romania from Romanian legal entity into a foreign bank branch, Citibank Europe (starting from January 2009), closing of the branch from Bucharest of Depfa Bank in August 2009, starting of the activity of Banca Comerciala Feroviara (Railway Trade Bank) – institution with majority of autochthonous private capital – in November 2009 and the fusion between Raiffeissen Bank for Real Estates and HVB Bank for Real Estates by absorption of the latter in December 2009.

As a result, the number of credit institutions diminished to 42 units from which: 2 credit institutions with majority or integral capital of state, 4 institutions with majority autochthonous private capital, 25 banks with majority foreign private capital, 10 branches of the foreign banks and Creditcoop.

The share capital of credit institutions collected 14,4 billions Lei in December 2009, increasing by 3,2 % in real terms in comparison with year 2008. The majority private capital stays mainly at 87,8%, but slightly falling down due to the modifications occurred at the capital of the foreign banks branches, but also due to the capital increase performed at CEC Bank.

Stagnation of the aggregate net asset was attributed mainly to the divergent evolutions registered by the main components. On one side, the lending activity of the non-banking clients got reduced by 4,4% in real terms during 2009 in comparison with the end of 2008, the weight of this segment getting reduced by 3%.

Thus, the request of loans continued to be affected by: the downturn in economic activity and pessimism regarding its perspectives, as well as the persistence of the negative expectations regarding the upturn of the financial situation of the population.

On the side of the credit bidding, it has been noticed an intensification of the prudence of the credit institutions, developed by: tightening the standards and the crediting terms and increase of owning government bonds.

According to the destination of the private credit on institutional sectors, the dynamics of loans to population as well as the one of credits for companies became negative, the real annual rates of increase reaching -3,6% and respectively -3,7 %. There have not been recorded changes of structure, the credits to population maintaining their weight slightly superior (50,1%).

2. The access to financing of enterprises and population

The access to the bank financing has improved since 2008, both in the segment of companies and in the one of population.

Year 2009 marked a reversal in trend because there was an accentuated tightening of the terms and conditions of access to lending.

The number of companies which received credits from financial institutions (autochthonous or foreign) reached 16% (from the total of the active companies from Romania in March 2009, in comparison with 8% in 2005). The number, still small, of the companies which make a loan, as well as their significant role in economy prove that the decrease of financing could have important negative consequences.
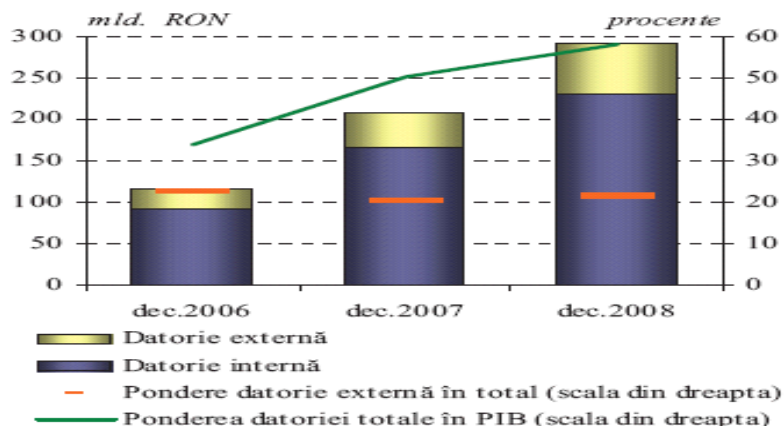
Graphic 1 Evolution of debts of the non-financial companies and population.
Source : B.N.R.(The National Bank of Romania)

Trade companies and real estate companies could experience the highest impact of the decrease of access to financing, as they use much more intensely the resources of the banks comparing with the created added value. The difficulty of maintaining the external financing would affect the most the real estate companies and the manufacturing industry.

3. Modification of the lending standards in crisis conditions

At the aggregate level, the lending standards were slightly tightened in T4/2009. The net percentage of the banks which adopted such measures was 13%. The rest of the banks did not consider a new revision to be opportune, even though their expectancies were aiming this direction.

The cumulative level of restrictiveness of lending standards, corroborated with the request of lending in decrease, favored, under a certain extent, the neutral attitude of the banks.

This series of tightening of the lending standards that lasts for almost two years could end, although some banks do not exclude its continuation.

In structure, the slight tightening of lending standards was undifferentiated according to the size of the company (Small and Medium Enterprises (SME) versus corporations). Previous evolutions disfavored the access to financing of the Small and Medium Enterprises in comparison with the one of the corporations, after a lower perception at risk of the latter ones.

The perspectives of the credit bidding towards companies is differentiated by the criterion of maturity. The net percentage of the banks which notify a tightening of the lending standards for long-term is 30%, while it has been considered that there won't be any modifications for the short-term loans.

The main factors which made the banks change the lending standards are the expectations regarding the general economic situation, the risk associated to the industry in which the company activates and the risk associated to the requested guarantee/collateral.

The crediting standards of population registered an evolution differentiated on types of credits.

The net percentage of the banks which considered necessary the tightening of the crediting norms of the consumption loan, remained raised (45% in February 2012), although the anticipations showed the attenuation of the tendency.

For the credits allocated to the purchase of real-estates and lands, the restrictiveness input was lowered to the level of the banking sector (under 10%). Expectancies for T1/2010 show a slight relaxation of the standards for the real-estate credits, for the first time in almost two years.

Regarding the population sector, at the beginning of 2010, the previous relaxation tendency of some terms of mortgage loan (the spread of the medium rate of interest of the credit towards ROBOR 1M and of the maximum weight of the credit in the value of the real estate guarantee) was not confirmed in T4/2009. The only concern for some banks (33%) was manifested in the area of reducing the maximum weight of the debts service in the monthly income, on the basis of deterioration of the expectations regarding the incomes and the unemployment.

Prudence of the banks vis-à-vis the loan for consumption is equally fed by the following factors: the risk associated to the clients' creditworthiness, the risk associated to the collateral/guarantees, the expectations regarding the financial situation of population and the decisions of monetary or prudential policy of NBR (*The National Bank of Romania).*

Tightening of the maximum weight of the monthly debt service in the monthly income is the main change brought to the terms of the consumption loan, similar to the mortgage loan.

There were also tightened: the spread of the medium rate of interest of the credit towards ROBOR 1M and of the maximum limit for the loan value. The other contracting clauses were not modified.

4. The role of the Central Bank in maintaining the financial stability under crisis conditions

The National Bank of Romania has an intrinsic role in maintaining the financial stability, taking into consideration the responsibilities that result from its double aspect of monetary and prudential authority. The attributions afferent to the objectives of financial stability are exercised by regulation and prudential supervision of the institutions under its authority, as well as by formulation and efficient transmission of the monetary policy measures and supervision of functioning under optimum conditions of the payment systems and settlements systemically important.

At the same time, it is necessary identification of the risks and vulnerabilities of the entire financial system, on the whole and separately, as monitoring of the financial stability is preventive. Occurrence and development of some malfunctions, like the incorrect evaluation of

the risks and inefficiency of capital allocation can affect the stability of economy and the financial system.

a) Open Market Operations (monetary market)

Open market operations represent the most important instrument of monetary policy of N.B.R. (The National Bank of Romania). These are performed on the initiative of the Central Bank, having the following functions: guidance of the interest rates, management of the liquidities conditions from the open market and notification of monetary policy orientation.

The main operations of open market being at the disposal of N.B.R. (The National Bank of Romania) are the following:

- *repo* **operations – of eligible assets** – liquidity-providing reverse transactions whereby the National Bank of Romania buys transactional eligible assets from credit institutions upon their commitment to repurchase the assets at the date and the price agreed on the date the transaction was concluded;
- **deposit-taking operations** – liquidity-absorbing transactions with pre-specified maturity whereby the National Bank of Romania takes deposits from credit institutions;
- **issuance of certificates of deposit** – liquidity-absorbing transaction whereby the National Bank of Romania sells certificates of deposits to credit institutions;
- *reverse repo* **operations** - liquidity-providing reverse transactions whereby the National Bank of Romania sells transactional eligible assets from credit institutions upon their commitment to repurchase the assets at the date and the price agreed on the date the transaction was concluded;
- *credit operations against eligible assets as collateral* – liquidity-providing reverse transactions whereby the National Bank of Romania grants loans to credit institutions that remain the owners of the underlying eligible assets;
- **outright sales/purchases of eligible assets** – liquidity-absorbing/providing transactions whereby the National Bank of Romania sells/buys eligible assets whose ownership is transferred from Seller to Buyer on a "delivery versus payment" basis;
- **foreign exchange swaps** – consist of two simultaneous transactions concluded with the same counterparty, whereby the National Bank of Romania:
    - - buys foreign currency spot against lei, for liquidity-providing purposes, and sells the same amount of foreign currency forward against lei; or
    - - sells foreign currency spot against lei, for liquidity-absorbing purposes, and buys the same amount of foreign currency forward against lei;

During 1997 – 2008, the open market operations performed by NBR were almost exclusively used with the purpose of **making use of the liquidity surplus from the banking system.**

Starting with the last part of the year 2008, at the same time with the change of the liquidity net position of the banks from surplus to deficit, the liquidity-providing open market operations became predominant, thus, the NBR becoming in the position of Creditor of the banking system.

b) Standing facilities granted to credit institutions.

Standing facilities granted to credit institutions by NBR have the purpose of: absorption, respectively liquidity supplying on a very short term (one day); notification of general monetary policy orientation and stability of the interest rates on short term on the inter-bank monetary market, by means of the interest rates afferent to the two instruments.

Credit institutions may access on their own initiative the two permanent facilities offered by NBR:

- **lending facility** which allows obtaining of a credit with overnight maturity at the central bank, counter collateral, to a pre-determined interest rate; this interest rate normally being a limit of an overnight interest rate on the monetary market;
- **deposit facility**, which allows placing of a deposit with overnight maturity at the central bank, to a pre-determined interest rate; the interest rate of the deposit facility representing, normally, the limit of an overnight interest rate on the monetary market;

c) Mandatory Minimum Reserves (MMR)

Mandatory minimum reserves (MMR) are represented by the cash assets of the credit institutions, in lei and foreign currency, kept in accounts open at the National Bank of Romania.

The main functions of the MMR mechanism in lei are: the monetary control function (being in tight correlation with the one of liquidity management by NBR) and the one of interest rate stabilization on the inter-bank monetary market. The main role of MMR in foreign currency is that to temper expansion of the foreign currency credit.

In case of postponing of the programmed entries of external funds, the covering of the financing necessary of the governmental sector from resources of the internal market in the last part of 2009, concomitantly with the maintenance of the macro-economical stability, necessitates adequacy of the financing conditions of the autochthonous banking system.

Thus, NBR decided a tough management of the liquidity from the banking system to consolidate the transmission of the signals of monetary policy, as well as maintenance of the levels of the mandatory minimum reserves rates applicable to the liabilities in lei and foreign currency of the credit institutions.

The NBR rate for foreign currency liabilities with the residual maturity date under two years of the banks was reduced by 5% (from 30% to 25%) within a special meeting of the Managing Board of the National Bank of Romania organized on 16 November 2009, the decision being adopted in the context of confirmation of postponing of the external loans calendar provided for trimester IV 2009 within the multilateral arrangement concluded by Romania with EU, IMF and other international financial institutions.

5. Conclusions

Amid the political-economical instability from the last period, but also as a result of the banks' decision to "cover" from own sources the tax on the interests received by natural persons for the deposits made in the banks, it is possible for the rate of interest for credits to register an ascendant trend in the following period.

During December 2009-February 2010, as a result of reducing the monetary policy interest rate and of inter-bank efficiency, as well as amid a significant improvement of liquidity from the banking system, the interest average rates to the new term deposits and to the new credits intensified their decrease (-1,46%, to 8,13% and respectively -2,22%, to 13,75 %). Evolutions were homogenous for both client categories, but different in magnitude.

I consider that the evolutions shall not be homogenous anymore between both client categories as a result of the banks' decision to "cover" from own sources the "tax" owned by natural persons for the received interests at the deposits made in the commercial banks.

Thus, a few questions are raised. From where shall the banks take the necessary amounts for covering the "fresh" tax on the deposit interests? Shall they have a loss? In no case! And then, the explanation is simple: they shall try to recover these amounts on the basis of increasing the level of the interest rate to the granted credits (both to the new ones and to the ones in tendering).

For the economical development, this is not quite a favorable situation, thus I consider to be opportune an intervention of the central bank to adopt some decisions by which the commercial banks to be "determined" not to increase the credit interests.

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ANALYZING THE EUROPEAN MARKET OF INTEREST RATE SWAP INDICES

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The interest rate risk is the most important risk that derives from the OTC transactions, taking into consideration both the notional amounts and the market value of the financial derivatives that relies on interest rate contracts. Open positions on interest rate derivatives represents more than 75% of the OTC market. In the European banking market interest rate swaps prices are strongly dependent on the interbank interest rates. In this paper we want to analyze the behavior of the Eoniaswap indices and their impact on the interest rate swaps between banks.
Key words: interest rate risk, Eoniaswap, volatility, impulse response functions
JEL code: E43, E50, G10, G21

1. Introduction

Financial derivatives became in the last decade the most dynamic segment of the financial industry, offering multiple benefits to investors. Simultaneously, the rapid growth of the financial derivatives market has generated seriously controversies regarding the risks associated with these instruments. Interest rate risk remains the most important risk that derives from the OTC transactions, taking into consideration both the notional amounts and the market value of the financial derivatives that relies on interest rate contracts. Also, the largest share in this category is hold by swap contracts, which represent more than 75% of the OTC market.

The underlying asset of the interest swap contracts is directly linked with the interest rates evolution on the interbank market. In the European banking system, the interest rates swaps that have the Eonia interbank rate as underlying asset constitutes the most liquid market from the Eurozone interbank markets. Eoniaswap rates are the most used instruments in speculation and hedging the interest rate risk that derives from the banks' assets and liabilities indexed to Euribor. Also, is a very good indicator of the market anticipations regarding the short and long term evolution of the swap rates during the transactions.

Liquidity problems registered on the international financial markets have caused an increase in the volatility of the swap rates, especially after September 2008 and also in the spread between these and the monetary policy rate of the European Central Bank (ECB). By reflecting the market anticipations of the future monetary policy rate during the maturity of the swap contract, all the Euribor deviations form the monetary policy rate established by ECB is reflected in the interest swaps rates evolution.

Open positions on interest rate financial derivatives totally amount 478 milliard thousand USD in June 2010. OTC derivatives on interest rates constitutes 82% of the total notional values of the financial derivatives traded in 2010 and 75% of their gross market value (Table 1).

Table 1. The structure of financial derivatives traded on OTC markets (mil. USD)

Type of contract	Notional values		Gross market values	
	June2007	June 2010	June2007	June 2010
Foreign exchange derivatives	57.604	62.933	1.613	3.158
Interest rate derivatives	381.537	478.093	6.730	18.508
Equity derivatives	9.518	6.868	1.212	7.968
All commodities derivatives	8.255	3.273	656	492
Credit derivatives	51.095	31.416	906	1.708
Other derivatives	78	72	1	12
Total value	507.907	582.655	11.118	24.673

Source: Bank for International Settlements, 2011

Focusing on the European interbank market, we have analyzed the behavior of Eoniswap rates in comparison with the overnight borrowing interest rate. Section 2 provides the literature review. Section 3 presents the evolution of the Eoniaswap market. Section 4 analyze the transmission of volatility through the interbank markets and section 5 concludes.

2. Literature review

A vast range of studies have concentrated on the factors that determines banks to use financial derivetives and also on the relationship between financial derivatives and banking risks. One of the most representative studies are those of Brewer, Minton and Moser (2000), Gunther and Siems (2002), Kim and Koppenhaver (1992) and Sinkey and Carter (1994), which demonstrate that the probability of banks to enter into financial derivatives transactions depends on their dimension, their traditional commercial activity, their equity rate, but also the interest rate gap and net interest rate spread. Regarding the impact of the financial derivatives trading on the exposure of banks to market risk Chaudhry and Reichert (2002), Shanker (1996) and Venkatachalam (1996) highlight that some financial instruments are efficient in reducing the interest rate risk, while Choi and Elyasiani (1997) highlight the role of the financial derivatives in reducing the foreign exchange risk.

From a financial supervision perspective, financial derivatives present important challenges both for banks and for supervisors, due to the difficulty of managing and regulating the trading activities in comparison with the traditional banking activities. Culp and Mackay (1994) state that given the exposure of OTC derivatives to credit risk an adequate level of capital adequacy is an essential condition for trading on OTC markets. On the other side, Peek and Rosengren (1997) suggest that undercapitalized banks are more likely to be active in derivatives markets. Similarly, Gunther, Hooks and Robinson (1997) state that undercapitalized banks are more predisposed that others to open positions on OTC markets.

Regarding the management of the positions held on financial derivatives, Stulz (2006) highlights that both commercial and investment banks have developed methods that permit an efficient risk management taking into account the capital needed to ne held in order to absorb unexpected shocks. Stress testing and Value at Risk models are the most used by financial institutions to estimate the market risk associated with the financial derivatives portfolio, but don't work properly all the time because they are strongly dependent on the degree of liquidity registered on the markets.

Kotomin et al. (2008) using the Libor rates for 11 currencies, suggested that the liquidity preference at the end of year or trimester is the main factor that influences the behavior of interest rates on short term. Prati et al. (2003) have analyzed the daily evolution of the overnight borrowing interest rates for a series of highly industrialized countries like Canada, Great Britain and others from Eurozone over a period of 16 years, demonstrating that the intervention style of

the central banks plays an essential role in modelling the empirical characteristics of interest rates on short term.

3. The evolution of the Eoniswap market

Since the introduction of the euro, the transformation of numerous national markets into a unique one has offered a great opportunity for developing new reference indices for the monetary market, like Euribor for unsecured lending or Eurepo for secured lending. This approach has lead to a more homogeneous and integrated swap market in the Eurozone. Eoniaswap, the representative index for this market has been launched with the aim of developing new products in order to manage the interest rate risk that affects the banks' portfolios of assets and liabilities. A study of ECB (2007) states that swaps that have as an underlying asset the overnight interbank offered rate Eonia form the most liquid interbank market from the Eurozone, because of their very frequent usage in speculating and hedging the interest rate risk that affects the assets and liabilities indexed by Euribor. Also, it permits to analyze the spread between the swap rates and the monetary policy rate. In an interest rate swap contract one part pays a fixed rate (the swap rate) and the other one pays a variable rate (the average of Eonia rate registered during the maturity of the swap contract).

Figure 1: Euribor and the monetary policy rate of the European Central Bank
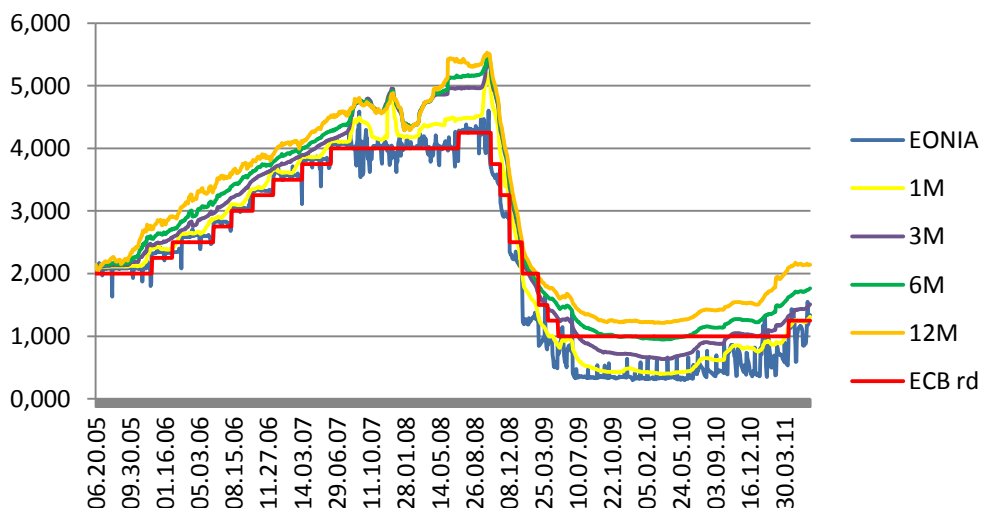
Source: authors' prelucrations

Nautz and Offermanns (2008) have analyzed the transmission of volatility through the European monetary markets from Eonia rate to the long term interest rates in the 2004-2006 period, finding that the Basel II regulatory framework have reduced the volatility of all monetary market interest rates. Also, the Eonia fluctuations are caused by the long term gap between 3 month Euribor and ECB's monetary policy rate. Linzert and Schmidt (2008) highlight that the positive difference between Eonia and the ECB's monetary policy rate is due to a long term high level of the former. Hassler and Nautz (2008) found that the persistency of the swap rates volatilities increases with maturity.

The Euribor rates for different maturities show an increasing trend until the collapse of Lehman Brothers in September 2008, from 2% (2005) to 4% (2008) and a decreasing trend after due to the monetary policy of ECB that aimed to reduce the reference rate for the Eurozone (Figure 1). It should be remarked both an increase in the spread between Eonia and the ECB's monetary

policy rate and the intensification of this spread volatility after September 2008. The explication for this derives from the liquidity surplus in the Eurozone due to BCE's monetary policy conducted in order to reduce the effects of the financial crisis.

Eoniaswap rates with 1 month, 3 months, 6 months, 9 mounts and respective 12 months maturities have registered an evolution similar with Eonia (Figure 2). When an increase in the monetary policy interest rate of ECB is expected Eoniaswap rates with 12 months maturities are larger in comparison with the short term interest rates (1-6 months) because of higher percents expectations of Eonia rate in the future,

Figure 2: Eoniaswap rates and the monetary policy rate of European Central Bank
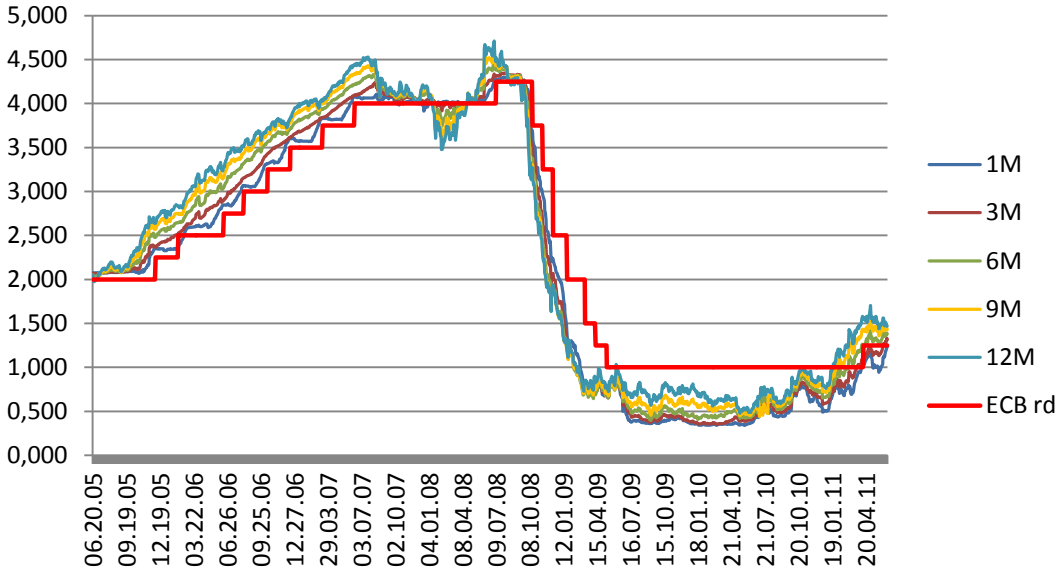
Source: authors' prelucrations

4. The transmission of volatility through the interbank market
Analyzing the impulse-response functions between Eonia and Eoniaswaps at different maturities it can be observed that the imapct of Eonia on the swap rates decrease with the maturity (Figure 3). The graph below illustrates the effect that the modification of Eonia rate variance with one unit has on the swap rates variance.

Eoniaswap rates quickly absorb the shocks from Eonia. None of the interest rates at different maturities give a response greater than 4% to unexpected shocks, neither in the nest 10 days, nor in the next 60 days. Over a longer time horizon these impulses became insignificant. So, the probability of the banks which trade these financial derivatives to obtain profit based on the past information that characterize the overnight interbank market is reduced on long term. They could make profit just on a short term basis.

Figure 3. Impluse-response functions between Eonia and Eoniaswap rates

Response to Cholesky One S.D. Innovations ± 2 S.E.
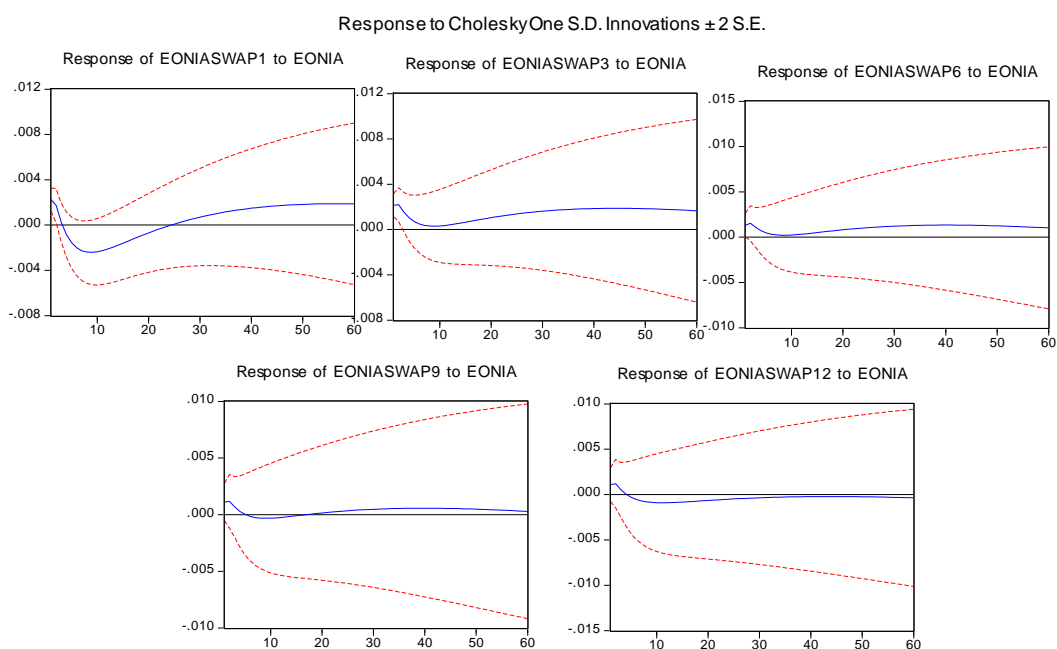
Source: authors' prelucrations

5. Concluding remarks

Analyzing the Eoniaswap rates behavior in the 20.06.2005-20.06.2011 period and their relationship with the interbank borrowing interest ratewe have seen that the variance of Eoniaswap at different maturitis is influenced by the shocksregistered by the Eonia rate, but these extreme volatilities are quicklu absorbed by the swap prices. These results reflect the difficulties of banks in making profits by trading finacial derivatives with Eoniaswap rates as undelying assets, but on the other side the situation is advantageous for the interest rate risk management, because the future volatility evolution of the swap rates could be estimated based on the past informations.

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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 form 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 lenght 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 v by the least square fit of the series and then determine the variance $F_v^2(s) = 1/s \sum_{j=1}^{s}\{Y[(v-1)s + j] - y_v(j)\}^2$ between the local trend and the profile in each segment v. Here, $y_v(j)$ is the fitting polynomial in the $v-th$ segment;

- average over all segments to obtain the q-th order fluctuation function, defined as $F_q(s) = \left\{ 1/2N_s \sum_{v=1}^{2N_s}\left[F_v^2(s)\right]^{q/2} \right\}^{1/q}$. 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 $F_v^2(s)$ 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

$$Inefficien\,cy = \Delta H = H(q_{\min}) - H(q_{\max}) \qquad (1)$$

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

$$H_{cor}(q) = H(q) - H_{shuf}(q) \qquad (2)$$

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

$$H_{PDF}(q) = H(q) - H_{sur}(q) \qquad (3)$$

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.
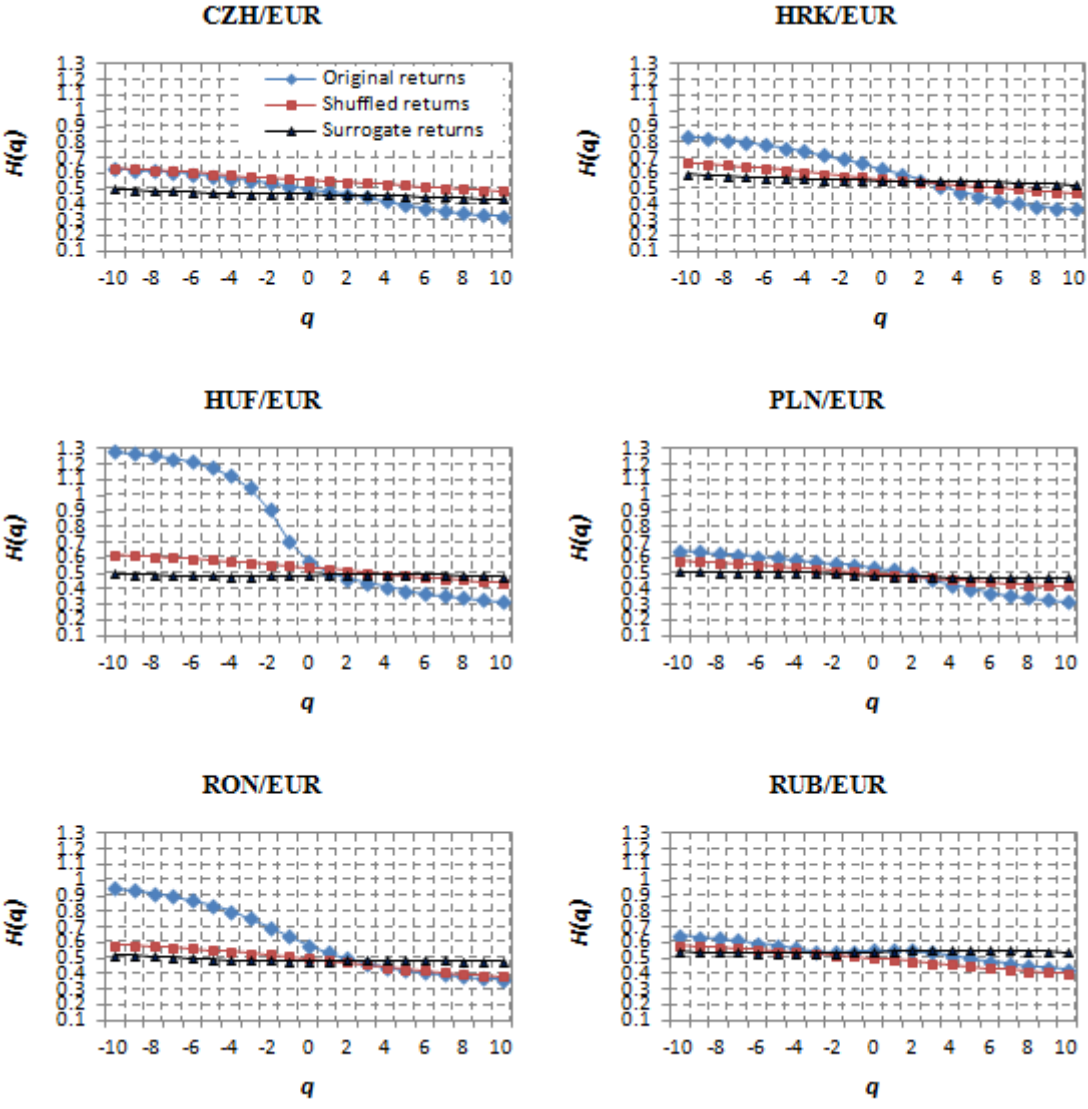
Fig. 1. *Generalized Hurst exponent, H(q), as a function of q for the original, shuffled and surrogate daily exchange rate returns*

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 MFDFA 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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THE CARD - CURRENCY WITH AND WITHOUT CASH

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Use by individuals and businesses resulting in reduced cash cards in circulation, the corresponding increase in transfer payments and payments accounts also limit exchange risks and make effective use of currency. As a result, we have the effect of reducing cash in circulation.
These advantages are also available for businesses and for banks and leads to favorable effects on import-export business.
Following this, banks can diversify our products, so to meet customers' new products.
Key words: card, bank card, debit card, credit card,
JEL Classification: G32

1. INTRODUCTION:

The large cash flow and the cost of cash in circulation amounted to 2-3 percent of the banks was very high costs for banks. This was the reason that led to the need to find solutions that reduce cash operations.

Solving this problem has direct effects on economic activity, resulting in a series of medium and long term benefits provided: reduce cash in circulation, the corresponding increase in transfer payments and payments accounts, which are equally benefits for individuals, businesses and banks. Banks have the opportunity to diversify their services so as to come as much to meet customers' wishes.

In Romania, the first payment system was introduced by VISA global network, which is the largest international network which performs 80 percent of all commercial transactions in countries where it is used.

Stages, the transition from cash payments from card operations is as follows:

1. to create logical, necessary support for foreign card holders, issued by foreign banks, can be used anywhere in Romania;

2. stage show, the Romanian banks have begun issuing credit cards, conditioned that the cardholder must meet the requirement of having bank accounts

3. ATM network establishment.

In 2005, the Bank has issued regulations on the principles and organizing card payments by the banks, which led to the creation of legal framework in Romania and therefore creating the conditions for companies, banks and households to benefit fully from new payment instruments.

2. THE LITERATURE AND THE PRACTICE

The first reference to card, as new means of payment, was made in the paper published in 1880, "Looking Backward" of the American writer Edward Bellany, who already imagined that in 2000 the money will be replaced with a value card payment predetermined, which would enable their holders to receive credit.

1914 is the first birthday of the card, symbol of a relationship between a business entity and a customer. This year, "General Petroleum Corporation of California" (later the Mobil Oil) issued a credit card to its officials and a few carefully selected clients. The issued card, which takes the form of metal plates, had a recorded information on each client who had a credit line. At that time, The Western Union handed over a metal plate such its most loyal customers and the

telegraph company in 1915 to issue plates for its main customers and identify and authenticate their telegrams.[1]

The advance took credit cards occurred in a relatively short period and went hand in hand with technological advances. Its size is directly related to technological innovations, particularly Internet and the rest of the media.

The first modern form of card appears only in 1949 when Frank McNamara along with his partner, Ralph Schneider, created the first credit card payment in restaurants, with Diners Club Card brand. In a few years, the card would be accepted by thousands of traders. In 1951 there were 20,000 such cards. Diners Club Card will be recognized as a new payment instrument.

Banks soon found McNamara's success and began to develop payment systems on the same principle but with some improvements. Profits were realized from fees charged owners. Their number was higher, the banks had higher incomes. Institutions such as American Express and Franklin National Bank began an offensive to popularize the real card.

In 1958 there is a leap forward in the history of payment cards, due to U.S. Bank of America Bank of San Francisco, which introduced the universal precursor of the modern card, called BankAmericard. The Bank of America bank card quickly proved that there is an extended market for bank credit cards and universal (general purpose), in that it is accepted by any merchant participating in the payment system for buying any kind of product and that any of its holder to buy on credit.

Gradually banks have found another opportunity and profit: the interest. From business based charging, the cards have become a huge business based on charging interest. The concept "buy now pay later" has become extremely popular in a very short time. The banks have realized that profits from consumer loans can be higher than in commercial loans.

In 1976, the BankAmericard cards have become the well known Visa and Bank of America, together with other associated banks and going through several transformations, is Visa International. Visa International is a huge cooperative association of banks that serve the same regulation and jointly contribute to the development and operation of the association. Other international electronic payment systems will be developed later, being more or less inspired or shaped by Visa. Thus, in 1966 and still having originated in Bank of America, has 17 U.S. banks formed association Interbank Card Association (ICA), which eventually became no less famous then International MasterCard with its own private telecommunications network (BankNet), the main competitor and rival Visa. The two systems of electronic payments by cards currently hold about 90% of the market.

The fictitious money on the card can give the false impression that they are inexhaustible.

3 THE BANKING CARDS IN ROMANIA

The principles of organization card payments by the banks in Romania are set out in Regulation no. 6 / 14.11.1995, which is to lay down the rules applied in the service activity funds transfer and settlement of payment card.

The year onset bank cards in Romania is 1992 when a group of banks: BankAgricultural, Romanian Commercial Bank, Romanian Bank for Development, Bancorex Commercial Bank "Ion Tiriac" and in 1995 and BancPost, set up card programs in Romania, banks engaged in card issuing and in creating conditions for acceptance these payment instruments as a means of settlement in the Romanian economic environment. A first step was the accession of the program banks of Visa International and Europay systems worldwide, and creating specialized departments dedicated bank card operations.

Since 1993, banks have initiated programs for processing transactions on cards issued by international banking system. To this end, was formed the ROMCARD company specializing in automatic processing operations performed by cards. Romcard also acts as a related entity (interface) between the Romanian banks and international use of the card system. Romcard offers

the advantage of obtaining the Romanian traders, the authorizations in a time of 30 sec., and provide foreign settlement facility within two business days.

Another important step was the issuance of cards in local currency. Starting in 1996, the Romanian commercial banks have started issuing the cards to cover the value in local currency denominated deposits.

Use by Romanian companies issued cards VISA or Eurocard / Mastercard, involves favorable effects on import-export activities such as foreign exchange risk limits and actual use of foreign exchange payments.

The romanian market the cards, although it was in the beginning, is characterized by a diversification of products. Thus, BRD launched its first national card, called the first card issued under a deposit agreement in lei. Overcoming their availability is allowed for the payment instrument, within the coverage within 30 days.

Among the products launched by other banks we noted: "Agricultural Bank Visa Classic"; "Europay BCR Maestro"; "BCR VISA Classic"; "BCR Eurocard - Mastercard"; "Banc Post - VISA Classic Thrive"; "Ion Tiriac Bank - Eurocard Mastercard" which highlights traders prefer to use these payment instruments, compared with cash payments.

In this paper payment cards in Romania, the authors Red-Hamzescu, and others, MONDO Publishing-EC, Craiova, 1997, payment cards fulfill different functions such as identification, debit and credit. Starting from these relations that arise are very different. Such identification card when we deal with relations between the holder and issuer and subject of these relations and the account balance is included in it, if we deal with a credit or debit card, present client, beneficiary and payer's account manager. This book uses paying customers to adjust its debt to the trader substituting payment by check or cash. If the check is a payment, the order book is nothing but generating matrix of the wire.

When a bank issues a payment card, it opens holders who are natural persons or legal accounts. The bank is required to ensure their full monthly account statements containing the following specifications: amounts relating to transactions, bank fees, interest on deposits side, bank interest charged for loans, date of transactions, merchant name and location where operations concerned, etc. [3]

4. THE CARD. CONCEPT, CLASSIFICATION AND FEATURES

The credit card is a means of cashless payment and settlement, enabling cash withdrawals from ATMs counters, which provides the owner authorized the purchase of goods or services, financial linkages between traders and consumers

The literature in banking practice meets these criteria for classification of cards:

1) By the way of information storage and security features of the card;
2) After the functions performed;
3) After the quality of the issuer;
4) After the transaction.

1) By the way of information storage and security features of the card
- Magnetic stripe cards;
- Microprocessor cards.
2. After the functions performed
- Debit cards;
- Credit cards.
3. After the quality of the issuer
- Cards issued by banks;
- Cards issued by non-banking companies.
4 After the moment when is using the transaction

- Payment cards before (frontloaded);
- Pay now (debit cards);
- Pay later (credit cards);
- Card dealer (retailer card);
- Card charges (charge card).

The cards have some common features:
- Presents card in plastic, standard size and thickness;
- On the card is printed by printing (embossing) or laser engraving: the issuer's name, the card number, the duration, the name of owner;
- On the reverse of the card issuer is printed a logo, a hologram security standard;
- On the reverse of the card is always applied magnetic tape registration elements and signature space designated owner;
- These common features provide uniformity card technology and universal recognition. [1].

5. THE ELEMENTS OF SECURITY OF THE CARD AND THEIR PRESENTATION

The card features special material must be of PVC or other material PVCA or fulfill the same features such as polyester or polyethylene, resistant to deformation: the book must allow deformations (bending, not folding) occurring during normal use in a device read or print without prejudice the operation of the book; rigidity: if the book is too flexible it could not be used under normal conditions.

The physical characteristics of the cards are: flammability, chemical resistance, toxicity, humidity, light, heat stability.

The card thickness was determined taking into account the human factor: young, orientation, insertion and retrieval easy, convenient pocket.

The plastic card printing is mainly used to soften at 50 degrees Celsius. Allowing this card, there where created the characters in relief on their stamping. The payment card sizes are subject to international standardization in this area (ISO 2894), and the format is retained to 86x54x0.76 (in millimeters) with low tolerances.

5.1. THE MAGNETIC STRIPE CARDS

The magnetic strip card is located on the backs, which can be protected by a thin plastic film (overlay). The tracks of tape magnetization corresponds to the various networks of transmitters, the style of card reader devices (ATMs, payment terminals) must be adapted to the characteristics of all network cards used and must take account of factors likely that can affect the magnetization tracks. In order to allow an international payment, the card standard was needed to support both itself and the information contained therein. After these requirements, it was prepared using two formats for magnetic tracks.

5.2. THE TRANSAC FORMAT

It is called as the French manufacturer who has developed the first magnetic cards for cash withdrawal through vending machines bank notes. These magnetic tracks were known as T2 and T3, they are used to automatic first French are used today along with tracks ISO1, ISO2, ISO3, corresponding to ISO format.

The information can be recorded on the tracks that follow the format Transac and they are: T2: copy of identity banking service code and PIN (Personal Identification Number), T3: time of validity, date of withdrawal operations, limit withdrawals and number of weekly PIN attempts.

5.3. THE ISO FORMAT

These were finalized after developing Transac format, the ISO track covers the following information: ISO1: 68 characters, fixed length (ISO 3554). This track is divided into three areas,

and it contains the following data: the first card number, name bearer in the second-by date, service code, the PIN verification, an area of 68 characters for the whole competition track for the third area. ISO2: 40 characters, fixed length (ISO 3554). This track consists of two parts: the card number in the first area and the second area includes: the validity date, service code, area confidential check code, a free competition in the 40 characters for all track.

ISO3: 107 characters, fixed length (ISO 4909), is a complement to track ISO2 and its encoding is optional. This track is divided into two areas: country code, currency, currency type, the total amount authorized per period, the balance available for the current period, the period start date, duration, number of tests of the code of confidentiality, the nature of accounts, date of validity, are among other elements the first area and the second area includes: a code structure, operating a number, date operations, the total amount authorized period, the balance remains available in the current period, on commencement of the period and duration.

Following these rules can make the following observation: only tracks ISO3 and T3 can be deleted to reset totals or authorized regular operations. T2 lanes, ISO1, ISO2, can only be read.

The magnetic cards have limits, they are related to technological and capacity of the runways and the degree of security they provide. These limitations include: limited capacity, security questioned where we need to discuss the risks of using the card, damage due to prolonged use, vulnerability to fraud, protect information, and a future compromise.

5.4. THE BOOKS WITH ELECTRONIC MICROCIRCUITS

These books include a microcomputer, on the one hand, only with the memory cards, without any "intelligence" and any protection and on the other hand, smart protected cards to access the memory area. In this section we understand payment card memory card with electronic microcircuit (CME) protected by security means.

The microcontroller book was invented in 1974 by Roland Moreno and the book has several advantages over tape. This book was the first means of disseminating information with logical access security architecture features a multi-dimensional, with a certain autonomy characterized by responsiveness to external events (blocking circuits after introducing a number of times the PIN wrong site) with a capacity calculation etc. The choice of components on the market to be a microcircuit card depends on your application needs to be done with it. These components are: electronic memories, processing units, micro-modules.

5.5. MICROPROCESSOR CARDS

A microcomputer can contain the same component of a microprocessor, different memory, registry status, data and address buses. Some companies have developed microcontroller cards with "two-way" and even "multi-chip". Microcircuit contains, besides the microprocessor itself, a music program, working memory and data memory. The information stored in the microcircuit is organized in words of 32 and they serve as indicators of system status, which is programmed to act differently depending on the value of those bits.

These bits are:
- A bit of validation, it indicates if the word is written or not;
- A bit that specifies the type of transaction: money or service;
- A bit of memory protection: secret word or unclassified;
- A bit starting block.

The operation of a microcomputer depends on keys introduced at different stages of life card:
- The key manufacturer: it protects the card to personalize it. Consists of the card serial number, indication of the manufacturer, card type and other information;
- The key Bank is the need to record a level of expenditure and its frequency to change the PIN. This key is specific to each card;
- The transaction key used for the calculation certification transactions;

- <u>The opening key words or Service</u> authorizes access to memory for one or more previously established providers.

If a card is inserted automatically, the microcircuit identifies it. If its components are operational, he expects orders to the PLC where it is connected. If the state control and the automatically procedure are correct, the card will respond to its various applications, such as identification card application, confidential code verification, application for registration of a transaction, record the information in the memory etc. [2]

6. THE CARD PAYMENT INSTRUMENT WITH AND WITHOUT CASH
6.1 THE CARD PAYMENT INSTRUMENT WITHOUT CASH

The credit cards are a simplified form of payment.

The card is a cashless payment instrument by which an owner may be authorized to pay for the goods or services purchased from authorized dealers or get cash from the issuing bank. Thus, the card offers to its holder the following facilities:

- On the one hand, a card holder can withdraw cash from their account (for this it uses special devices such as cash vending machines);
- On the other hand, using a card can pay the equivalent of a good or service, so based on an agreement between the payment card holder, issuer and trader of goods or service.

Thus, can be a group of these two big cards criteria:

A. After the facilities it provides:
- The credit card (credit card);
- The store card (card shop);
- The debit card;
- The cheque guaranteed card;
- The multifunction cards;
- The smart card (smart card).

B. After the issuer:
- The banking cards;
- The private cards (issued by retailers);
- The cards issued by other institutions and organizations.

As it follows, there are some card types listed above, along with highlighting the main benefits arising from their use for each participant in the transaction: cardholder, its issuer and merchant (store that accepts payment cards). [3]

6.2 THE CARD. THE CASH PAYMENT INSTRUMENT

To release cash in banknotes and transfer funds for payment of services, providing account information using ATMs that are safes with notes, a counting mechanism, and another taking notes and transport are operated electronically, and a locking device connected to the alarm user to display a screen instructions so there is a payment card entry slot to convey information to the bank's computer center and receiving the answer, a keyboard to key money or payment for services requested and a slot with a cash drawer release.

The cashing procedure is as follows:
- Introduction of the payment card bay (card reader);
- Typing PIN (allowed only two typographical errors, in the third mistake is retained ATM card);
- Typing the desired amount not to exceed the limit specified in the Convention;
- Release cash and debit card personal account;
- Restitution payment card;
- Release receipt.

Payment transactions appear in the menu that is displayed, of which the most common concerns:
- For services such as telephone bills, electricity, gas etc.
- Loan repayments, interest payments, commissions etc.;
- Obtain account balances and other account information;
- Obtain the financial information market (interest on deposits, loans, securities or other securities);
- Cash management operations.

By typing the chosen menu, the requested data is processed, then waited and the solicitation transaction confirmation is optional.

7. THE MANAGEMENT OF THE CARDS

The credit risk management portfolio focuses primarily on cards issued by banks.

The conditions of developing banking risks are determined by the expression of several factors that depend on general evolution of the economy, changes in organization bank, financial decisions, political and economic conditions.

The operations management with cards is in connection with the risk management.

Relative to risk, they refer to: operational risk, reputational and legal risk as the major categories of risk, especially for international banks.

The operational risk can arise from a failure to correct the system of electronic money or electronic banking and the development or inadequate implementation of these systems. In this category fall the following risks:

The security risk**:** this risk may be increased if the banks fail to incorporate adequate measures to detect and prevent counterfeiting.

The risks associated with the design, implementation and maintenance of a bank is the risk of an interruption or slowdown systems, whether electronic bank or electronic money bank elected not compatible with user requirements.

The risks that arise due to misuse by customers of banking products and services, are increased when a bank fails to properly educate customers on security precautions, the existence of appropriate

measures to verify the transactions, customers may reject transactions that they have approved in the past, thereby creating numerous bank financial losses, the bank may suffer financial losses due to unauthorized transactions. Money laundering can be another source of concern.

The reputational risk is the risk due to significant negative public opinion, it is important not only for a single bank, but it is important for the entire banking system.

The legal risk is the violation or noncompliance with laws, rules, regulations or practices prescribed.

Other risks, such as credit risk, liquidity risk, interest rate risk and market risk are risks that can occur in electronic bank activity.

Inadequate procedures which determine the credibility of borrowers seeking loans through electronic channels can lead to credit risks bank

We decided to do an analysis of performance related bank card risk management, analysis during the crisis and measures to reduce or remove it, based on risk management, which means their identification, assessment, quantification and strategy counter their respectively solutions of some levers to alleviate or even eliminate the possibility of occurrence or the consequences that would occur if they appear.

8. METHODOLOGY

We took into account the existing research, the evolution of the economy reflected in GDP growth, the evolution of inflation, monetary stability. The banks depend on a country's economic condition at some point upstream because monetary policy decisions that the central bank are

applied through banks and banks downstream draw their resources and made investments in and nonbank environment, generating results macroeconomic level and at the same time affected the overall evolution of the economy. The card is an issue often addressed in recent years, as is the current theme is in line with recent research and trends which are in the banking system on the new requirements for risk management and reporting as Basell 2.

It is interesting that the crisis increased the number of cards though as value, witnessing a decline in value thereof.

9. CONCLUSIONS

The advantages for the owner of credit card are:
- The holder of a credit card, the buyer, can choose when he is making certain purchases, because the credit is available, you can buy a product when you need it, even when there is available in its account;
- Cardholder may, as we have seen, pay the debt in full receipt of balance situation, or to pay the balance in monthly installments, if the debt is paid in full, the credit card holder can get a loan without interest for a period of up to 56 days;
- The transactions are carried out more quickly than the check, if the store (retailer) is equipped with appropriate equipment (terminals for electronic transfer of funds), the procedure will be the only card insertion device, but it will take to process and transmitting the data recorded in magnetic tape, automatically will generate the bill and will issue to the client.
- Advantages for the retailer:
- The merchant account is immediately credited with the value of goods or services sold based on credit card when confirming sales documents (invoices, receipts, invoices) are presented to the bank for payment;
- Offering goods on credit, credit card accepting merchants attract more customers, compared with those who have introduced this method of payment;
- Operating with credit cards, the merchant is burdened with much of the costs and risks involved in using cash;
- To improve customer service, as a part of the big chain stores enable customers to obtain cash by presenting the card, the customer, this is an added bonus, and the trader is a way to "convey" cash without expenditure for such an operation.
- Advantages for the banks:
- Allow increasing automation of operations, thereby reducing the volume of operations manual;
- Reduces the cash operations;
- Interests in transactions with credit cards are higher than for most other forms of borrowing;
- Fees charged to merchants who accept payment by credit cards for goods and services they are a source of income taken into account for the bank, I called this bank revenue from the fees they pay merchants and companies that are connected to the network can carry out transactions using cards.

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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 obtained 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 sever 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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REAL AND NOMINAL CONVERGENCE, THE SYNCRONIZATION OF BUSINESS CYCLES BETWEEN THE NEW EUROZONE MEMBERS (NEM) SLOVENIA, SLOVAKIA, CYPRUS , ESTONIA AND THE CORE EUROZONE

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After the accession of newly members in the European Union in 2004 and 2007 these countries are expected to adopt the common currency: Euro. The nominal convergence must be achieved until then as the Maastricht treaty implies but in order to be an Optimum-Currency-Area (OCA) these countries economies are expect to behave similarly to those of the Eurozone. We test the synchronization of the business cycle between the EU12 and Slovenia, Slovakia, Cyprus and Estonia using as a measure their GDP evolution . The GDP for all the states are seasonally adjusted using the X12-ARIMA methodology, we apply the Hodrick-Prescott filter in order to capture the trend and cycle of GDP, using the correlation coefficient we test their level of synchronisation. The main findings are that their level of synchronisation has rise over the 1995-2011 period, also adopting the common currency Euro doesn't seem to have an impact on the level of busyness cycle synchronisation.
Keywords:Eurozone, business cycle synchronisation, Hodrick-Prescott filter, Optimum-Currency-Area
Jel codes: E32, C22

1. Introduction

The monetary union means adopting the same currency by at least two countries, Euro area, or that of the most important commercial partner, the dollarization in Latin America (Ecuador, Peru). For Romania an important significance has been given by the "Euro zone"; now that our country is a EU member, it should focus on continuing the process of integration into European economic and monetary union and the next step is to adopt the Euro. The benefits of achieving a monetary union are related to the existence of an optimal currency areas where an optimum currency area is defined as a geographical region in which the member states must use fixed exchange rates or a single currency. (Mundell, 1961) presents the criteria that a country must satisfy to be part of an optimal currency area: business cycle synchronization, high degree of labour mobility, diversified production, a high degree of openness of the economy and symmetry to the external shocks.

Table 1. Nominal convergence in 2010

Country	HICP Inflation	Gerneral government deficit	General government gross debt	ERM II membership	Exchange rate vis-à-vis euro	Long term interest rates
Reference value	**max. 1%**	**max. 3%**	**max. 60%**	**min. 2 years**	**+/- 15%**	**6%**
Bulgaria	1.70%	2.80%	17.40%		-	6.9
Czech Republic	0.30%	5.70%	39.80%		2.6	4.7
Hungary	4.80%	4.10%	78.90%		4.5	8.4
Latvia	0.10%	8.60%	48.50%	since 2 May 2005	-0.4	12.7
Lithuania	2.00%	8.40%	38.60%	since 28 June 2004	-	12.1
Poland	3.90%	7.30%	53.90%		8.4	6.1
Romania	3.40%	2.40%	30.50%		2.9	9.4

Source: ECB Convergence Report, 2010

A preliminary stage of adopting the Euro is compliance with the fulfilment of the convergence (Tabel 1) criteria of the Maastricht Treaty (1992): the average inflation rate should not exceed with more than 1.5 percentage points the average of the most performing three members, the long-term interest rates should not exceed with more than two percentage points the average of the top performing members, consolidated budget deficit should be less than 3% of GDP, public debt should be below 60% of GDP, exchange rate fluctuations against the Euro should fall within a corridor of + / - 15% of the average level.

In this paper we investigate the correlation of business cycle between the Eurozone and the NMS who adopted Euro: Cyprus, Slovakia, Slovenia, Estonia.

2. Literature review

In his seminal paper of (Mundell, 1961)☐ which analysis the Optimal Currency Area (OCA) he finds that the economic benefit depends on the mobility of production factors, the level economic openness, economic diversification, wage and price flexibility, the synchronization of business economic cycles and the shock symmetry. (Frankel & Rose, 1997) finds that an optimum area is endogenous if countries have a strong trade and synchronization of business cycles, (Ricci, 1997) propose a two country monetary model of trade and observes that the benefit from adopting a single currency is correlated with shock symmetry, labour mobility, inflation differential. (Mongelli, 2002) in an analysis of the OCA discuss the specialisation versus endogeneity of the countries in an currency union, (Alesina & Barro, 2003) finds that there are well established Euro and dollar area but not yen area, (Blaszkiewicz, 2003) observe that Central and Eastern countries are having a high open trade with the European Union but only Hungary and Slovenia have shock correlation, (Darvas & Szapáry, 2004) analyse not only the GDP co-movement but also the industry, trade, consumption, services and investment, finding that for the core countries of European Union (Austria, Belgium, France, Germany, Italy and Netherlands) show a high degree of synchronisation, while for the periphery (Finland, Ireland, Portugal, Spain) countries the level of synchronization is lower, also the Central and Eastern European Countries (CEEC) Hungary, Poland and Slovenia are the most synchronized while Czech Republic and Slovakia are less synchronized and in the case of Baltic states they aren't synchronized at all nerveless the degree of synchronisation has significantly increased in the 1993-1997 and 1998-2002 period for all the countries. (Sander & Kleimeier, 2004) analyses the monetary policy in the Eurozone between 1993 and 2002 concluding that when using the monetary policy rate proxy the pass-through increased in the analysed period and that real and nominal convergence lead to a homogeneous transmission in the Eurozone. The European Union is not entirely an optimum currency area, there are differences in labour mobility, however, joining an economic union and then a monetary union showed that the euro zone economies become integrated as a result of monetary union (Baldwin, 2006). In their meta-analysis (Fidrmuc & Korhonen, 2006) review the existing studies on OCA and observe that Central and Eastern European countries, also the methodology used by research range from using HP and Kalman filters, supply and demand shock, VAR models to dynamic correlation, the date used are usually quarterly and sometimes monthly. The most of studies (Fidrmuc & Korhonen, 2006) are on new EU members while in the case of Romania and Bulgaria the number of studies are small, the highest correlations of the business cycle is for Hungary followed by Slovenia and Poland and only in the case of Lithuania are negative. (Afonso & Furceri, 2007) analyses the sectoral business synchronisation finding that industry, building and agriculture are the highest correlated sectors while the services sector has a low business cycle and volatility. (Bîtcă, Preotu, Radu, & Toniţa, 2007) analyze the synchronisation of CEEC's (including Romania) and finds that the level of synchronization is higher for the 2002-2006 period then in the 1997-2001, Romania and Bulgary have the lowest level of correlation. (Ionut Dumitru & Dumitru, 2010) test the degree of readiness of New Member States (NMS) using for extracting the trends and cycles from GDP the following

methods: quadratic trends, Hodrick-Prescott filter, Band-Pass filter, Beveridge-Nelson decomposition, Wavelet transformation and principal component analysis (PCA) the main findings regarding Romania are that the level of synchronisation is the lowest, but the level of correlation has increase the most for Romania and Slovakia, continuing their the research for Romania (I. Dumitru & Dumitru, 2011) finds that the demand shock are negative for Romania while in the case of supply shock the level of correlation has raise over the 1997-2009 period.

3. Data and methodology

The countries analysed are Cyprus, Estonia, Slovakia, Slovenia which adopted the Euro between 2002 and 2011, Malta was excluded because the data were available only from 2000. The GDP data series obtained from Eurostat are quarterly and span over the 1995-2011period. The GDP for the EU12 and the NEM (New Eurozone member) are de-trended using the X-12 Arima methodology, in order to extract the trend and cycle we use the Hodrick-Prescott filter (Hodrick & Prescott, 1997) and the Band-Pass filter (Baxter & King, 1995), in order to capture the level of synchronisation we will calculate the level of correlation in 5 years groups.

The Hodrick-Prescott filter has the following form:

$$\sum_{t=1}^{T} (y_t - \tau_t)^2 + \lambda \sum_{t=2}^{T-1} [(\tau_{t+1} - \tau_t) - (\tau_t - \tau_{t-1})]^2 \quad (1)$$

where λ is a penalisation parameter, which in the case of quarterly data will have the value $\lambda = 1600$.

4. Results

The evolution of GDP (Figure 1) for the period 1995-2011 has an upward trend, with the exception of 2008-2009 when the European Union was in recession, we will eliminate seasonal component using X12-Arima methodology.

Figure 1. GDP and GDP de-seasonal evolution 1995-2011
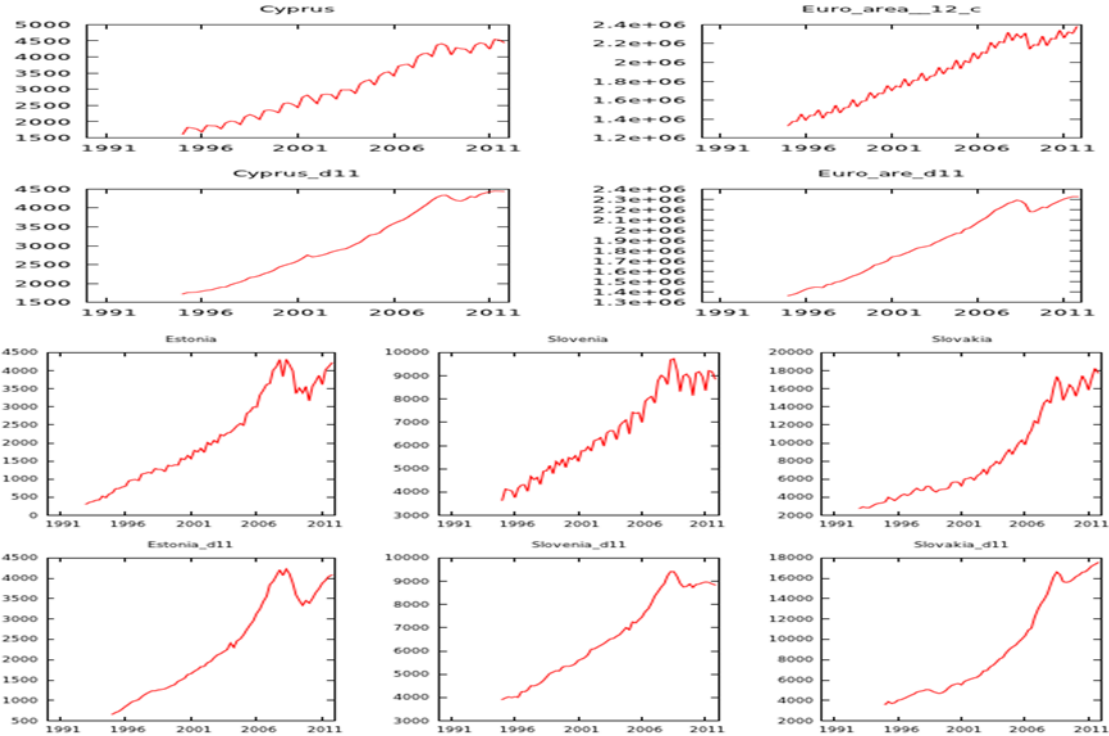
Where the variable: Cyprus, Euro_area, Estonia, Slovenia, Slovakia represents the GDP and Cyprus_d11, Euro_area_d11, Estonia_d11, Slovenia_d11, Slovakia_d11 represents the smoothed series without the seasonal influence. Applying the Hodrick-Prescott filter we extract the cyclical and trend component.

Figure 2. Trend and cyclical component
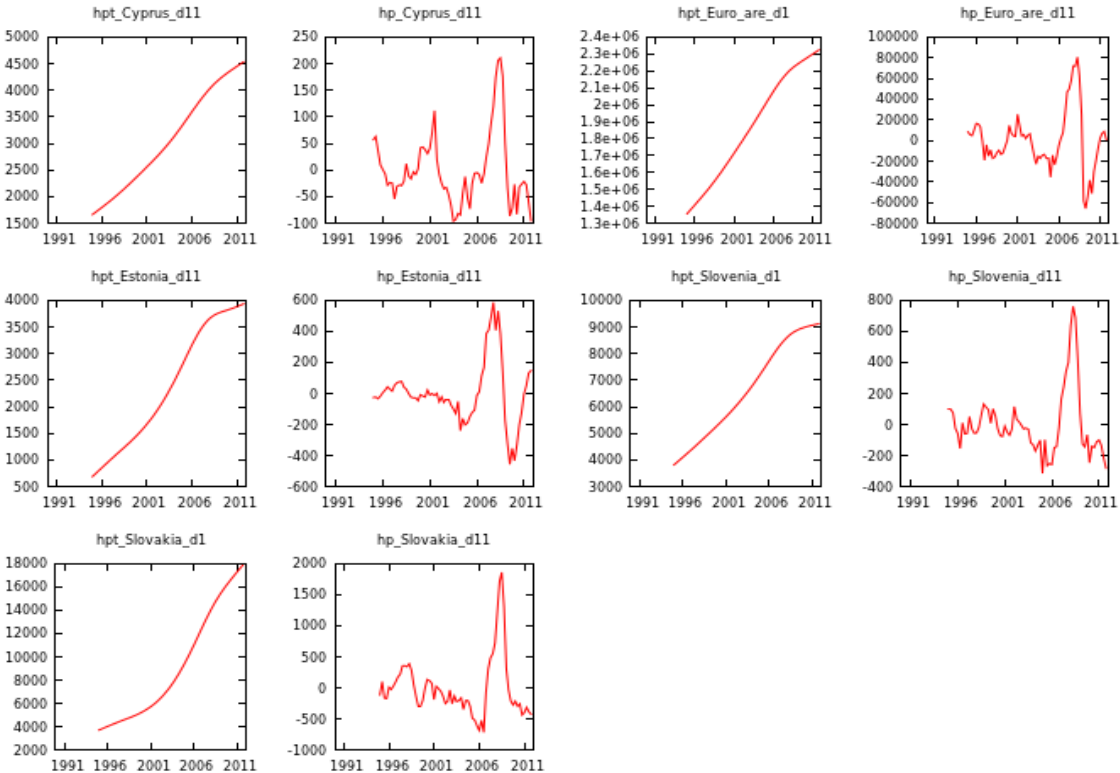
Source: authors calculation

Where hp represents the cycle and hpt the trend, we observe that the trend is upward for all the analysed countries, in order to capture the synchronisation of business cycle we will compare the correlation coefficient (Table 2) over the following periods 1995-2011, 1995-2000, 1997-2002, 1999-2004, 2000-2005, 2002-2007, 2004-2009, 2006-2011.

Table 2. The correlation coefficients for the business cycle

Correlation Coefficients, *using the observations 1995:1 - 2011:4*					
hp_Euro_ared11	hp_Cyprusd11	hp_Estoniad11	hp_Sloveniad11	hp_Slovakiad11	
1.0000	0.7149	0.9010	0.7253	0.5964	hp_Euro_ared11
using the observations 1995:1 - 2000:4					
hp_Euro_ared11	hp_Cyprusd11	hp_Estoniad11	hp_Sloveniad11	hp_Slovakiad11	
1.0000	0.5291	-0.3485	-0.1574	-0.3879	hp_Euro_ared11
using the observations 1997:1 - 2002:4					
hp_Euro_ared11	hp_Cyprusd11	hp_Estoniad11	hp_Sloveniad11	hp_Slovakiad11	
1.0000	0.6100	-0.4487	-0.1239	-0.4504	hp_Euro_ared11
using the observations 1999:1 - 2004:4					

hp_Euro_ared11	hp_Cyprusd11	hp_Estoniad11	hp_Sloveniad11	hp_Slovakiad11	
1.0000	0.7518	0.6238	0.2705	0.4881	hp_Euro_ared11

using the observations 2000:1 - 2005:4

hp_Euro_ared11	hp_Cyprusd11	hp_Estoniad11	hp_Sloveniad11	hp_Slovakiad11	
1.0000	0.7179	0.7566	0.6809	0.5836	hp_Euro_ared11

using the observations 2002:1 - 2007:4

hp_Euro_ared11	hp_Cyprusd11	hp_Estoniad11	hp_Sloveniad11	hp_Slovakiad11	
1.0000	0.8597	0.9641	0.8690	0.7835	hp_Euro_ared11

using the observations 2004:1 - 2009:4

hp_Euro_ared11	hp_Cyprusd11	hp_Estoniad11	hp_Sloveniad11	hp_Slovakiad11	
1.0000	0.7771	0.9625	0.8143	0.6994	hp_Euro_ared11

using the observations 2006:1 - 2011:4

hp_Euro_ared11	hp_Cyprusd11	hp_Estoniad11	hp_Sloveniad11	hp_Slovakiad11	
1.0000	0.7350	0.9608	0.7690	0.6519	hp_Euro_ared11

For the 1995-2002 period we find that Estonia, Slovenia and Slovakia are negatively correlated with the EU12 while Cyprus is linear correlated for all the sample period, the highest correlation is observed in the case of Cyprus 0.61 and the lowest negative correlation is observed for Slovakia. From 2000 on all the countries became positively correlated with EU12, so we can observe that for the last period the highest correlation is for Estonia and Slovenia, while Cyprus has a lower correlation, while Slovakia is the least correlated from the analysed countries. Nevertheless it can be observe that the degree of synchronization of the business cycles has an upward trend and we can expect that Slovenia, Slovakia and Cyprus to became more correlated in time. These countries adopted the Euro as follows: Cyprus - 1 January 2008, Estonia – 1 January 2011, Slovakia – 1 January 2009, Slovenia – 1 January 2007, so as the level of correlation for the last period (2006-2011) is lower then the previous periods we cannot draw the conclusion that adopting the Euro increases the level of business cycle synchronisation.

Analysing the degree of synchronisation between the NEM's we can postulate that the other countries which are suppose to adopt the common currency: Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania should have also a high degree of business cycle syncronization.

5.Conclusion

This paper analysis the degree of business cycle synchronisation in order to asses if the NEM's states will form am Optimum-Currency-Area, the research is build upon the seminal papers of (Mundell, 1961) using a methodology similar to those proposed by (Darvas & Szapáry, 2004). Using the GDP series evolution for EU12 and Cyprus, Estonia, Slovakia, and Slovenia for the 1995-2011 period, we apply the X12-Arima methodology in order to seasonally adjust the series and decompose the GDP evolution in trend and cycle using Hodrick-Prescott filter. In order to test the level of synchronisation we use the correlation coefficient, the main finds refer to the rise in the synchronisation cycle and the fact that adopting Euro didn't rise the level of synchronisation between these economies.

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THE ROLE OF VALUE AT RISK IN THE MANAGEMENT OF ASSET AND LIABILITIES

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ALM is the management of risk at enterprise level, the models used in ALM can be static or dynamic: single period-static models, multiple period static model, single period stochastic model, multi period stochastic model. While single period-static don't incorporate the dynamic of the economical changes the multiple period-static models are an extension of the single period-static model, the most common used are multi-period stochastic which model the evolution of financial series in time and the assets and liabilities using different types of probability distributions (Student, GED). Highly correlated with ALM is the Value at Risk which can be used as and function to be minimized in ALM models. In the Value at Risk methodology the estimation models are classified as: parametric, nonparametric, semi-parametric; we present the parametric models (GARCH models) used in Value at Risk and the connections that can be established between ALM models and Value at Risk. We present the Conditional Value-at-risk and offer and example on how to calculate CVaR .
Keywords: asset-liability models, Value-at-risk, Conditional Value-at-risk, GARCH,
Jel codes: G21, G17

1.Introduction

Asset liabilities management (ALM) is defined by (Rosen & Zenios, 2006) as the strategic management of the balance sheet, (Uyemura, Van Deventer, & Foundation, 1993) define ALM as the management of income and expenses with respect to maximizing earnings, adjusted to risk factors, given the long term interest of the shareholders, also ALM manages the risk due to mismatches between assets and liabilities. The main purpose of ALM is the management of risk, in the context of enterprise risk management, having different objectives : profitability, liquidity, solvency, Conditional Value-at-risk (Ferstl & Weissensteiner, 2011)□. The first steps in ALM where made by (Markowitz, 1952) who treats the management of assets in an efficient portfolio, while (Sharpe & Tint, 1990) discuss the correlation and the associated risk between assets and liabilities. The first ALM models where developed from the early '80s (Uyemura et al., 1993). For (Kusy & Ziemba, 1986) ALM represents a cost/profit analysis between the risk level , earnings and liquidity; using a stochastic linear programming model they concluded these models are more robust and efficient then the previous linear programming models. (Giokas & others, 1991) test a linear programming model on the Commercial Bank of Greece which takes into consideration the institutional and legal framework, the financial position, showing that using ALM the risk level can be reduce in banks.

The ALM models can be classified (Zenios & Ziemba, 2007), in terms of the period and the random variables, as : single period-static models, multiple period static model, single period stochastic model, multi period stochastic model.

Single period-static models, which started with balance sheet immunization (Redington, 1952), and are better know as GAP analysis have some drawbacks because these models don't incorporate the dynamic of the economical changes. Multiple period-static models are an extension of the single period-static model, in which the period analyzed in more than one year.

Single period stochastic models include the analysis of risk-return (Markowitz, 1952) which treats the assets allocation. While (Sharpe & Tint, 1990) also analyze the liabilities fluctuations

and their relation with asset allocation. Both (Markowitz, 1952; Sharpe & Tint, 1990) use normal law in order to represents the assets and liabilities, the non-normality of financial series is presented by (Zenios, 1995) ,using asymmetric and non-normal distribution for the financial series he finds that this models outperform.

Multiperiod stochastic models are the most common in ALM, for e.g. the stochastic programming (Carino et al., 1994) the Russel Yasuda Carino (Dempster & Consigli, 1996)☐ and Promoeteia model (Consiglio, Flavio, Cocco, Zenios, & others, 2007), they model the evolution of financial series in time and the assets and liabilities are considered as having different types of probability distributions (Student, GED).

(Ferstl & Weissensteiner, 2011) apply a multi-period stochastic linear programming model with re-allocation, the function to be minimized is the CVaR of shareholder value, which is the difference between mark to market value of assets and the present value of liabilities.

2. Value at Risk

The Value-at-risk is defined by (McNeil et all, 2005) as at "... some confidence level $\alpha \in (0,1)$ the VaR of the portfolio at the confidence level α is given by the smallest number l such that the probability that the loss L exceeds l is not larger than $(1-\alpha)$." Or mathematically we can write VaR as probability:

$$P_{VaR} = P\left(l < -VaR\right) = \int_{-\infty}^{-VaR} P_T \cdot l \cdot dl \quad (1)$$

In Figure 1 we have a hypothetical distribution functions of Profit and Loss (P/L) where P/L has a leptokurtic distribution with mean 1 and standard deviation 1, then the Value-at-risk represent the percentile (in red) of losses.

Fig.1. Value-at-risk graphic representation
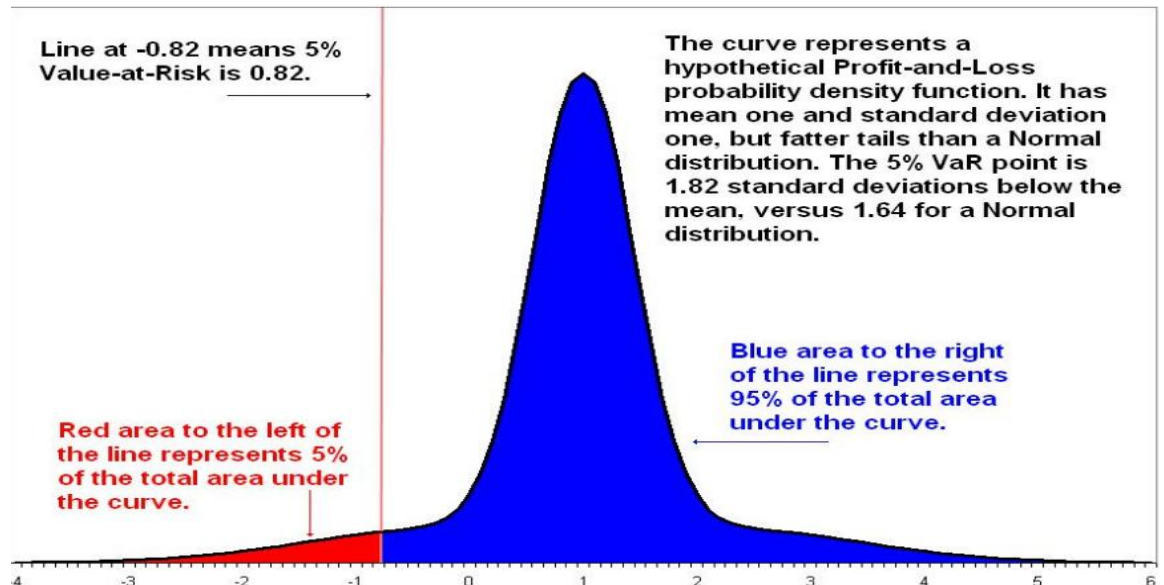
(Manganelli & Engle, 2001) classify the Value-at-risk models in three categories:

a) parametric (RiskMetrics, Garch)
b) nonparametric (historical simulation, hybrid model)
c) semiparametric (Extreme Value Theory, CAViaR, quasi-maximum likelihood Garch).

2.1. The Parametric models

The RiskMetrics models were the first application of Value-at-risk, developed by J.P. Morgan in 1989, in order to offer a clear position of financial institution regarding their potential losses. Where volatility can be expressed as a function of return and expected value :

$$\sigma_t^2 = (1 - \lambda) \sum_{t=1}^{n} \lambda^2 (R_t - \mu)^2 \quad (2)$$

-where R represent return, μ is the expected value and λ is the exponential factor used in order to quantify the volatility persistent. The λ parameter usually has an 0.94 or 0.97 value (Manganelli & Engle, 2001), also the RiskMetrics model assume that the residual are normally distributed.

We will present the parametric models (Garch models) which are the most used because of their capacity to quantify non-linear dependencies. The ARCH models where developed by [Robert F. Engle, 1982] and have the following equations:

$$y_t = B_0 + e_t \quad (3)$$
$$e_t \mid I_t\text{-}1 \sim N(0, ht) \quad (4)$$
$$h_t = \acute{\alpha}_0 + \acute{\alpha}_1 * e^2_{t\text{-}1}, \ \acute{\alpha}_0 > 0, \quad 0 \le \acute{\alpha}1 < 1 \quad (5)$$

The equation (1) expresses the series evolution, where errors are following a normal distribution law (3) of conditional variance define by equations (4). Equations 3 and 4 express the ARCH type models, autoregressive models with different time variance, residuals follow a normal law of 0 mean and ht variance. The value of $\acute{\alpha}_0$ and $\acute{\alpha}_1$ must be positive, and $\acute{\alpha}_1$ has a value between [0,1] in order to avoid an explosive processes, also errors(residuals) follow a normal distribution law.

The GARCH (Generalized autoregressive conditional heteroskedasticity) developed by (Bollerslev, 1986), bring the use of lags as an innovation in equation variance, the equations in the GARCH (1,1) case are:

$$y_t = \beta_0 + e_t \quad (6)$$
$$et \mid It\text{-}1 \sim N(0, ht) \quad (7)$$
$$h_t = \acute{\alpha}_0 + \acute{\alpha}_1 * e^2_{t\text{-}1} + \beta_1 * h_{t\text{-}1}, \ \acute{\alpha}_0 > 0, \quad 0 \le \acute{\alpha}_1 < 1 \quad (8)$$

It have been observed that on the financial markets the assets prices are influenced by the news (also called innovation), so that a bad news generates more volatility than a good news. A GARCH model which treats differently the bad-good news was proposed by (Zakoian, 1994) – Threshold GARCH. It is an asymmetric model in which the conditional volatility is:

$$h_t = \acute{\alpha}_0 + \acute{\alpha}_1 e^2_{t\text{-}1} + \gamma * d_{t\text{-}1} * e^2_{t\text{-}1} + \beta_1 * h_{t\text{-}1} \quad (9)$$
$$\text{where: } d_t = 1 \text{ if } e_t < 0 \text{ or } d_t = 0 \text{ if } e_t > 0 .$$

Also in order to reflect the relation between risk and return another models where proposed in order to incorporate this characteristics (R.F. Engle, Lilien, & Robins, 1987), GARCH in mean model have the following characteristic:

$$y_t = \beta_0 + e_t + \theta * h_t \quad (10)$$
$$et \mid It\text{-}1 \sim N(0, ht) \quad (11)$$
$$h_t = \acute{\alpha}_0 + \acute{\alpha}_1 * e^2_{t\text{-}1} + \beta_1 * h_{t\text{-}1}, \ \acute{\alpha}_0 > 0, \quad 0 \le \acute{\alpha}_1 < 1 \quad (12)$$

In this model as the volatility rises the return are rising too, this models are useful in order to capture the risk of the assets.

There is a large variety of GARCH models (Bollerslev, 2008) identifies over 100 types of models, but must of them are variations of some nested models and in the practice the asymmetric , GARCH in mean and the simple GARCH(1,1) models are the most used.

4. Conditional Value at Risk (CvaR)

Expected shortfall (ES) or Conditional Value-at-risk (Acerbi & Tasche, 2002) is used as an alternative to Value-at-risk, it can be defined as (Rau-Bredow, 2004): "... the average of all losses which are greater or equal than VaR, the average loss in the worst (1-p)% " and mathematically:

$$ES_\alpha = \frac{1}{\alpha} \int VaR_\gamma (X) d_\gamma \quad (13)$$

where VaR_γ is the Value-at-risk and α is the lower quantile.

For example if we invest 1000 in a portfolio and the expected value is presented in column 2 (Portofolio expected value) of Table 1, then the Profit/Loss (column 3) will be the difference between the invested value and the expected value.

Table 1. Example of expected shortfall calculation

Event probability	Portfolio expected value	Profit/loss
5%	100	-900
10%	500	-500
20%	1500	500
50%	1600	600
15%	2000	1000
Worst case probability $\alpha =$	Expected shortfall	
5%	$ES_{0.05}$ = -900	
10%	$ES_{0.10} = \dfrac{0.05*(-900)+0.05*(-500)}{0.1} = -700$	
20%	$ES_{0.20} = \dfrac{0.05*(-900)+0.10*(-500)+0.05*(500)}{0.2} = -350$	
50%	$ES_{0.20} = \dfrac{0.05*(-900)+0.10*(-500)+0.20*(500)+0.15*(600)}{0.5} = 280$	

ES0.05 represent the worst 5 out of 100 cases, these cases are a subset of the 5% quantile (actually they identify with it) so the expected shortfall is -900, in the case of ES0.20 which represents the worst 20 out of 100 worst cases we calculate the Expected Shortfall as being compose of a 5% quantile with an expected loss of -900 and an 10% quantile with an expected loss of -500 and an 5% quantile with an expected profit of 500.

CvaR or Expected Shortfall are used by (Ferstl & Weissensteiner, 2011)☐ in a multi period stochastic linear programming model with re-allocation, CVaR of shareholder value is minimized in order to , which is the difference between mark to market value of assets and the present value of liabilities.

5. Conclusion

In order to apply the management of assets and liabilities in financial institutions it is imperative that the objective function, which usually are the risk level, earnings, liquidity, profit, solvency, the loans and deposits levels, value added
 to also take in consideration the worst cases scenario. Value-at-risk and Conditional Value-at-risk can be used as the principal objective function or as a secondary one in ALM. We present the Value-at-risk with the most used models (GARCH) and the Conditional Value-at-risk; the GARCH models can capture the specific of financial series, their asymmetric and leptokurtic characteristics so applying GARCH models in VaR specification will enhance the reliability of forecasts.

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SUB-SECTION: ACCOUNTING

IMPROVING CORPORATE GOVERNANCE IN EMERGING ECONOMIES – AN ANALYSIS OF THE IMPLICATIONS ON THE ACCOUNTANTS' ROLES AND COMPETENCIES72

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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

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single-country case study, because it is acknowledged that each country is characterized by a 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 (Boytsun 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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FREQUENCY USE OF FAIR VALUE WITHIN INTERNATIONAL ACCOUNTING STANDARDS – A STATISTICAL APPROACH

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Abstract:
The debates over the paradigm of fair value are not recent; they have gradually evolved and intensified with awareness of the current financial crisis. However we accept the idea that expanding the use of fair value is correlated with widespread application of IFRS, either by convergence of the national accounting systems, or by express requirements for listed entities. Starting right from the definition of fair value and going further to the attempt to put it into practice, this desideratum has in scientific literature various opinions.
Starting from these differences of judgment we took on our shoulders the task of convincing readers about the importance of using fair value; and how to accomplish this better than by international accounting standards. Into international accounting standards the references to the notion of "fair value" are numerous. The objective of this study is highlighting the need to use fair value as a measurement base, underlining the importance and its role. We try by the frequencies of use the concept under the international accounting standards. We prove this by frequency of use of this concept in the international accounting standards. Using as a research method content analysis we examined International Accounting Standards, edition 2011 and we calculated the frequency of use of the words in these regulations. To get an overview of the use of this concept we calculated the most common uses of words. As a result of the research we mention that the fair value has been used 933 times, being the concept with one of the highest frequency of use.
Keywords: fair value, IASB, frequencies, valuation
Cod JEL: M41

Introduction:

International Accounting Standards Bord (IASB) was established in 2011 as a successor of International Accounting Standard Committee (IASC). Since the adoption of International Accounting Standards (IAS) by the European Comision and the convergence agreement with Finacial Accounting Standards Board (FASB), IASB has grown in importance and is recognized as the global leader in accounting standards regulation. Financial Reporting Standards (IFRS) are recognized or mandated in more than 100 countries, including all European Union (Deloitte, 2010).

The widespread adoption of the standards for financial reporting demonstrates a demand for a single set of international standards of high quality. Standards are developed by long term public consultation through procedures which may include field tests, invitations to comment on exposure drafts, public workshops, meetings and public hearings.

The development of accounting standards is a regulatory act which invariably involves value judgments on financial reporting objectives.

Initially IASB was equidistant to the bases of evaluation. In the past years the international governing body called for stronger use of fair value and therefore its implementation extensively.

With the implementation of International Accounting Standards in the European Union voices have emerged claiming that IFRS are "Fair Value Standards" and the IASB is moving inevitably towards fair value accounting.

This IASB show at a time that the fair presentation of results and the financial position of an entity is more important than applying a set of rules (Tournier, 2000:14).

2.Literature review

However we accept the idea that expanding the use of fair value is correlated with widespread application of IFRS, either by convergence of the national accounting systems, or by express requirements for listed entities.

A rich academic accounting literature has treated the subject of fair value from different perspectives, conceptual or empirical approaches, especially in the fair value of international accounting standards.

For example, Cairns (2006) examines the IASB fair value related guidance, identifying inconsistent definitions and evaluation rules. Hitz (2007) discuss the decision usefulness of fair value measurement. Aboody et. al. find evidence consistent with earnings management in model-based fair value measurements for stock options. Danbolt and Rees' (2008) results suggest that fair values are biased where valuation is ambiguous (tangible assets), whereas they are more reliable where the values are derived from market prices (financial assets).

The current study has as starting point the study of Wallton (2008) "Les délibérations de l'IASB en 2002 et 2003 : une analyse statistique IASB 2002 and 2003 deliberations : a statistical analysis". Wallton uses detailed reports of the proceedings of the IASB in 2002 and 2003 to carry out a statistical analysis of their debate for the first two full years of their work which formed the platform for adoption in 2005. It finds that four Board members dominate the debate. The conceptual framework is often referred too, but fair value occurs most frequently.

3. Research Methodology

To conduct this synthesis and to achieve the objectives that we propose, we use as a research method, content analysis. Holsti proposes a definition of this approach: Content analysis is a research method which can satisfy multiple needs and was introduced in order to solve communication problems when serving as the basis of deduction. Holsti notes that the approach can be both qualitative and quantitative. Quantitative analysis measures the frequency of references to symbols or other units linguistic in the text.

For the text analysis and the words frequency calculation we used a specialized software.

4.Research results

The current trend to an assessment based on fair value is considered to be a paradigm shift (Barlev şi Hadad, 2003:385). A paradigm is a set of values and beliefs that are shared by a community.

A paradigm for valuation in accounting requires a consensus on evaluation attributes necessary to achieve financial reporting. Changes in valuation paradigms proceed upon the assumption of superiority based on market value assessment.

The term "valoare justă" is the anglo-saxon translation of the phrase "fair value", which from literary point of view corresponds to "honest value." Concept of fair value, translated differently in different languages: juste in French, real in German, rezonabil in Spanish, and also not having an equivalent in Italian, is taken in Romania by the French approach, namely "valoare justă".

A linguistic analysis of this phrase leads us to say that the word "fair" is based on the judgment in making a decision. Walking further on the term "value", this is an economic concept that can be employed to express a basic accounting.

The concept of fair value is used for the first time in 1953 in Accounting Research magazine, in an article on revaluation in accounting (Simon 2009:1423).

Today the two accounting regulatory bodies propose us the same definition of fair value:

"Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (IASB 2011; FASB 2007).

In our approach to emphasize the importance of evaluation in delivering accounting information in terms of presenting accurate, we must recognize the merit of professional bodies related professional evaluators. Therefore we mention here the most important, in our opinion, in this area, namely the International Valuation Standards Committee (International Standards Committee - IVSC).

Going back to the definition of fair value, the definition proposed by the IVSC is:

"The estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties" (IVSC 2011).

The debates over the paradigm of fair value are not recent; they have gradually evolved and intensified with awareness of the current financial crisis.

Starting right from the definition of fair value and going further to the attempt to put into practice, this desideratum has in scientific literature various opinions.

Starting from these differences of judgment we took on our shoulders the task of convincing readers about the importance of using fair value; and how to accomplish this better than by international accounting standards. Into international accounting standards the references to the notion of "fair value" are numerous. The objective of this study is highlighting the need to use fair value as a measurement base, underlining the importance and its role. We try by the frequencies of use the concept under the international accounting standards. Note that in this sample are not included last publication of IFRS legislators namely 10, 11 IFRS, IFRS 12 and IFRS 13. The research results and the table containing the frequencies use of the concepts within international accounting standards can be illustrated as follows:

Table nr. 1 – Frequencies use of the concept within international accounting standards

WORD	LENGHT	COUNT	WEIGHETED PERCENTAGE (%)
An	2	2553	1,52
Financial	9	2477	1,48
Entity	6	2312	1,38
Assets	6	1880	1,12
Value	5	**1701**	1,01
Amount	6	1511	0,90
From	4	1256	0,75
Which	5	1250	0,75
Asset	5	1212	0,72
Other	5	1118	0,67
Cash	4	1030	0,61
Ias	3	1026	0,61
Paragraph	9	1022	0,61
Its	3	972	0,58
Fair	4	**933**	0,56
B	1	886	0,53
Statements	10	874	0,52
Information	11	852	0,51
Liabilities	11	824	0,49
Date	4	803	0,48
Fair value		**933**	

We can see from the above table that the two words that form the concept of „fair value" are used to a great extent. If we customize our search and we focus only on the frequency of use of the concept of fair value, we can say that it is used in accounting standards by 933 times, the word "fair" being used in the standards only accompanied by the word "value".

Among the most common words used in international accounting standards are the connection words (an, wich, from, its) and specific terms of acconting (financial, asset, entity), „fair value" being the only concept used in such a large degree. In this respect we can consider „fair value" generally accepted accounting principle. With every step and decision IASB increase the use of fair value as a single basis of valuation.

Generalli accpeted accounting principle are assumptions and accounting conventions that have emerged as a result of observations and practical experience, starting from repetead practical cases and leading to generalization. These principles evolves over time, some are perfected, others appear or dissapear.

5. Conclusion

Fair value accounting has become a crucial principle of international accounting measurement, being considered by International Accounting Standard Board and Financial Accounting Standard Board as the main basis for assessment (IASB: 2006, FASB: 2008).

This paper analyzed the frequency of using the concept of fair value in the international accounting standards.

To have an overview of the importance of using this concept we calculated the frequency of all the words in these standards.

With a use a frequency of 933 times we can say that fair value is among the concepts commonly found in the accounting standards.

The results help to emphasize the importance of fair value in the evaluation process.

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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 tom 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 arable. 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 Cohuţ 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 competitivity. (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 it' s 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; Mustaţă 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 (Mustaţă 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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CONSOLIDATED FINANCIAL STATEMENTS: A COMPARATIVE ANALYSIS BETWEEN IPSASS AND IASS

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The aim of this article is to compare standards from private sector with standards from public sector with respect to consolidated financial statements. It is known that standard setters are trying to introduce a whole accounting of government in order to respond to the qualitative characteristics of the accounting and for doing this a lot of rules are copied from private sector. There are many researchers that studied this aspect, from different countries and a common idea of their research is that accrual based accounting is the main cause of this process of consolidation. Through this article we appealed a theoretic analysis and an empirical one based on Jaccard`s Coefficient to measure the degree of the comparability between the two sets of standards and as a result we found that they are similar. When developing the standards, regulators from IPSASB should have in mind the objective of their standards, the particularities from public sector and the alignment with user's purpose. Organizations from public sector are not-for-profit, while the scope of a private entity is to obtain profit. So, through the standards this objective of the users should be reached but at the same time the information presented should be complete, faithful and relevant. Implementing standards in order to elaborate consolidated financial statements could be expensive at the beginning but also the transparency and the comparability between the countries is ensured. So, measuring the impacts of this new rule in public sector we sustain the idea that we have more advantages than disadvantages for entities that apply these standards. The standards are revised periodically and in this article we analyze the comparability between IPSAS 6, 7, 8 and IAS 27, 28, 31 based on existing version before the year 2011, and for further researches we propose ourselves to follow the revision of these three standards for public sector as is state in IFAC projects, accordingly to IFRSs.
Keywords: consolidated financial statements, public sector, private sector, Jaccard`s Coefficients, accrual based accounting
JEL codes: M4

INTRODUCTION

We all live in a complex society and we take decisions based on different types of information. Financial information is very important for the welfare and development of the society. In private sector stakeholders like shareholders, investors, creditors, clients, suppliers and others analyze financial statements of the entity before any decisions. At the same time, in public sector we can talk about users which are interested in the transparency and relevancy of the information and in the quality of the services that they need. So, we can state from this point that users from private and public sectors have different objectives.

Complexity led to the formation of a new type of entity – *the group of entity*. The group has to present consolidated financial statements to ensure a true, accurate and complete image about their actions.

In private sector IASB, through IASs and then IFRSs, regulates the way in which an entity should prepare consolidated financial statements and defines the terms of a group (control, parent entity,

controlled entity, methods of accounting). Based on IASs were issued by IPSASB IPSASs for public sector organizations, which are predominantly not-for-profit. This is an important difference between the two sets of standards: IASs have been developed for entities that are for profit, while IPSASs have been developed for not-for-profit organizations. All the countries that switched from cash based accounting to accrual based accounting should implement IPSASs. Currently, IPSASs do not provide guidance on how to account for a public sector combination which means that users may not be able to obtain the information needed to evaluate the nature and financial effect of a public sector combination.

In this article we will analyze the main differences and similarities between IPSASs and IASs for consolidated financial statements, and to measure these we will use Jaccard`s coefficients. As we have said already the users from these two sectors have different objectives. So, it is a good idea to implement standards for public sector based on standards from private sector? Can we talk about the same type of entities, both in private and public sector, and can we apply the same methods of accounting and the same measurement bases? On the other hand implementing standards in accountability ensure us that we can compare entities from different countries, or from one year to another, so we will have one qualitative characteristic that will be reached: comparability.

LITERATURE REVIEW

Consolidated financial statements for public sector organizations are an interesting subject for debate, both for academics and for practitioners. This is the reason why we have turned our attention on this subject.

Given the changes and improvements in public sector accounting system, we believe that the idea of implementing the consolidated financial statements in the public sector is directly related to the adoption and implementation of an accrual-based accounting. This idea is sustained by Guthrie and it`s very widespread in the literature. Others researchers, like Jaruga and Nowak, believe that the accounting systems of each country are based on their economic and political environment. Tiron and Blidisel argue the fact that culture, history, value systems or structural elements of the country are some of the reasons that led to the emergence of different national system and at the same time specific objectives and main users of financial reporting statements, financial resource providers and regulators influence the national accounting systems.

In many countries, international auditing and consulting firms have played a crucial role in the implementation of accrual accounting in public sector (Luder and Jones, 2003; Christensen, 2005). Thus, methods and practices in the private sector have been taken as a model and applied in the public sector without any further analysis in detail of the objectives and characteristics of public sector (Christensen, 2002).

In the private sector, the consolidated financial statements are considered useful tools in accounting that are designed to improve accountability and provide a true and fair overview of the assets/liabilities and financial results of the group (Walker, 1978), while in public sector, the consolidated financial statements is a useful tool for governments that have a lot of pubicly owned entities because they present a clear picture of current economic status and functioning of government as a whole (Srocke, 2004, Wise, 2006, Grossi and Srocke, 2005).

Benito et al. (2007:298-299) says that we should have in mind the different particularities of the public sector, in general, and how the public accounting system must adapt to the needs of specific areas of this information. Also, Johnsen and Lapsley (2005) have demonstrated the need to introduce something new in public sector accounting (*Reinventing public sector accounting*) by introducing innovative approaches that allow going beyond the imitation of private sector, and Chan (2003) asked if it is "*necessary for the government to uncritically imitate practices from the private sector*".

We could say that these researchers are reticent regarding the imitation of the private practices into the public sector, and we introduce here the practices for consolidated statements, because we can talk about different objectives and users of the financial statements.

METHODOLOGY

As mentioned before, having in mind that in a complex society we could speak about a group of entities which should present consolidated financial statements, all our methodology was based on this subject, trying to reach our objectives.

In the first place we have to position the general area of this research, which is divided into specific areas. So, the general area of research of this paper is the issue of the *consolidated financial statements, a comparative analysis between public and private sector*. We began our research by first analyzing the impact of consolidation on the society, both in public and private sectors, and the standards that regulates consolidated financial statements through a comparative analysis.

Once we defined the area of the research, we should speak about the predominantly current of this research. We include our paper in a positive current because we analyze what it is in these standards and not what should be.

Having in mind the type of research, we use both a theoretic and an empiric research. Theoretic because we analyze different articles from the researchers that activate in this domain, consolidated financial statements, and empiric because we have test the similarities and dissimilarities between the two sets of standards, IASs and IPSASs for consolidations, in order to draw a well established conclusion regarding the comparability degree existent between them. A more detailed presentation of the empirical analysis process, and the methods which were used, is done within the chapter-Results. Theoretic research was combined with a qualitative one at the point of literature review. The source of information for the empirical analysis was also the information gathered by closely analyzing the regulations mentioned above, IAS (27, 28, 31) and IPSAS (6, 7, 8) which were accordingly codified and assayed by using some statistical methods.

In terms of temporal criterion, we used predominantly the transversal analysis for the comparative analyze of different theoretic aspects on consolidated financial statements, both in public and private sector.

Based on this methodology we were able to draw our conclusions and also to design a short outlook of future research in the field.

RESULTS

International standards are desirable because some practices are better than others and necessary because of need for information and comparability. These international benchmarks in accounting domain are divided in two categories: for public and for private sector. At European level, accounting benchmarks are: (1) for private sector IAS/IFRS (issued by IASB, obligatory for some types of entities and the compliance is mandatory) (2) for public sector IPSAS (issued by IFAC, with an advisory role and the compliance is voluntary) (Tiron, 2007).

As we already said, the objective of this article is to measure the similarities and dissimilarities between the two sets of standards, in order to identify the specific elements of each other and the degree to which elements have been implemented under IAS and IPSAS. To do this we turned to *Jaccard's Coefficients* which are mostly known in the form being used as follows (Strouhal, 2011:317):

$$S_{ij} = \frac{a}{a+b+c} \text{ (1)} \qquad \text{and} \qquad D_{ij} = \frac{b+c}{a+b+c} \text{ (2)}$$

where:

S_{ij} represents the similarity degree between the two sets of analyzed accounting regulations or practices; D_{ij} represents the degree of dissimilitude or diversity between the two sets of analyzed

accounting regulations or practices; a – the number of elements which take the 1 value for both sets of regulations or practices; b – the number of elements which take the 1 value within the j (IAS) set of regulations or practices and the 0 value for the i (IPSAS) set of regulations or practices; c – the number of elements which take the 1 value within the i (IPSAS) set of regulations or practices and the 0 value for the j (IAS) set of regulations or practices.

The values that can be recorded by these coefficients go from 0 to 1, where 1 represents a maximum level of harmonization when considering the similarity coefficient. Also, the sum of the two Jaccard's Coefficients, Jaccard Sij and Dij, is obviously always equal to 1.

Jaccard's Coefficients will further be used within the next section, in our empirical analysis, in order to measure the comparability between IAS and IPSAS. So, for our analysis we have compared IPSAS 6 *Consolidated and separate financial statements* with IAS 27 *Consolidated and Separate Financial Statements*, IPSAS 7 *Investments in associates* with IAS 28 *Investments in associates* and IPSAS 8 *Interest in joint ventures* with IAS 31 *Interest in joint ventures*, issued until the year 2011. Starting from this approach we have identified a series of elements that we should have in mind when we talk about consolidated financial statements and then we organized them within five big topics, as follows: 1.Definitions, 2.Scope, 3.Presentation, 4.Consolidation procedures, 5.Disclosure.

In order to illustrate our methodological approach, we would benefit from the following situation:

Table no.1 Exemplification of the analysis method used for the considered topics

Analyzed elements	Standards	
	IPSAS 6	*IAS 27*
Definitios		
-consolidated financial statements	1	1
-controlled entity	1	1
-controlling entity	1	0
-cost method	1	1
-minority interest	1	0
-separate financial statements	1	1
-subsidiary	0	1
-parent	0	1
-control	1	1

(Source: author's analysis)

As a result of the effective measurement of the comparability degree between IPSAS 6 and IAS 27, based on Jaccard`s Coefficients we can present the following situation:

Table no.2 Comparison analysis based on Jaccard`s Coefficients for IPSAS 6 vs. IAS 27

Analyzed elements	Jaccard`s Coefficients	
	Sij	*Dij*
Definitios	*0,667*	*0,333*
Presentation	*1*	*0*
Scope	*1*	*0*
Consolidation procedures	*0.8*	*0.2*
Disclosure	*0.769*	*0.231*

(Source: author`s analysis)

Table no.3 Comparison analysis based on Jaccards' Coefficients for IPSAS 6, 7, 8 and IAS 27, 28, 31

	Sij	*Dij*
IPSAS 6 vs. IAS 27	*0,847*	*0,153*
IPSAS 7 vs. IAS 28	*0,752*	*0,248*

| IPSAS 8 vs. IAS 31 | 0,812 | 0,188 |

As we could see in the tables the degree of comparability between standards is very high and we consider that the main reason for this fact is that IPSAS were copied from IAS, even if IASs were developed for entities from private sector.

Analyzing these three situations we observed that the main differences between standards are: (1) (*IPSAS 6 vs. IAS 27*) IPSAS 6 contains specific guidance on whether control exists in a public sector context, uses different terminology, permits entities to use the equity method to account for controlled entities in the separate financial statements of controlling entities and requires controlling entities to disclose a list of significant controlled entities in consolidated financial statements while IAS 27 does not require this disclosure (IFACa); (2) (*IPSAS 7 vs. IAS 28*) IPSAS 7 applies to all investments in associates where the investor holds an ownership interest in the associate in the form of a shareholding or other formal equity structure while IAS 28 does not contain similar ownership interest requirements and uses different terminology (IFACb); (3) (*IPSAS 8 vs. IAS 31*) IPSAS 8 uses different terms and definition and includes a transitional provision that permits entities that adopt proportionate consolidation treatment to not eliminate all balances and transactions between ventures, their controlled entities, and entities that they jointly control for reporting periods beginning on a date within three years following the date of adopting accrual accounting for the first time in accordance with IPSASs while IAS 31 does not contain transitional provision (IFACc).

CONCLUSIONS

This article has analyzed the degree in which it is appropriate for IPSASB to introduced rules from IAS/IFRS for public sector, and, in special, for consolidated financial statements. We could say that the cause was the introduction of accrual based accounting for public sector organizations which were transposed from private sector. We have turned our attention at the same time on the degree of comparability between IASs and IPSASs for consolidated financial statements and to measure this we used Jaccard`s Coefficients.

The consolidated financial statements for not-for-profit organizations, which are the most common in public sector, is a very discussed subject because some countries already prepare consolidated statements and others are difficult to be convinced. We think that introducing this new rules have both advantages and disadvantages. The most important advantage is that transparency grows, users can take decision based on trust because they can known which were the governmental actions and how much resources were used for them. Also, presenting the financial statements as a whole represents the real position and performance of the country, the comparability between states can be made and the image is more reliable and faithful represented. Limits identified by us are the following: can be expensive to implement a new system in public sector, it needs well prepared human resources, the practitioners should be prepaid by academics which have studied the phenomenon and knows the impact of the change.

As a result of our empirical analysis we found that the standards considered are similar, the degree of similarities calculated through Jaccard`s Coefficients being higher than the degree of dissimilarities. But is this a good thing or regulators should take more into consideration the particularities from public sector? We think that even users from the two sectors are different and the problem of consolidated financial statements for public sector organizations should be more closely analyzed because, at the same time, in private sector we can speak about entities whose aim is to obtain profit, while in public sector organizations are not-for-profit and their most important objective is the transparency of the governmental activities.

For further researches we intend to follow the revision of IPSAS 6-8, and more closely the alignment with IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of interests in other entities*. As is state on IFAC projects doing this we hope

to answer some question like: (1) Should the temporary control exemption from consolidation in IPSAS 6 be retained? (2) The term control should continue to be used and whether the revised definition of control is appropriate? (3) Should the scope of the project include consideration of whether all controlled entities should be consolidated? (IFACd).

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QUALITATIVE STUDY REGARDIND THE RELATIONSHP BETWEEN CORPORATE GOVERNANCE AND CREATIVE ACCOUNTING

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The concept of corporate governance has come into the spotlight after the big accounting scandals. Corporate governance represents the manner in which a company is managed and controlled, and this aspect is closely related to the creative accounting practice; ownership structure, the board of directors' structure, the frequency of these bodies' meetings, they all can encourage but also discourage accounting manipulation.

We tend to agree with the authors who claim that certain changes within the company – including the structure of certain departments – and a rigorous control can significantly reduce the use of creative accounting techniques.

Concerning the main objective, respectively outlining a clear image of corporate governance starting from creative accounting, in order to achieve it we conducted a qualitative study, we decided to analyze one of the main research directions, namely corporate governance, as we considered it a current issue with great impact on creative accounting. Our study is based on corporate governance seen as a possible solution to reduce creative accounting practices

We used as research method the content analysis which developed in three stages, namely: pre-analysis, content exploitation, respectively processing and interpretation of results. Moreover, when conducting this qualitative study, we use both quantitative and qualitative analysis, using external observation (non-participant) method in collecting the necessary data. We also used the comparative method by studying the main lines of research in different periods (1990-2010).

These studies refer to creative accounting techniques, to conflicts of interest between managers, directors and shareholders, to joint ownership and control rights, to the lack of transparency regarding financial reporting and auditors' independence – as evaluators of the financial and accounting information. Not all research directions have been sufficiently explored; therefore, in the future the researches must be continued and deepened.

We consider that a number of independent outside directors within the board could contribute to a better monitoring of the management team, leading to a lower possibility for the company to use creative accounting practices compared to the situation in which the board would be formed mainly from inside director.

Keywords: corporate governance, creative accounting, qualitative study, empirical study, theoretical study
JEL Classification: M40, G34

I. Introduction
1.1. Corporate governance – a bureaucratic layer or a method against creative accounting?
Currently, there is a strong trend of cross-disciplinary research and the concept of corporate governance is related to microeconomics, macroeconomics and also to law, sociology and psychology. The particular connection between corporate governance and creative accounting practices is the reason this concept caught our attention, namely how the structure of the Board of Directors of a company can encourage or discourage accounting manipulation. The topic came under the spotlight as a result of a chain of events, more specific a series of highly publicized scandals which have created anxiety and a lack of confidence on the international capital market. Everything started when Enron collapsed – the company which became 'a symbol of contemporary corporate fraud' – and it continued with a significant number of companies that went bankrupt in an equally dramatic manner (WorldCom, Parmalat, Xerox). As a consequence

of the fact that companies used creative accounting practices, but also because the big audit firms overlooked or even collaborated to conceal tax frauds, doubts have emerged concerning the investors' ability to take sound decisions based on information provided by companies and capital market.

1.2. Corporate governance and creative accounting

In recent decades, the concepts of corporate governance and creative accounting have often been associated with each other within economic debates. Along with business development, many companies have come to be managed and controlled by founding families, but the problem is not confined to the conflicts of interest arising among their members, but it extrapolates to other categories of stakeholders. Capital markets use financial information to establish the price for securities, and the investors rely on them in order to substantiate their decisions to buy, sell or keep securities. Market efficiency depends on the information flow provided to capital markets, and if the information is biased, the markets cannot determine the exact price of securities. Moreover, it appeared that sometimes managers manipulate financial statements to influence certain competitors on the capital market. On the other hand, the fact that managers use creative accounting techniques can affect the investors' ability to properly assess the true value of the company which on long term may affect the company's performance on securities market.

Moving from the management team and the Board of Directors' structure to audit, we believe that the audit committee has an important role in discouraging creative accounting. As we know, the great financial scandals which burst worldwide were based on accounting manipulation practices, but also on collaborations with audit firms which, instead of acting as the 'guardians' of the financial markets, have come to overlook, to hide, and even to participate to some of the greatest frauds in history. Thus, reform measures for the companies' governance systems were imposed. The most striking example is provided by the United States of America. As a result of the bankruptcies related to accounting scandals, the American parliament adopted a law in 2002 meant to strengthen the audit independence. The above mentioned law, known as the **Sarbanes-Oxley Act** (SOX) is a component of the legislative reform considered necessary after the US financial scandals. It represents 'the foundation of the vision on management and control of a company and it imposes standards and regulations on the control framework of the financial system.' (Cuc 2008: 84). This law tries to regain the confidence of the American investors (and not only) through measures that were included in five chapters, namely: Restriction – through strict regulation – of the activities of board members, Strengthening the internal control function, Strengthening the external control function, Transparency, Accountability and Penalties.

II. Research metodology

Regarding the *research methodology*, it is closely related to the established objectives. Thus, we started with a theoretical research (conceptual-descriptive), a *qualitative research,* in order to analyze different concepts, and we also used the *comparative method* to study the various approaches of these concepts, specific to our area of research. In addition, the analyzed information has also been obtained by means of *document analysis* (covering the specialty literature selected) or *non-participant observation.*

Concerning the qualitative study, we used as research method the content analysis which developed in three stages, namely: pre-analysis, content exploitation, respectively processing and interpretation of results. Moreover, when conducting this qualitative study, we use both quantitative and qualitative analysis, using external observation (non-participant) method in collecting the necessary data. We also used the comparative method by studying the main lines of research in different periods (1990-2010). At international level, the current state of knowledge concerning creative accounting area was delimited by means of a sample of 57 articles published in international journals. In order to conduct this study we selected 14 international accounting

journals, 9 of which are ISI indexed journals. We considered appropriate one research direction we identified within the articles in the sample, namely **corporate governance**. Thus, we identified seven articles related to corporate governance, four of which were empirical studies and three were based on theoretical research.

III. Results and discussions
3.1. Analysis of the articles that include empirical research
Although every science begins by being descriptive and only later it tries to explain the facts it observed, in our study we considered important to firstly analyze the articles based on empirical studies, as they allow us to outline a more real and accurate view on corporate governance.

A. Corporate Governance and Performance of Malaysian Listed Companies
This study was conducted in 2006 by **Cyril H. Ponnu** from the Faculty of Business and Accountancy, University of Malaya. This empirical study was carried out on a sample of 100 listed Malaysian companies, of which 30 were large companies and 70 were medium-sized. Data was collected from the annual reports published by the Bursa Malaysia Securities Bhd for the financial year 1999 (prior to the implementation of the Malaysian Code on Corporate Governance issued in 2000) and the financial year 2005 (after the code was released). Thus, the sample was selected such as to allow the comparison of results before and after the implementation of the Code on Corporate Governance. The analysis was based on identifying the connection between the structure of corporate governance and the performance of the companies from the sample. Therefore, the author used an econometric model which had ROA and ROE indicators as dependent variables and duality (a binary variable which has a value of one when an individual has the joint title of chairman and CEO and 0 when these functions are separate) and the proportion of independent directors as independent variables.

The main results revealed that in 2005 there were more independent directors than in 1999. In addition, companies with duality had higher ROA than those with separate functions, the results showing that the separation of CEO and chairman improves firm performance in terms of ROE but not in terms of ROA. The results revealed that the companies that retained duality have better ROA than those who did not. ROE analysis shows the opposite result. In terms of board independence, the analysis showed that an increased proportion of independent directors leads to a better performance. The connection with the creative accounting sphere is more than obvious, since its techniques are based on these conflicts of interests, which only lead to a reduced long-term performance of the company. We support the idea that implementing a Code of Corporate Governance that would be respected within all departments of a company could significantly reduce creative accounting practices and increase company performance.

B. Separation of Ownership from Control and Acquiring Firm Performance: The Case of Family Ownership in Canada
This study was conducted in 2005 by the American researcher **Walid Ben-Amar** in collaboration with the Canadian researcher **Paul André**. This study investigates the relationship between ownership structure and acquiring company performance in the context of ownership concentration and separation between ownership and control rights. The study is based on a sample consisting of 238 events (mergers and acquisitions) performed within 138 Canadian companies. Data was obtained from the Securities Data Corporation Worldwide Mergers and Acquisitions database, but also from other studies previously conducted. The observations are for 1998-2000, and the companies selected were those who performed mergers or acquisitions greater than 10 million US dollars. The main information provided by this study refers to the fact that the abnormal results of the Canadian companies that performed acquisitions are positive in

the analyzed period. These results are even greater for the companies in which ownership is held by families. Moreover, it was shown that the separation of ownership and control rights does not affect the company and that corporate governance mechanisms influence in a positive manner the performance of the companies that perform acquisitions. The study reached the conclusion that there is a connection between ownership and the abnormal results of the companies that perform acquisitions.

C. Investigating the effect of board independence on performance across different strategies
This study, undertaken in 2006 by the Indonesian researcher **Lindawati Gani** in collaboration with the Canadian researcher **Johnny Jermias**, analyzes, as the title suggests, the influence the Board has on company performance. The sample on which the study relied consisted of 109 companies from the manufacturing industry listed in the Compustat S&P database for the period 1997-2001. In this study, the authors used an econometric model, having as variables: *Competitive strategy*, *Board Independence*, and *Performance* (represented by ROE and ROI). After analyzing this model, the results were consistent with the hypothesis that companies which follow a strategy of cost efficiency benefit more from an increased level of board independence than firms that pursue a strategy of innovation. Although it has been concluded that the relationship between Board independence and company performance differs across business strategies, other variables might also affect this relationship. Moreover, the results are valid only for the manufacturing industry and they cannot be extended to other industries without further research in those directions.

D. Corporate Governance and Profit Manipulation: A French Field Study
The study published in 2005 in the international journal 'Critical Perspectives on Accounting' by the French researchers **Caroline Lambert** and **Samuel Sponem** analyzes the practices of profit manipulation and it examines the manner in which the Anglo-Saxon Corporate Governance model can lead to discourage these practices. The authors have used the results from 32 interviews applied in 13 companies. The study concluded that two of the factors underlying the accounting manipulation practices are the changes occurred in the corporate governance system and the shareholder pressure that accompanies them. Therefore, changing the rules of the game because of the increased shareholder pressure encourages management controllers to use their experience and knowledge to help managers manipulate profits. Management controllers are aware that they cannot focus only on financial aspects. The authors also raise the issue of implementing the Anglo-Saxon corporate governance model in countries that do not follow the same cultural patterns, indicating that this measure may entail unexpected consequences such as the multiplication of the accounting manipulation practices or the reduction of financial statements' relevance.

3.2. Analysis of the articles that include theoretical research
Since we have already discussed the results of the four empirical studies, next we only have to extract the most relevant ideas from the theoretical studies.

A. The role of Information and Financial Reporting in Corporate Governance and Contracting
The article was published in 2009 by the researchers **Christopher Armstrong**, **Wayne Guay** and **Joseph Webber**, and its aim was to explore the importance of transparency regarding financial reporting in order to reduce the conflicts between managers, directors and shareholders, and also to diminish the differences between shareholders and other contractual parties (creditors). Moreover, a key topic approached in this study is the reduction of the *creative accounting* phenomenon by making certain modifications in the corporate governance system – such as: the presence of several independent directors within the Board of Directors, the separation of

ownership and control rights, by regulating the principle of transparency regarding financial reporting and by taking measures concerning audit independence.

B. Management accounting and corporate governance: An institutional interpretation of the agency problem

The study conducted by the British researcher **Will Seal**, published in 2006 within the international journal 'Management accounting Research' deals with the manner in which management accounting relates to corporate governance, especially after the collapse of Enron when certain 'weaknesses' have been found in accountants' work. However, the authors believe that management accounting techniques can improve corporate governance practices. The article emphasizes the collapse of the US and the UK stock markets which brought into light many irregularities concerning corporate norms and the implementation of several unwise strategies. Because of these practices, most of them belonging to the creative accounting sphere, management accounting and corporate governance have begun to converge.

C. Corporate Governance and Accounting Systems

The French researcher **Yvon Pesqueux** published the article in 2005 within the international journal 'Critical Perspectives on Accounting' where corporate governance is seen as an ideological perspective of granting a special attention to the interests of leaders, since the accounting system is the field where these interests are validated. Corporate governance provides the illusion that the rules of a representative democracy are indeed implemented within companies on the market, which is only a mechanism for masking the power accumulated by the leaders of multinational companies. Therefore, the French researcher considering it the best mask for the interests of those in the top of the corporate pyramid and not a mechanism able to discourage creative accounting practices, to mitigate information asymmetry between various categories of stakeholders or to support the transparency of financial statements.

IV. Conclusions

As we can observe from the analysis of the previous articles, most of them focused on the connection between corporate governance and company performance, all of them making references to creative accounting techniques, to conflicts of interest between managers, directors and shareholders, to joint ownership and control rights, to the lack of transparency regarding financial reporting and auditors' independence – as evaluators of the financial and accounting information. The fact that we chose to analyze the articles that focus on corporate governance is not random taking into account that we strongly support the idea that the best way to reduce the creative accounting practices involves certain modifications in the corporate governance system of each company. Nevertheless, in order not to be misunderstood, we must mention that changing the members or their number within the Board or eliminating the duality from companies is not enough. It is also important to carry out legislative changes, to harmonize accounting practices with the policies of the international specialized committees, and to cultivate a fair and transparent spirit in order to mitigate the discrepancies within companies and, of course, to eliminate the pressures which, most of the times, lead to a reckless behavior of the managers with long-term drastic consequences both for themselves and the performance of the entire company.

We can also conclude that not all research directions have been sufficiently explored; therefore, in the future the researches must be continued and deepened. Among them we can mention the information asymmetry between various categories of stakeholders, the reform of accounting, or the ethical aspects within companies. In addition, we observed that, although our study relied on articles published within international accounting journals, the scientists' concerns converge with

those in other fields, stressing, thus, the multidisciplinary and interdisciplinary nature of the research concerning creative accounting and corporate governance.

Although our intention was to develop a complex study, we must say that this paper is not without limits, most of them being established mainly in order for us to be able to centralize a series of data meant to give us meaningful results, hoping that such research will be further conducted in the future. Among the limitations of this study we can mention the period of time (20 years) because we considered that the current studies, especially those conducted after the year 2000, reflect clearly enough the interest of the scientists for the concerned field and also the current state of knowledge. Another limit is represented by the international journals from which we selected the sample of articles necessary for our study. Although they are among the highest rated international accounting journals, they limit our research because most of the articles are written in English by researchers from USA or UK, many of them focusing their studies on these two particular geographical areas, almost ignoring other areas.

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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 closly 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

Completed
Business combinations
Fair value measurement
Post-employment benefits
Project scope reassessed
Derecognition
Re-exposure of proposals
Insurance
Leases
Revenue recognition
Redeliberation of exposure draft
Insurance
Leases
Reassessed as a lower priority project
Financial statement presentation
Financial instruments with characteristics of equity
Intangible assets

Differentiated on project elements	
Financial instruments: classification and measurement, impairment, hedge accounting, and balance sheet offsetting.	
Ongoing	
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 7and 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 extant, 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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DEVELOPING A METHODOLOGY FOR DETERMINING THE SCORING OF GOOD AUDIT COMMITTEE PRACTICES USED BY EUROPEAN COUNTRIES

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The ensuring of a good corporate governance is a relatively new target on the list of objectives for international economic convergence, and the way that audit committee could contribute for the achievement of this objective is becoming a subject of greatest interest and debate among members of both academics and practitioners or specialists. The attention given to the audit function, especially in the context of corporate governance becomes a priority for European Commission (EC), one significant proof in this way being represented by the latest green-papers issued by EC that outlines the social role and responsibilities of audit function in terms of corporate governance, in order to rebuild and to establish the investor confidence in the effectiveness of financial markets. The major purpose of this paper is to develop and to propose a methodology for measuring the score of good audit committee practices in the context of corporate governance used by European countries. During its evolution, the audit committee also had known significant mutations from its objectives' point of view, and so if at the beginning audit committee was mostly focused over the financial reporting process, actually the objectives of the audit committee started to be more extended, being strongly focused over the ensuring the soundness of corporate governance of the entity (Porter, 2009). Based on a well-documented literature review, with a focus on significantly research developments and studies with respect to the audit committee's role and responsibilities it was developed a synthesis of main audit committee practices that should be taken into account into an integrated framework of good audit practices in the context of corporate governance. The results consist of a set of certain criteria that should be taken in consideration when considering the methodology for measuring the score of audit committee practices in the European context. These results represent only a preliminary step in a major research project dedicated to the analysis of good audit practices in European context. The following step in developing this major research will be to determine based on the methodology proposed a score for more than 550 European economic entities, listed at European markets capital in the most significant indexes, finally trying to determine a synthesis of the most significant practices of audit committee when speaking about the good audit practices in the context of corporate governance. By presenting the main criteria included in the proposed methodology, the author hopes to stimulate further constructive debates on this field of research which might contribute at the value-added improvement of the developed methodology, assigning to the further results a better relevance.
Keywords: audit committee, corporate governance, good practices, scoring of good practices, methodology.
JEL Code: M40, M42, M21, M14

I. Introduction

Subsequent to the many financial scandals that shuddered the economic world starting with the end of 20th century and the beginning of 21st (like Enron, Parmalat, Questia, etc.), there has been felt an increasing necessity for implementing measures designed to improve corporate governance framework which should rebuild the investor confidence in the credibility of financial reporting and the soundness of capital markets at international level. In this context, a huge attention was given to the audit committee as a *central governance body* within the company which should provide a carefully monitoring of financial reporting process and ensuring the reliability of the audited financial statements.

In that direction, McMullen(1996) shows through his study the direct connections that could be identified between the presence of an audit committee and the reliability of financial reporting, but also with a reduced incidence of errors or irregularities. The audit committee is commonly view as a body or an instrument which should supervise the soundness of financial reporting process, but also as a main provider of reasonable assurance for the relevance and reliability of annual reports and financial statements issued by management (DeZoort, 1997; Wolnizer, 1995; Bradbury, 1990), being in the same time the main responsible for improving the quality of flow information between the company owners (shareholders and potential shareholders) and the managers (Barako, 2007). The study of Bradbury (1990) identified at least three reasons for establishing audit committees:

- to contribute at the increasing the reliability of audited financial statements;
- to give a help to the board of directors in achieving their responsibilities;
- to ensure the auditor independence.

II. Literature review

Most of the researches and studies centred on the audit committee concept were focused mainly of the effectiveness of the audit committee (McMullen, 1996; Porter & Gendall, 1998; Beasley et al., 2000), but starting with the beginning of 21st century the audit committee and its responsibilities have began to be in the centre of various researchers interests, mostly under the perspective of the relationships between audit committee and the other pillars of audit function (internal audit and external audit), the role and responsibilities of audit committee corroborated with the ones of internal audit being quite relevant for the improving the quality of corporate governance system (Bishop et al., 2000; McElveen, 2002).

The necessity to investigate the way that audit committee interact with internal and external audit is increasingly more growing, especially in the context of the increasing importance given to the ensuring the soundness of corporate governance (DeZoort, 2002), all these being resulted in developing different studies focused on the way that audit committee interacts with internal audit, and sometimes with external audit (Mat Zain & Subramaniam, 2007; Sarens & DeBeelde, 2006; Goodwin and Kent, 2006; Krishnan, 2005; Gramlin *et al,* 2004; Gendron *et al.,* 2004; Willekens *et al.,* 2004; Turley and Zaman, 2004; Goodwin, 2003; Goodwin and Yeo, 2001).

Synthesizing the findings of these studies into a general idea, there could be noticed the intensification of the relationships between audit committee and internal and external audit, but mostly with internal audit, being promoted the idea that as long *this audit committee will be seen by internal auditors as an independent forum where various company' business affairs are discussed and solved, as long the premises for a good corporate governance will be ensured*.

The connections that should exist between audit committee with internal audit and external audit are also highlighted by the latest findings of some researchers (Porter, 2009; Sikka, 2009) that emphasize the idea of audit trinity (internal audit, external audit, audit committee – the interface between internal and external audit) as a key element in the process of ensuring the corporate responsibility and governance.

Braiotta et al (2010) had dedicated a very extensive and valuable work to the audit committee, its role and its practices in the context of corporate accountability and corporate governance. Accordingly to Sections 205 and 301 of the Sarbanes-Oxley Act of 2002, Braiotta et al (2010) emphasize the fundamental roles for the audit committees:

1. *The audit committee has oversight responsibility for the accounting and financial reporting processes of the company and for its financial statements audited.*
2. *The audit committee is responsible for appointing, compensating and supervising the external auditor.*

3. *The audit committee must establish the procedures for solving different complaints about accounting, internal control or auditing matters, ensuring in the same time the confidentiality for different questionable accounting or auditing issues submitted by employees.*
4. *The audit committee also should ensure that the company has the appropriate systems implemented for the effective monitoring and management of risk.*

III. Research design

This study propose to develop a relevant starting point for the emphasising of the good audit committee practices in the context of more and more stringent latest requirements over the soundness of corporate governance, trying to develop the most relevant methodology for determining the score of the audit committee practices used by listed economic entities listed at European market capitals. More exactly the main objective of this preliminary study was to get a synthetic view of the most relevant criteria that should be taken in consideration when discussing about a methodology for measuring the score of audit committee practices.

IV. Proposing a methodology for measuring the score of good audit committee practices

Based on relevant literature review, it was made a selection of the most significant and relevant audit committee practices, all these being included into a set of criteria followed for the proposed methodology. Our proposed methodology propose the determination of the audit committee practices scoring (max=39), which should reflects the quality of audit committee practices used within the companies from a specific country, this scoring being constructed by combining the following x sub-scorings presented next in Table no.1.

Table no.1 Developing a methodology for measuring the scoring of good audit committee practices

Criteria	Variables and values assigned
The existence of audit committee	**0** – If the audit committee does not exist **1** – If the audit committee exists.
The independence of chairman	**0** – If the chairman of the audit committee is executive director. **1** – If the chairman of the audit committee is non executive director. **2** – If the chairman of the audit committee is independent non executive director
The professional expertise of chairman	**0** – If the chairman's professional expertise is not disclosed or if the chairman does not have an accounting, auditing or financial expertise. **1** – If the chairman has an accounting, auditing or financial expertise.
The audit committee structure	**0** – If the audit committee's structure is not disclosed. **1** – If the audit committee comprises 2 members and the chairman. **2** – If the audit committee comprises between 3-5 members and the chairman. **3** – If the audit committee comprises more than 5 members and the chairman.
The audit committee's position	**0** – If the audit committee's position is not disclosed. **1** – If the audit committee regularly reports to the Executive Management on the work of the committee. **2** – If the audit committee regularly reports to the Board of Directors (one-tier) or Supervisory Board (two-tier) on the work of the committee.
The independence of the audit committee	**0** – If the criteria of independence for audit committee are not disclosed. **1** – If audit committee comprises at least 1-2 independent non-executive director. **2** – If the majority of audit committee is represented by non executive directors. **3 –** If the majority of audit committee is represented by independent non executive directors. **4 –** If all members of the audit committee are independent non-executive directors.
The professional	**0** – If no member of the audit committee has accounting, auditing or financial expertise.

expertise of audit committee members	**1** – If at least one or two member accounting, auditing or financial expertise. **2 –** If the majority of audit committee members has accounting, auditing or financial expertise **3 –** If all members of the audit committee have accounting, auditing or financial expertise.
Responsibilities of the audit committee	-Monitoring of the financial reporting process: **0** – if it's not required; **1** – if it's required; -Audit committee ensure appropriateness and consistency of accounting policies: **0** – if it's not required; **1** – if it's required; -Audit committee monitors accuracy of internal procedures: **0** – if it's not required; **1** – if it's required; -Monitoring of the external audit (including statutory audit): **0** – if it's not required; **1** – if it's required; -Makes proposals/recommendations for the external auditor's selection, appointment and dismissing: **0** – if it's not required; **1** – if it's required; -Makes recommendations for the internal auditor's selection, appointment and dismissing: **0** – if it's not required; **1** – if it's required; -Audit committee does the preparatory work for the Board of directors (one-tier)/ Supervisory board (two-tier) on all issues with regard to the audit of the consolidated financial statements and consolidated management reports: **0** – if it's not required; **1** – if it's required; -Reviews the annual plan of internal audit: **0** – if it's not required; **1** – if it's required; -Monitors the achievement of independence criteria for external auditors and confirms through a review that external audit firm complies with the legally required quality assurance measures for achieving audit quality and independence : **0** – if it's not required; **1** – if it's required; -Oversees the effectiveness of internal audit function: **0** – if it's not required; **1** – if it's required; -Monitors the effectiveness of internal control systems: **0** – if it's not required; **1** – if it's required; -Monitors the risk management process: **0** – if it's not required; **1** – if it's required; -Oversees the follow-up issued by the management as a response at external audit recommendations: **0** – if it's not required; **1**– if it's required; -Oversees the follow-up issued by the management as a response at internal audit recommendations: **0** – if it's not required; **1**– if it's required; -Review the statement issued by the management about corporate governance effectiveness: **0** – if it's not required; **1**– if it's required; -Monitors the fees paid for audit services and non-audit services, in order to avoid the influencing of the external auditors' independence: **0** – if it's not required; **1**– if it's required; -Monitoring the management efforts for ensuring the compliance with the appropriate legislative framework: **0** – if it's not required; **1**– if it's required; -Establishing a system or policy in order to ensure the possibility for any person employed to report in confidence if it has knowledge about illegal acts/irregularities in the company, which could have serious consequences over the ability of company to achieve its objectives (whistle-blowing policy): **0** – if it's not required; **1**– if it's required; -In case of non existence of internal audit function, periodically audit committee will analyse the necessity of establishing internal audit department: **0** – if it's not required; **1**– if it's required; -Analysing the proposals for the distribution of profit made by management: **0** – if it's not required; **1**– if it's required;
Number of audit committee meetings	**0** – If the number of the audit committee meetings is not disclosed. **1** – If the number of the audit committee is less than twice per year. **2** – If the number of the audit committee is between 2-4 meetings per year.

holding annually	3 - If the number of the audit committee is more than four times per year.
The higher each scoring, the better is the quality of the external audit practices in the context of corporate governance.	

Source: projection made by author

V. Conclusions

Considering the preliminary status of the research results presented within this paper, the author propose a methodology for measuring the score of good audit committee practices, but looking in the same time for a relevant feed-back that might have a significant contribution for the proposed methodology, considering the next step of this major research project – testing the proposed methodology for a sample of more than 550 economic listed entities at European level, trying to develop studies in this research direction with more complex statistical analysis applied at international level, but also connected to the real economic life, which might provide significant value that would help to obtain the real effectiveness for the audit committee in the context of corporate governance.

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ACCOUNTING ON THE PARTICULARITIES THAT CONCESSION AGRICULTURAL UNITS

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Agriculture[73]*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 asthe 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)[74], 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 exploatation
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 man[75]; 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 assetis acknowledged for the total value of the received concession:

| 1.000.000 lei | **205**
Concessions, patents,
licenses, brands, rights and
similar assets | = | **167**
Other loans and
similar debts | 1.000.000 lei |

And simultaneously:
Debit 8038Public 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**
Operating Expenses
regarding assets' | = | **2805**
Amortization of
concessions, patents, | 4.167 lei |

| | amortization | | licenses, brands, rights and similar assets | |

On 15 February N the monthly rent is recorded:

| 4.167 lei | **167** | = | **404** | 4.167 lei |
| | Other loans and similar debts | | Suppliers of fixed assets | |

Payment of rent:

| 4.167 lei | **404** | = | **5121** | 4.167 lei |
| | Suppliers of fixed assets | | Bank accounts in lei | |

The last three records are repeated monthly for a period of 20 years, the duration of the concession contract.

On the expiration of the contract, simultaneously with returning the lake, the removal of the received concession from the assets of the entity is recorded:

| 1.000.000 lei | **2805** | = | **205** | 1.000.000 lei |
| | Amortization of concessions, patents, licenses, brands, rights and similar assets | | Concessions, patents, licenses, brands, rights and similar assets | |

And simultaneously:

Credit 8038Public goods received for managing, in concession and rent 1.000.000 lei

Example 2:

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 a monthly royalty of 4.167 lei, payable on the 15th of the following month, is stipulated. 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 an **expense** because **the concession contract** stipulates the payment **of rent (4.167 lei) and not an amortization value.**

On 01.01.N, on signing the contract the total value of the royalties is recorded outside the accounting books: = 4.167 lei x 20 years x 12 months = 1.000.000 lei:

Debit 8038Public goods received for managing, in concession and rent 1.000.000 lei

On 15 February N the monthly rent is recorded:

| 4.167 lei | **612** | = | **401** | 4.167 lei |
| | Expenses with royalties, administrative locations and rents | | Suppliers | |

And simultaneously:

Credit 8038Public goods received for managing, in concession and rent 1.000.000 lei

Payment of rent:

| 4.167 lei | **401** | = | **5121** | 4.167 lei |
| | Suppliers | | Bank accounts in lei | |

The last two recordings are repeated monthly for 20 years, the duration of the contract

Particular cases regarding concession: The terrains afferent to assets sold by the Romsilva National Forests Administration

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 building, 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/m$^{3.}$

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 ha x 3,4 m^3/ha x 165 lei/m^3 x (1+76) = 195.270.193 lei

2. Computing the annual royalty:

Annual royalty = VAC x Established BNR interest rate

Annual royalty = 195.270.193 lei x 5,5 % peryear = 10.739. 860 lei

Monthly royalty = 10.739. 860 lei/12 months = 894.988 lei

3. Computing guarantee:

Guarantee = 5 % x Annual royalty

Guarantee = 5 % x 10.739. 860 lei = 536.993 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
	xpenses 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
	xpenses 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.

Payment of the royalty:

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 that 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 ofered 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:

The Net Situation = Total assets-Debts (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:

Working Capital = Permanent capital – Fixed assets (2)

Working capital = Current assets - Short term liabilities (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:

The necessary of working capital = (Current assets – Disposable Funds) -
(Short term Liabilities – Short Term Loans) = (4)
= (Stocks + Receivables + Prepaid Expenses) –
(Short term Liabilities – Short Term Loans + Income in Advance)

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 then 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:

Net Treasury = Working Capital – The Necessary of Working Capital (5)

Net Treasury = Disposable Funds – Treasury Credits (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

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 separately:	325.672	300.151	309.454	309.768	312.768
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 development[76].

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

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[76]Processing 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, wich 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 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 enviroment 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. "77

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"78..

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 procedures79

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.

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77 http://www.businessdictionary.com/definition/management-accounting.html

78 Paul M Collier, Accounting for Managers: Interpreting accounting information for decision-making, John Wiley & Sons Ltd, 2003, p 7

79 Joel S Demski, Managerial Uses Of Accounting Information, Springer Science & Business Media LLC, 2008, p 104

According to the author Henri Bouquin[80] 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 ".[81]

Leslie Chadwick[82] 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: [83]

Accounting branch	Goals and Objectives
Financial accounting	Registration of financial and economic operations
Cost accounting	Calculation and control costs
Tax accounting	Calculate taxes due

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[80] Henri Bouquin Management Accounting, Tipo Moldova Publishing, Iaşi, 2004, pp 19-25

[81] Charles T. Horngren, Srikant M. Datar, George Foster, Cost accounting a managerial approach, Arc Publishing, Chişinău, 2006, p 3

[82] Leslie Chadwick, Management Accounting, Humanitas Publishing, Bucharest, 1999, pag. 14-17

[83] Lea R. Dobson, David K. Hayes, Managerial Accounting For The Hospitality Industry, John Wiley&Sons Inc, 2009, p 13

Audit	Checks the accounting datas and procedures for 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. "84.

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. 85

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).

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[84] Paul M Collier, quote, p 8

[85] 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 "86and 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.

Schematic cost information system of an entity in the hospitality industry can be prese

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[86] Iuliana Cenar, Sorin Constantin Deaconu, Viaţa contabilă a întreprinderii de la constituire la faliment, Editura CECCAR, Bucureşti, 2006, p 7

Data   Data

Informations

Collecting ec., so. and account data regarding the cost	THE DATA BASE REGARDING THE COST IN THE HOSPITALITY INDUSTRY	THE ORGANISATION OF COSTS	MANAGEMENT THROUGH COSTS MANAGEMENT THROUGH OBJECTIVES
Internal sources			
Data processing and infos about costs		COSTING	
External sources			
The investigaton of the entity's external enviroment		COSTS CONTROL (CONTROLLING)	

Informations

Fig. 1.Cost information system in the hospitality industry

nted as follows:

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 acctounting ;
-Acount 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 ".[87]

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.

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[87] 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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BUSINESS MODELS FOR TAX AND TRANSFER PRICING PURPOSES

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The purpose of the present investigation is to provide, from a tax and transfer pricing point of view, a systematic and structured analyze of the generally characteristics of business models (manufacturer and sales business models) used by multinational enterprises in the process of business reorganization, with the scope to increase their performance and the sustainable competitive advantages. According to the functions performed and risks assumed, the entities are labeled into limited risk units (such as toll manufacturer or commission agent), medium risk (contract manufacturer, commissionaire, stripped distributor) or high risk units (fully fledged manufacturer, fully fledged distributor) and, further, the most important characteristics of each type are presented by comparison with the other types.
Key words: business restructuring, business model, manufacturer models, sales models, transfer pricing
JEL codes: H20, H25, M16

Introduction

In the present globalised economy, the international companies (regardless of products or sectors) face the pressure of increasing competition. Thus, they are bound to examine on a continuous basis the effectiveness of their business structures and to adjust their activity to these changing circumstances. As a consequence, the business restructurings undertaken by multinational enterprises have been a widespread phenomenon in recent decades because the globally competition forces them to maximize synergies and increase related efficiencies.

The need for an international company to change / to restructure its activity is generally underlay by both internal and external factors, such us: increasing demand in certain territory, changing customer demand, proximity to the sale market, various cost related factors (transportation cost, labor cost, energy cost, raw materials cost), savings from economies of scale, the need to increase the productivity by decreasing the costs, the need for specialization, centralization of functions etc.

Due to the development of global business models, the reorganization operations affecting an entity's industrial, commercial and supply chain processes has become increasingly common in the last years while taking various forms. These kind of industrial and commercial restructurings have complex and (often) significant consequences for international tax purposes, although tax considerations by themselves are generally not the principal driver for the reorganization.

From a transfer pricing point of view, the business reorganizations are defined as "cross-border redeployment by a multinational enterprise of its functions, assets and/or risks" (OECD Report – Transfer Pricing aspects on Business Restructurings).

This paper is aiming to describe, from a tax and transfer pricing point of view, the general characteristics of the business models used in present times by multinational enterprises. We choose to analyze this subject as we consider this is a hot topic in the present globalised economy, due to the fact that business reorganizations might have a dramatic impact on the allocation of the taxable profits of a multinational enterprise among the countries in which it activates.

Research methodology

The purpose of the present investigation is to describe, from a tax and transfer pricing point of view, the general characteristics of the business models used by multinational enterprises. In this paper, the fundamental research type was applied and the deductive research method was used (meaning that general conclusions were extracted based on available data).

One of the investigation techniques used was the literature research. We analyzed the international scientific literature on accounting and taxation topics, starting from older papers (Hirshleifer, 1956 & 1957; Dean; 1955 and Cook; 1955) to newest ones (Johnson, Christensen & Kagermann, 2008; Bakker, 2009). The papers observed were found in the following databases: SpringerLink, Jstor, Emerald and ScienceDirect. As a research key, we tried to found papers discussing about "business restructuring", "business reorganization", "transfer pricing impact in case of business restructuring" etc.

Another investigation technique used was the analysis of international regulations in taxation filed (OECD reports or discussion papers on Transfer Pricing topic: Transfer Pricing Guidelines for multinational enterprises and tax administration; Transfer Pricing aspects of business restructurings chapter IX of the Transfer Pricing Guidelines), with the scope to find out how the specialized international institution estimates the impact of business restructuring for tax and transfer pricing purposes.

Moreover, we applied the comparison investigation technique, by using as comparison criteria: the assets used, the risks assumed, the function performed, the profitability. According to the functions performed and risks assumed, the entities were labeled into limited risk units (such as toll manufacturer or commission agent), medium risk (contract manufacturer, commissionaire, stripped distributor) or high risk units (fully fledged manufacturer, fully fledged distributor) and, further, the most important characteristics of each type are presented by comparison with the other types. Evidently, the profitability is growing up simultaneously with the risks assumed and functions performed.

Literature review

The resource allocation and transfer pricing problem are topics with a long debate in the accounting, management science and economics literature.

The earliest studies on the transfer pricing issue were realized by Hirshleifer (1956 & 1957), Dean (1955) and Cook (1955) who provided the first reasons and were between the first sustainers of the later developed *decentralization theory*. For example, Dean wrote: "…the modern integrated multiple product firm functions best if it is made into a miniature of the competitive free enterprise system". Chang & Hong (2000), adepts of the decentralization theory as well, defines the business groups as "a gathering of formally independent firms under the single common administrative and financial control".

There are a lot of studies suggesting that business groups provide efficient forms of governance in certain circumstances by showing that companies affiliated to groups tend to exhibit higher profitability than independent companies in the same countries (Ghemawat & Khanna, 1998; Khanna & Palepu, 1998; Chan & Choi, 1998). This approach relied on the *resource-based theory*, who emphasizes the role of both intangible and tangible resources as the ultimate source of competitive advantage and performance (Barney, 1986; Wernerfelt, 1984). Certain researchers (Prahalad & Hamel, 1990; Kogut & Zander, 1992; Teece, Pisano & Shuen, 1997) consider that intangible resources like brand or technology shared among group entities are particularly important sources of sustainable competitive advantage. This approach leads to the conclusion that a group possessing more intangible resources would exhibit higher performance.

In our times, in order to increase their performance, companies are faced to reorganize their activity by operating various restructurings which may involve cross-border transfers of valuable intangibles. Business model innovation (restructuring) is seen as material to obtaining profit and

"focuses on aspects such as creating new markets, developing go-to-market initiative and innovation thereof, competitive disruption or competitive positioning and developing new value propositions" (Debruyne & Schoovaerts, 2006). According to Johnson, Christensen & Kagermann (2008), the elements of a succesul business model are: customer value proposition, key resources (resource based theory), key processes (diversification theory) and profit formula. They also consider that restructuring generally requires more effort than anticipated.

From a tax perspective, a business model's cost base and revenue potential are the most relevant aspects. In the value chain of getting the products to market, all business models have a certain organization of assets used, risks assumed and functions performed, that trigger the company's overall success (Bakker, 2009).

For tax and transfer pricing purposes, the fact that a multinational group entity is labeled as manufacturer, distributor or services provider has immediate effect of attaching consequences to the taxation of that company (Bakker, 2009).

Business models for tax and transfer pricing purposes
Generally, a business model reorganization consist of "stripping out intangible assets, functions and risks which were normally integrated in local operations and transferring them to more specialized and centralized regional or global entities within the group" (OECD, 2010). Typically, the profitability of an entity depends on the functions performed and risk assumed (meaning that the higher are functions performed and risk assumed, the higher is the profitability).
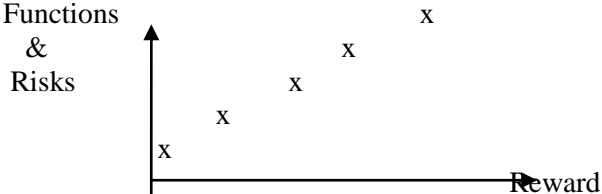
Fig.1. Relation profitability – risks & functions (realized by authors)

A. Manufacturer models

Manufacturing is the process of transformation from raw materials into finished goods. As presented in the chart below, manufacturing is generally performed in one of three risk/function models recognized for transfer pricing purposes: toll manufacturing, contract manufacturing and fully fledged manufacturing.
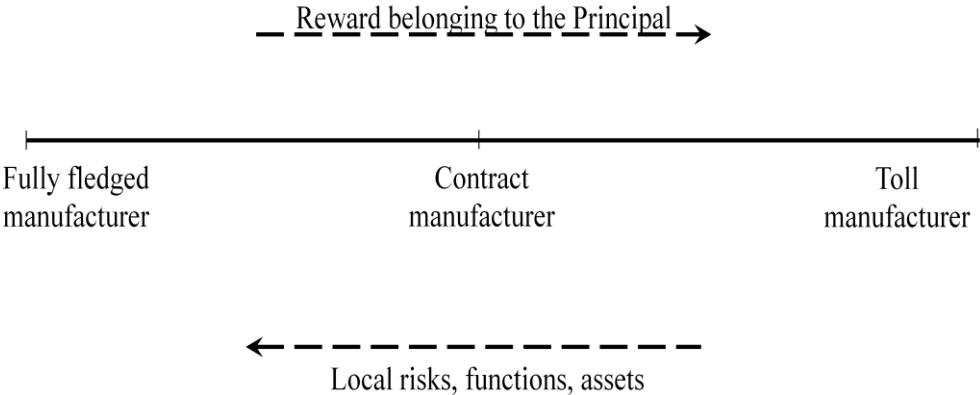
Fig.2 Manufacturer models (realized by authors)

A toll manufacturer is actually a service provider which activity generally consists of processing raw materials following the specification and clearly instruction of the principal. The toll manufacturer does not become the owner of the raw-materials, work-in-progress or goods manufactured; it has no responsibility for production scheduling, procurement of raw material, quality control, distribution, logistic or revenues collections (Adams & Graham, 1999). Thus, such an entity assumes neither inventory risk and usually owns no valuable intangible (just routine manufacturing/processing skills). The transfer prices used for remunerating the operations performed by a toll manufacturer can be determined by using the cost-plus method or the transactional net margin method (assuming that the comparable uncontrolled price method – CUP, cannot be used).

A contract manufacturer generally provide manufacturing functions based on a written agreement, becomes the owner of the raw materials and the finished products and is responsible for processing the raw materials (quality control). The contract manufacturer bears the inventory risk, and generally bears more risks and responsibilities than a toll manufacturer, however, the procurement decisions, production scheduling and logistics remain with the principal. Also, the contract manufacturer does not hold valuable intangibles. As in case of a toll manufacturer, the transfer prices used for remunerate a contract manufacturer might be determined by applying the cost-plus method or the transactional net margin method (assuming that the comparable uncontrolled price method – CUP, cannot be used).

A fully fledged manufacturer typically assumes all the relevant functions related to the production process (sourcing and purchasing raw materials, finding clients, R&D - use of intangibles, production schedule, quality control, logistics) and also the associated risks (inventory risk, market risk, warranty risk etc). If the fully fledge manufacturer and the distributor with which it transacts use valuable intangible, the most appropriate method to be used for determining the transfer prices is the profit split method.

B. Sales models

The sales or distribution represent the process by which a product/service is passed through the business system to the end-consumer. As in the manufacturer case, there are different types of distributors (depending on functions performed, risks assumed and assets used), as presented in the chart below:
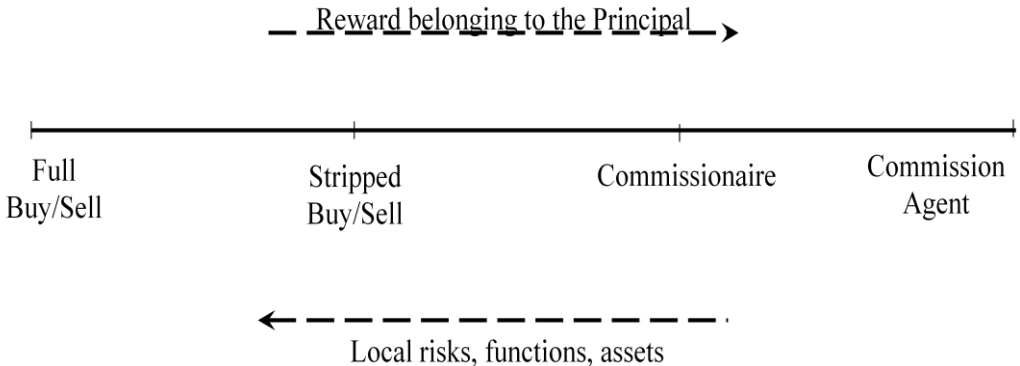
Fig.3 Sales models (realized by authors)

A commission agent is an intermediary that arranges the sales of products to customer on behalf and on the name of the principal, while the later is the goods' owner and generally signs the sales

contracts (no inventory risk for the commission agent). The remuneration for activity performed by the commission agent is typically based on the cots-plus method (assuming that the CUP method cannot be used), or a commission (percentage) on the sales.

 A commissionaire is similar with the commission agent, with the difference that it sells the goods on behalf of the principal but in its name. The commissionaire does not become the owner of the goods and does not bear any inventory risk. The transfer prices used for remunerate a commissionaire might be determined by applying the resale-price method or the transactional net margin method (assuming that the comparable uncontrolled price method – CUP, cannot be used).

A stripped buy/sell distributor is similar to fully fledged distributor, with the difference that the former is stripped of certain functions and risks. The stripped buy/sell distributor become the owner of the goods sold (immediately prior to the sale to the client) and thus bears certain limited inventory risks. Also, the distributor acts in its account and in its name. As in case of a commissionaire, the transfer prices used for remunerate a stripped buy/sell distributor might be determined by applying the resale-price method or the transactional net margin method (assuming that the comparable uncontrolled price method – CUP, cannot be used).

A fully fledge distributor is acting more autonomously than a stripped distributor; the activity performed is decentralized, with little or no central control or consistency.

Conclusions

As a consequence of the globalized economy, the pressure of competition and the need for increasing the efficiency are important drivers for business restructurings. Generally, a business reorganization consist of "stripping out" intangible assets, functions and risks which were normally integrated in local operations and transferring them to more specialized and centralized regional or global entities within the group. The industrial and commercial restructurings have complex and (often) significant consequences for international tax purposes due to the major impact they have on the allocation of the taxable profits of a multinational enterprise among the countries in which it activates.

By using the fundamental research type, the literature review and comparison as investigation techniques, this paper was aiming to present, from a transfer pricing point of view, the general characteristics of the business models used in present times.

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FROM ACCOUNTING REGULATIONS TO VALUATION PRACTICE - THE APPRAISER'S ROLE IN TANGIBLE ASSETS' REVALUATION

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Tangible assets revaluation has an impact over equity, profit and the financial indicators of the company, several being relevant for the decision making process of investor's and company management. The revaluation process is usually done by valuation experts who have to start their mission departing from the accounting information regarding the revalued assets. A sound understanding of accounting rules and of the necessities of the revaluation process is essential for a reliable revaluation. Lack of specific accounting knowledge on the valuer's side can lead to distorted representations of the valued assets which will affect faithful representation, have accounting and fiscal impacts and can also raise problems when auditing the company. The quality and valuation expertise of the called-in appraiser are also relevant for the outcome of the revaluation process, especially if market values evidence is scarce or the revaluated assets are highly specialised. We present the actions that the valuer and the entity have to pursue in order to ensure a reliable revaluation process, contributing thus to a better understanding of the practical approach to assets revaluation and its specific requirements.

1. Introduction

The tangible assets can be revalued periodically as IAS 16 provisions respectively OMFP 3055/2009 allow an alternative treatment: maintenance at cost or revaluation at fair value. In Romania, due to Fiscal Code stipulations, companies often revaluate fixed assets, especially buildings, every three years. The results of these revaluations have an impact over the financial statements of the revaluing companies which can be split into accounting impact and fiscal impact. These results are opposed to the management of the company, auditors and fiscal bodies of control, the public. The revaluation itself is made, as stipulated in both IAS 16 and OMFP, by valuation professionals. The company can choose to have it done by the management and in this case the reliability of the management's own assessment of values can be an issue. In either case, it is important that the results of the revaluation are accepted by all involved parties and that the financial situations resulted will reflect a faithful representation.

We aim to offer a relevant picture of all elements involved in the revaluation process: decision drivers and management incentives, legal stipulation, international financial reporting standards, international valuation standards, valuation practice and its practical requirements and limitations, mirroring their actions and interactions. The goal is to highlight the importance of the approach of the revaluation process in itself and to put an emphasis on the role of the independent expert – the appraiser – whose expertise and knowledge of the particularities of this kind of valuation mission are essential for the outcome of the revaluation process. The key to reliable revaluation of fixed assets is based as much on the company's policies and support offered to the appraiser as on the appraiser's own quality, experience and knowledge of the needed approach. Our analysis will show that without specific accounting related knowledge, the appraiser will have difficulties in providing a reliable result of his mission. This way, we contribute to a better understanding of this process, of the importance of the interaction between the appraiser and the entity and of the importance of employing a valuer with sound valuation expertise but also accounting knowledge related to this process.

The article unfolds as follows: first, we present the research methodology used. Second, we make a literature review, aiming to offer reflections of the literature's general position relative to fair

value and the fair value concept and, in particular, to the existing conclusions with regard to incentives behind assets revaluations. Our literature review will also show how often the revaluation of tangible assets and valuation practical problems are issues that were researched. Then, our findings are presented in mirroring tables forms in order to enhance the interactions between domains. We then draw conclusions and point to further research possibilities.

2. Research Methodology
Our research is situated at the frontier between accounting and valuation. Literature review has involved both a qualitative and quantitative analysis, allowing us to draw conclusions with regard to the frequency of the themes of interest pursuited and their content. We have relied during our research process on content analysis, comparative analysis and critical analysis. Our content analysis is orientated to the meaning of the studied documents. Regulations and standards were studied using description and explanations techniques. Comparative analysis was used in order to emphasis resemblances and differences between standards. In the end, critique analysis is used to highlight difficulties when comparing regulations with practical possibilities in valuation.

3. Literature Review
Discussions over fair value are numerous and embrace many of the domains where fair value has an impact: relevance of fair value for financial reporting, fair value versus cost, the role of fair value during the financial crisis, investors' perceptions with regard to fair value, reliability of fair value etc. As our research is focused on revaluation of tangible assets, we have proceeded first to position this subject in the larger context of the debate regarding the quality, importance and relevance of financial reporting under fair value. We have reviewed first articles published in established academic accounting publications but also several articles written by practitioners and opinion leaders from relevant fields, including speeches gave by financial world personalities. Our review has settled for 135 articles. We have then divided the subjects of interest in several categories obtaining the following spread:

Figure no. 1- Subjects of Interest in Fair Value Literature
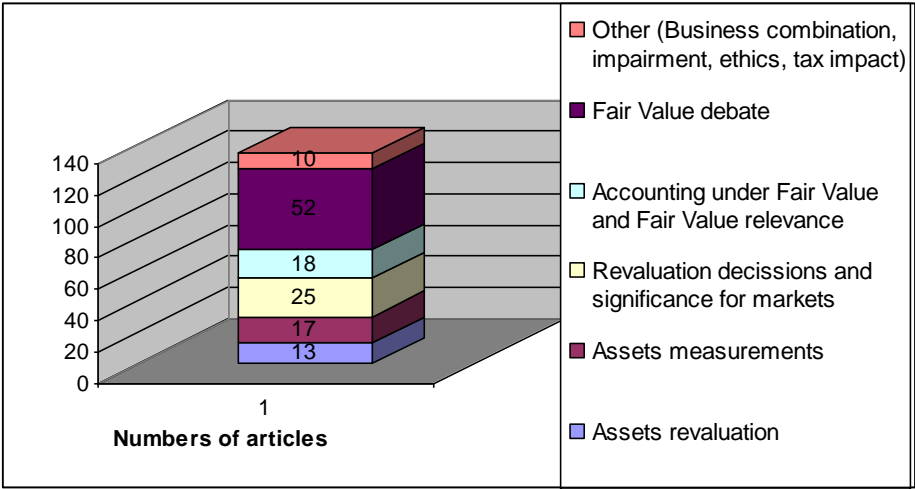
Source: Author analysis

Most of the debate is concentrated on the fair values pros and cons and its role in the financial crisis. Another important topic is related to the decision of revaluation and the reactions of markets and investors to revaluation of assets. Asset measurement, as a separate topic, represents

about 13% of the reviewed articles, allowing us to believe that the subject is less under focus due to involvement of another profession – valuators.

Incentives behind the revaluation of assets are researched in the literature with the use of empirical research mostly. The prevailing motives scrutinised are: influence over leverage indicators of the companies (Cotter and Zimmer 1995: 150, Gaeremynck and Veugelers, 1999: 135, Missonier Pierra, 2007: 23) and earnings management (Bartow 1993: 854, Black, Sellers and Manly, 1998: 1314-1316). Other incentives as information asymmetry reduction, company size, assets nature are also analysed. Quagli and Avalone (2010: 461-493) in an empirical study over real estate companies in Europe which are first time adopters of IFRS demonstrate that the decision to choose the fair value model is motivated by information asymmetry, contractual efficiency and management opportunism.

Nevertheless, attention to the necessity of employing specialised experts is drawn by Mary Barth (IFRS standard setter), showing that "*accountants must become more comfortable with valuation theories, techniques, and practicalities*" (Barth, M., 2007:14). Cotter and Richardson, in an empirical study made on 225 firm-assets-class in Australia (1981 to 1999) find that independent revaluations of plant and equipment are more reliable than revaluations made by company management (Cotter and Richardson, 2002: 438).

4. Research Results

Regarding the revaluation of tangible assets, the regulations to be abided are those stipulated by OMFP 3055/2009 and the provisions of the applicable financial reporting standards (IAS 16, IAS 17, IAS 40, IAS 36) applicable. Starting with January 2013, a new standard will be in force: IFRS 13 – Fair Value Measurement which brings higher convergence with US GAAP stipulations regarding fair value and also orientates the fair value definition towards an exit value. The stipulations of todays in force regulations are outlined below. These specific requirements have an impact over the valuation approaches when the company decides to revaluate the assets at fair value due to the interaction between accounting and valuation practice.

IFRS and OMFP stipulation regarding tangible assets treatment:

- an item of property plant and equipment is recognized as an asset only if it is probable to bring future benefits to the company and its cost can be measured reliably;
- assets are initially measured at cost or at fair value. OMFP makes no distinction between assets held for sale or as investments while IFRS stipulates different measures for these categories;
- land is not depreciated;
- several initial expenses can be capitalised in the assets value (e.g. dismantling and removal costs, financing expenses, operational losses of the first period) but these provisions are not entirely consistent between the two mentioned reference systems (e.g. OMFP does not mention first period's operational losses as eligible for capitalisation);
- several subsequent expenses can be capitalised in the asset's value (modernisations, if meeting the capitalisation requirements, new spare parts of significant value, major overhauls and periodical inspections);
- IFRSs state that the depreciable amount of an asset is determined after deducting its residual value;
- after recognition, the entity can choose the cost model or the revaluation model. If choosing the revaluation model, the revaluation shall have to be applied to the entire class of assets. Revaluations shall be made with sufficient regularity.
- fair value is usually determined on market-based evidence through appraisals made by qualified valuers. Assets can also be evaluated using the cost approach when no active markets can be identified or using an income approach for those assets which are usually sold as part of an on-going business;

- when applying the revaluation model, the entity will re-calculate the book values and depreciation of the revalued assets. There are two models for depreciation re-calculation: (1) proportionally with the change within the asset value, the revalued value being the new net book value and (2) by eliminating the depreciation from the gross book value of the asset and restating the net book value at the revalued value of the asset;
- fixed assets have to be tested for impairment especially when there is an indication that it might be the case. The relevant standard is IAS 36 – Impairment of Assets;
- revaluation differences are impacting the company's equity and depending upon their bearing and the existence of previous reserves from revaluation they can lead to a reserves' increase or an expense.

Fiscal stipulations regarding revaluation of assets:
In our country there are also fiscal regulations to be taken into account, as in Romania taxation of buildings property of companies is made in direct connection to book values. Land is not taxed in connection with book values. Relevant provisions are:
- taxation is calculated in relation with gross book value of buildings;
- taxation quota is different depending upon the duration since the last revaluation date (higher as the last revaluation is older);
- for entirely depreciated buildings the taxable value is reduced with 15%;
- in case of a decrease following the revaluation of fixed assets (below cost), the difference in depreciation is not a deductible expense.
The direct connection between buildings taxation and registered book values makes Romanian companies to revalue their tangible assets registered in the first accounting group regularly. It is expected that the recent increase of this taxation quota and the inclusion of the second interval (buildings not revaluated for more than five years) at an even higher tax percent will result in an expansion of the mass of buildings being revaluated rhythmically.

Revaluation impact:
Considering both accounting and fiscal stipulations it is to be noted that the level at which tangible assets are being revaluated has more than one effect. This effect is different from accounting to fiscality and depends upon the differences from revaluation. Revaluation of assets impacts the company's financial position and can subsequently influence its financial performance. An upward revaluation will lead to an increase in assets and equity and modify relevant financial ratios, thus influencing the decisions taken by the users of financial reports. Accounting profit will be diminished. Local tax will increase while profit tax will not be affected (or will decrease due to a higher local tax expense).
In the opposite case, when revaluation results in a decrease of value, the impact is correlated with the existence of previous re-valuation reserves. If values do not decrease under cost, accounting impact will be a decrease in assets and equity and a raise in accounting profit. Fiscal impact will be a decrease of local tax and profit tax will not be affected (or will increase due to a lower local tax expense). If values decrease under cost the accounting profit will also be affected due to an increase of expenses.

The valuation approach:
Most often companies revert to valuation professionals in order to perform the required valuations. Valuators in Romania are members of the professional body known under the name of ANEVAR (National Association of Romanian Valuers) and the profession was recently regulated by the Government under a new professional body named Uniunea Nationala a Evaluatorilor Autorizati din Romania. In practice, Romanian valuators (or appraisers) abide by the provisions of the International Valuation Standards (IVS), the standards applicable starting with January 2012 being the 2011 edition. For valuation for financial reporting the relevant

standards applied are IVS 300 – Valuation for Financial Reporting and all other standards with incidence in valuation of assets. IVS 300 mentions that IFRS's definition of fair value is consistent with IVS's definition of market value.

Considering all requirements made by IFRSs, Romanian accounting regulations and fiscal code (reviewed above) and practical approaches and possibilities of the appraisers, we present below the action-reaction table [Table 1] between accounting and fiscal requirements and the appraiser's approach necessary in order to make the revaluation process reliable, recognised and approved by the auditor and with consideration to the accounting and fiscal impact.

Table 1 – The connection between accounting and fiscal demands and valuation process

IFRSs and OMFP 3055 provisions	Valuation process
Conditions to be recognised as an asset	- the appraiser requests the fixed asset register (FAR) from the company; - identification and description of the valued assets; - assessment of the possibility of obtaining a "reliable" valuation given the assets to be evaluated and market information available.
Revaluation of the entire class	- the appraiser should check the reconciliation between the FAR and trial balance. If this information is not provided to the valuer, appropriate disclaimers have to be included in the valuation report.
Capitalisation of initial expenses	- this can raise valuation issues as initial expenses might not be recognised when marking to market;
Subsequent expenses capitalisation	-the appraiser has to ask and the entity provide all correspondence cases between a principal asset and the items of modernisation or other subsequent expenditure capitalised for the respective asset; - the appraiser has to ask and the entity to provide the list of on-going investments (fixed assets in progress) in order not to double their value by including the investment into the valuation of the subject asset; - the asset is valuated „as it is" and subsequently the value can be allocated (unless the entity decides to unify all FAR positions).
Different approaches depending upon asset type and market information available	- the appraiser, based on entity information, has to classify the assets subject to revaluation into sub-categories (used in operation, non-core assets, held as investment etc.) before deciding on valuation approach.
Alternative treatments in re-computation of book values and depreciation	- the outcome of the valuation process is a value that corresponds to the net book value. Appraisers should not give another indication and the approach in re-computation of gross book value and depreciation is the entity's decision.
Impairment	- when revaluation of fixed assets is based on the cost approach the appraiser has to advise about the necessity of applying an impairment test or can perform if it was foreseen in the services contract
Totally depreciated assets	- these have to be revalued if they are still operated by the entity and bringing benefices to the entity. If agreed with the company, the valuator can make estimates of the future life duration of these assets for the purpose of depreciation computation.

Land is not depreciated. Property tax is calculated at gross book value for buildings but has no correlation with the registered value for land.	- allocation of value between land and buildings for real estate type properties (where the valuation approach is either income approach or market approach for the property treated as a whole – land + building). - buildings' gross book value recalculation treatment is the entity option.

Source: Author analysis

Besides the above noted, the appraiser has to abide by all valuation and valuation reporting requirements included in the International Valuation Standards. Before starting the valuation process it is important that the appraiser establishes the conditions within which the appraisal is being made, respectively the company is an on-going concern or is being liquidated.

5. Conclusions

Depending upon the direction of the revaluation results of tangible assets (upwards or downwards) revaluation may have an impact over the financial indicators of the company and influence decision makers which use the financial statements. Various requirements and possible accounting treatment regarding tangible assets recognition, initial and subsequent measurement, depreciation policy and impairment are reflected in the registered value levels and componence of the fixed assets register which is, for the appraiser, the basis from which revaluation process begins. Understanding of accounting rules and of the necessities of the revaluation process is essential for a reliable revaluation. The appraiser has to be familiar with specific requisites while the entity has to provide the valuer with all relevant information plus access to the appraised assets. Lack of specific accounting knowledge on the valuer's side can lead to distorted representations of the valued assets (e.g. not considering assets' classification in establishing the valuation approaches, not allocating separate values for land and building, doubling the effect of on-going investments etc.) which will affect faithful representation, have accounting and fiscal impacts and can also raise problems when auditing the company. In the meantime, the quality and valuation expertise of the called-in appraiser are also relevant for the outcome of the revaluation process, especially if market values evidence is scarce or for revaluation of specialised assets. Impairment analysis is another important aspect, when the appraiser is required to perform it.

The valuation issues to which we have pointed in this article can lead to further research. Many of these are related to the financial reporting standards requirement of measurement and subsequent expense capitalisation versus practical possibilities of the valuation process. The new fair value definition included in IFRS 13 also opens the road to analysis of the exit value versus market value, which should also be placed in the context of this standards' relevance for the Romanian market. Also, further research might involve a study in order to establish if for Romanian companies buildings taxation (as stipulated by the fiscal code) is the main driver of revaluation and not the requirements of faithful representation or other managerial incentives.

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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 Ciumag (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 Răchişan (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 form 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.

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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, Pintea, 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 an o 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; Burlaund & 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**
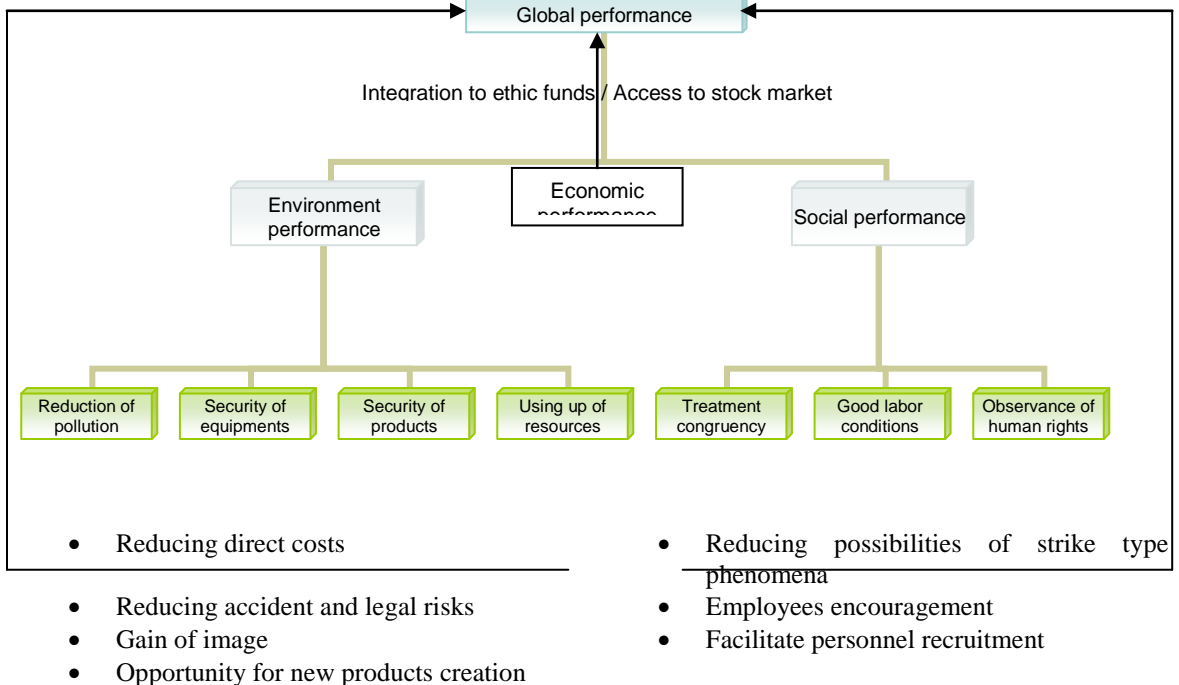
(Source: Pintea after Reynauld, 2011)

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, Timişoara, Iaşi, Craiova, Sibiu, Piteşti, Galaţi), 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 indebtness	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 ptofit 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	6.383.576	6.982.890	-11.841.171	-16.123.590	-6.538.707
Grade of indebtness	40%	36%	46%	47%	42%
Net profit	23.839.146	32.456.007	10.572.756	11.916.807	12.539.100
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	-1.693.784	12.642.099	13.719.189	5.260.657	25.024.115
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**
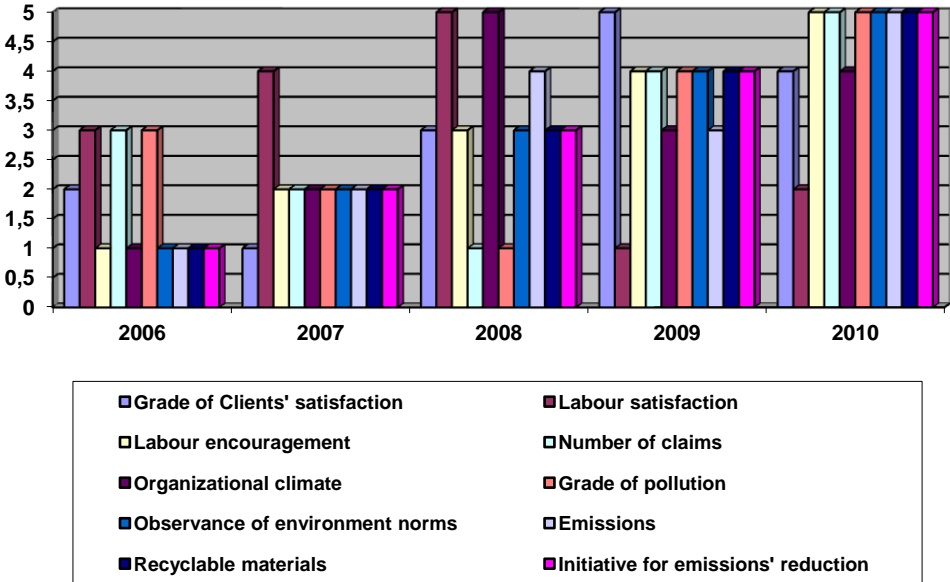
(Source: authors calculations & estimations)

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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MANAGEMENT ACCOUNTING IN EUROPEAN SOCIAL FUND FINANCED PROJECTS IN ROMANIA

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Associating spent amounts in European Social Fund (ESF) financed interventions to eligible activities could be important premises for safeguarding the sound financial management principle. Incorporating management accounting in the beneficiaries accounting systems may provide primary 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 accounting management implementation, as a base for future improvements of Romanian ESF beneficiary's accounting systems

ESF financed interventions covers a large range of labor market related services, delivered to the people to increase adaptability and occupational mobility with the aim of allowing or improving labor market access. Even if these services are diverse and delivered by various entities such as government agencies, enterprises or NGO's, they do have something in common; they cannot generate incomes, but costs for implementing entities. But costs according to the sound financial management principle calls for tracing money with eligible activities using at least some if not all of management accounting concepts. 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 management accounting implementation in services delivering activities.

This study was realized in March 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 for a future improvement of the existing accounting system model by incorporating management accounting.

130 members of this community answered anonymously, revealing an important concern for management accounting usage, even if only less than 15% declared that they organize it continuously. The rest of more than 85% perceive an important concern about tracing money with budget breakdowns and activities within their projects, just about 65% of them considering also that their work is different now in an ESF project than in past situations. More than 83% of the ones organizing management accounting stated that their actual work is different than in past situations.

Analyzing all the answers, we may consider that our hypothesis is correct and there is a real opportunity for accounting system improvements, by incorporating management accounting.

Some other conclusions about interactions between the accounting and internal control systems may be drawn from the way that community members perceive communication from and to the accountant. Possible weaknesses of the internal control system may lead to unpleasant effects for sound financial management.

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: M41 - Accounting

Keywords: Management accounting, Accounting system, European Social Fund, communication, sound financial management.

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. 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, beneficiaries control and accounting systems as parts of the larger national management and control system of ESF have their own importance in ESF implementation for managers and ESF officials as well.

If we consider that ESF financed interventions are implemented by beneficiaries organizations only if these are compliant with their own strategies, we may also consider that managers should use management accounting to choose, communicate and implement strategies (Horngren, Datar and Foster: 3).

Management accounting should than support managers in sound financial and transparency compliance assisting them through a continuous decision making process of resource allocation, considering costs and advantages, behaviors and technical conditions, different costs for different purposes (Horngren, Datar and Foster: 23).

Apart from financial accounting, the management accounting is an internal reporting one; organizing such a system stays at manager's decision. The National regulatory framework imposed the management accounting as mandatory in Romania (art. 1 of Law no. 82-1991 Accounting Law, republished), but conditioned by some subsequent implementation rules, never issued. Hereinafter some questions arise. Is it now clear enough for managers of ESF implemented projects that they need accurate and timely financial and non-financial information? So are they asking for? Are they organizing the accounting system in the way this information may become accessible? Is accounting management a reality of actual stage of ESF implementation in Romania? Do they explain to the accountant what the project is about and the manner that costs are covering activities progress? Is the actual implementation faraway from a sound management accounting? Is it possible to implement it now? The subject of this study are 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 accountants of the ESF financed projects and to provide a conclusion about the actual facts of ESF implementation. We are not comparing now different models of management accounting, so we do not rely on any of management accounting dedicated studies. Anyhow, the general context is described in the regulatory framework and in the 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 the community, asking the accountants for an anonymous reply by choosing the most suitable version of the answer at every of the ten questions. We assume that no one answered twice or more times at this

questionnaire. Answers were collected in a table, using Google docs during March and April 2012.

4. Study results

There are 130 answers, so the response rate is more than 13%. Organizing accounting in work centers could be a plus for accounting management; all projects costs can be physically separated from the current costs of the entity in synthetic accounts. The other option, registering costs in analytical separate accounts needs financial documents accurate management of verification prior of the accountant.

Nearly 17% claimed that they organize accounting in work centers, meaning an increased interest to separate the accounts of the project. The second question was about management accounting in the ESF projects. Apparently no more than 18 answers were compliant with the definition of management accounting, representing less than 14% of the total answers.

As we find out that now, accountant of ESF projects prefer organizing accounting in work centers more than management accounting.

ESF interventions have their own rules and particularities, and costs incurred must follow these properly. Certainly, acknowledging these particularities may involve efforts from all interested parties, and accountants are not an exception. Having a long tradition in being involved only in financial accounting, the accountant may face difficulties in fully understanding of what's to be done in such a project. Regarding the understanding of ESF intervention respondents stated as follows:

Table no. 1. Understanding of ESF intervention

Opinions	With management accounting	Without management accounting
Are you aware about the content of ESF intervention you are keeping records for and what's to do on it?		
Fully understood, I understand exactly what's to be done	66,67%	59,82%
Fully understood, I read the project	27,78%	30,36%
Partially, not enough information	5,56%	9,82%

We may than consider that those who organize accounting management are aware in a more direct way about the facts of the ESF financed intervention than the others. Even so, with an aggregate figure of more than 90% we can assume that accountants fully understood the projects content.

ESF project is implemented within the limits of the approved budget breakdown. Budget lines include sums to be spent for eligible expenditures, in a particular way, choosing among existing procedures. Balances of analytical accounts should be put in correspondence with existing budget lines. Commitments should be recorded separately, allowing the accountant to estimate the remained availabilities for every item. About the awareness of the budget breakdown, respondents stated as follows:

Table no. 2. Awareness of budget breakdown

Opinions	With management accounting	Without management accounting
Are you aware about the content of ESF intervention budget breakdown?		
Yes, I have a copy	100,00%	89,29%
Yes, broadly	0,00%	9,82%
I have not enough information	0,00%	0,89%

There is no doubt that the accountants organizing management accounting have more information about budget breakdown and than the others, having in so a proper possibility to put in correspondence financial documents (costs) with the budget lines.

Table no. 3. Corresponding costs with budget breakdown

Opinions	With management accounting	Without management accounting

Do you realize correspondence between financial documents presented for registering and budget breakdowns?		
Always	100,00%	79,46%
Almost always	0,00%	9,82%
Sometimes, almost never, never, not relevant	0,00%	10,71%

The accountant of an ESF project, as stakeholder, has to be aware not only on budgets, but also in activities, in implementation realities. It's largely accepted in Romania that accountants are more interested in figures than in facts. The answers received confirms that accountants have more interest in budgets, 79,46% of them always connecting financial documents with budgets, as long as only 65,75% are always connecting those documents with projects activities. We also found out that a small part of the accountants are not connecting costs to activities or budget breakdowns.

Table no. 4. Corresponding costs with project activities

Opinions	With management accounting	Without management accounting
Do you realize correspondence between financial documents presented for registration and project activities?		
Always	100,00%	68,75%
Almost always	0,00%	16,07%
Sometimes, almost never, never, not relevant	0,00%	15,18%

Communication to and from the accountant could be a very important issue in assessing reliability of financial data. The accounting system has to receive not only invoices, but also certifications from the management about reality of costs represented by the transferred invoices or other financial documents. According to the answers, even in case of management accounting, accountants do not receive always information about meaning of financial documents received to register. For projects that are not keeping management accounting, less than 60% of the respondents receive always explanations.

Table no. 5. Communication about invoices from management or responsible person

Opinions	With management accounting	Without management accounting
Do you receive explanations from management or responsible person for financial documents for registration?		
Always	94,44%	59,82%
Almost always	5,68%	26,79%
Sometimes, almost never, never, not relevant	0,00%	13,39%

Certification of financial documents by the authorizing officer is very important for ensuring reliability of financial information. Authorizing officer may be the project manager or other responsible as well. Semantically assuming that certification could mean only verification, we found out that even if management accounting is organized, more than a quarter of respondents perceive lack of verification. If no management accounting, only 63,39% of the accountants perceive document verification prior receiving them.

Table no. 6 Perception about prior authorization of financial documents

Opinions	With management accounting	Without management accounting
Are the financial documents received by you for registration prior verified by another person?		
Always	77,78%	63,39%
Almost always	22,22%	25,89%
Sometimes, almost never, never	0,00%	10,71%

Certification means more than a simply verification of documents, than we may assume that financial documents are certified prior the accountant less than indicated in the answers received. This indicates possible malfunctions of internal control systems with influence on potential for fraud and on compliance with sound financial management principle.

Communication is sideways, and accountant should act accordingly. Accountant can deliver a lot of information but is this requested by the manager? Is the management asking for more

information that the one accountant are usually including in financial reports of the organization? As a part of communication process we wanted to explore the accountant's perception about manager's expectation for more information. Those who organize management accounting are delivering always such information to managers. We conclude that managers are always asking for more information when they organize management accounting, and are frequently asking for such information in no management accounting situation. The large number of responses "sometimes, almost never" may drive to a limited compliance of the intervention at the sound financial management principle.

Table no. 7 Perception about management's interest on non financial information

Opinions	With management accounting	Without management accounting
Is management asking you for more information but the one you usually include in yours entity financial reports?		
Always	100,00%	16,96%
Frequently	0,00%	48,21%
Sometimes, almost never	0,00%	34,82%

Accountant perception about difficulties in implementation, relatively to prior work experience was another issue of the study. The received answers confirmed the theory of "European bureaucracy" and how is this viewed by accountants, practitioners in ESF projects. Working in these projects is considered "extremely different", "very different" and "different" by more than 80% of those who organize management accounting and "very different", "different" and "small differences" by more than 80% of those who are not organizing management accounting. We may consider that different opinions between those organizing and not organizing management accounting is due to the management accounting implementation in entities accounting system. The opinions of those who are not organizing management accounting can be taken into consideration in quantifying the "European bureaucracy".

Table no. 8 Perceived work differences relatively to prior work experience

Opinions	With management accounting	Without management accounting
Do you think that your work now, implementing ESF project is different (more complex) reported to prior situations, without ESF project?		
Extremely different	33,33%	8,93%
Very different	16,67%	16,07%
Different	33,33%	40,18%
Small differences	16,67%	31,25%
Unchanged	0,00%	3,57%

5. Conclusions

ESF funding is based on rules to be applied by the Member State beneficiaries. The rigor of these rules is differently perceived depending on compliance reaction. Even without organizing management accounting, working in ESF projects is broadly considered different and those accountants who organize accounting management consider their work as extremely and very different.

Managers and accountants are aware, in different measure that sound financial management principle is to be applied in the projects. Organizing work center based accountancy is one first step in adequate records keeping. Relatively to management accounting, this is simply and costless, especially when accountants perceive communication with authorizing officer as insufficient. Management accounting to be developed means the two parts working together: management (internal control system) and accountant (accounting system). Manager has to be interested in management accounting reports and accountant has to be convinced (prior authorization) that documents he registers are reflecting real and legal operations. Even if management accounting is broadly not organized, accountants are associating costs to budgets and activities in a substantial manner, so we may consider that accountants acting on ESF rules

are carrying the premises for new accounting systems based on management accounting implementation.

Concluding, we may consider that managers are not entirely aware of the need for accurate and timely financial and non-financial information, except the ones working in projects those accountants are organizing management accounting. Only a small minority have organized management accounting, so information is not always timely accessible in ESF projects. Communication is perceived as limited by the accountant as long as documents are not entirely explained or checked before presentation for registration. Apparently managers have a limited interest on supplementary data available at the accountant; there may be a lack of feedback with possible impact on sound financial management principle compliance.

Based on the different perceptions of those who are organizing or not management accounting we may consider that results of this study are confirming there is a real opportunity for accounting system improvements, by incorporating management accounting for a better compliance of ESF projects with the sound financial management principle. Organizing also a proper internal control system is a must; using COSO's referential as the most suitable solution, as long as even INTOSAI oriented its guidelines on internal control on COSO.

Management accounting may also offer a proficient feedback instrument to be used against implementation risks, over budgeting being one of the most important.

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Acknowledgements

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" relay 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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Acknowledgements

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 polities 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 Spearmen 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:

$DSRS_{SI} = \lambda_1$ x Sales + λ_2 x No. of employees + λ_3 x GRI adoption + λ_4 x CSR adoption + λ_5 x 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):

$DSRS_{SI} = 2.081^{-5}$ x Sales $- 1.92^{-5}$ x No. of Employees $- 1.058$ x GRI adoption $- 8.874$ x CSR adoption $- 3.786$ x 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.
The current paper is realized in the doctoral program entitled "PhD in Economics at the Standards of European Knowledge- DoEsEc", scientific coordinator Prof. PhD Niculae Feleaga, Institution: The Academy of Economic Studies Bucharest, Faculty of Accounting and Management Informatic System, Department of International Accounting, period of research 2009-2012.
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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CONTRIBUTIONS OF DUMITRU VOINA TO THE DEVELOPMENT OF ACCOUNTING AND ACCOUNTING EDUCATION IN ROMANIA

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The paper presents the biography and the work of an important accounting professor from the Academy of High Commercial and Industrial Studies from Cluj, trying to surprise his contribution to the accounting development in Romania.
Professor Dumitru Voina had an important activity as a professor of accounting in Transylvania and at the Academy of High Commercial and Industrial Studies from Cluj. He had lots of papers and studies in the accounting field. From his papers we presented in our article the most complex one General Accounting Course, in which he presented important elements of accounting, issues that were preoccupying the accounting world of those times.
Keywords: biography, professor, accounting, history, education
JEL code: B31

I. Introduction

Our paper is among the studies made in the accounting history field about the individuals. The biographical works are very important in telling the history because, how R.H. Parker cites Carlyle in his article, "history is the essence of innumerable biographies", so is for the accounting history (Parker, 2002, p.127). The paper is part of a bigger work which will be my PhD thesis, and which deals with the beginning of the higher education in the accounting field in Transylvania, at Cluj-Napoca.

Dumitru Voina was among the first accounting professors from the Academy of High Commercial and Industrial Studies from Cluj-Napoca. If our hypothesis will turn out right the Academy from Cluj-Napoca can be considered the first form of higher education in Romanian language, in the accounting field from Transylvania.

Voina "was a man of works and deeds" who deserves to be the subject of an accounting history biography, exactly like others great accounting personalities from the international level, (Parker, 2002, p. 127). He had a great teaching and scientific activity and wrote numerous papers, books and courses, not only in Romanian language, but also in Hungarian and French.

He was also a pioneer in the accounting history from Romania because with his PhD thesis he structured the evolution of the accounting during the time. He contributed to the development of the accounting in Romania and possibly at an international level, because "accounting developments within academic or influenced by academics within a certain country or region are not confined to that particular geographical location but may spread to other countries or regions." (Carnegie & Williams, 2001, p.111)

The work of this professor and the work of all the professors from the Academy of High Commercial and Industrial Studies from Cluj, is more than appreciated as the political, economical and social context in which they needed to operate was very complicated. So, throughout his career, Dumitru Voina, has faced major historical moments that shook the Romanian history. In 1940, after Vienna Dictate an important part of Romania, including big part of Transylvania, with Cluj-Napoca, was given to the Hungary, so in only five days, all Romanian educational and cultural institutions needed to be moved to other Romanian towns.

The Academy of High Commercial and Industrial Studies from Cluj was moved to Brasov and functioned there between 1940 and 1948. This was a period when the professors and the students struggled a lot for reorganizing the Academy and its institutes. Not in the end, the professor witnessed the communist regime in Romania and continued to work also at the Institute of Economics and Planning from Brasov (the new name given to the Academy by the communist) till 1950 when the Institute was dissolved and the professor has retired.

The contribution of the professor in the accounting development of Romania cannot be underestimated because even his contemporaries were aware of the importance of his work. We could find in a report from the archives the remarks of the chief inspector in the area of Cluj from the Minister of Education, that "this professor has a high education level and he is very dedicated in his work, giving a great contribution to the development of the accounting education trough his papers" (National archives of the state, the fund of the Academy of High Commercial and Industrial Studies from Cluj, personal file 112, paper 4).

The paper is composed of four parts. The first part presents the methodology and the literature on which the article was based. The second part is devoted to professor's Voina background information; the next two parts are synthesizing his work. We finalize with some brief conclusions.

II. Research methodology and literature review

The biographical studies in international accounting history literature are not something new, but in the same time we couldn't find as many as we thought there will be. G.D. Carnegie and B. G.Williams (2001) in their study appreciated also that there is an interest for the first things in accounting but a less interest for the first important actors in accounting.

There is an American author Stephen A. Zeff, which was interested in the biographies of Americans and Australians accountants and accounting academics (Parker, 2002, p.127). He wrote multiple studies on accounting personalities including Hatfield, Solomons, Littleton.

The biographical studies made in the accounting history about the academic accountants are about the first professors (Carnegie & Williams, 2001; Clark, 2005) and the contribution of their work (Parker, 2005; Romeo & McKinney, 2008). Our study combines the two of them trying to bring important elements about professor Voina's biography and a brief analyses of his work.

We are interested in professors "who influenced their profession by both deeds and words" (Parker, 2002, p.127), this is why this is our second article after Farcas and Tiron-Tudor in 2011 about I.N. Evian, also from the Academy of High Commercial and Industrial Studies from Cluj-Napoca.

As we could have seen in the studies at the international level it is very important the relationship between the quality of the personality as an accountant and his academic work and that the professors were activating in an international community of scholars (Carnegie & Williams, 2001).

Our hypothesis is that Professor Dumitru Voina had an important contribution to the development of the accounting and accounting education in Romania, and that he contributed to the spread of international theories and practices in the accounting field in Romania.

The study of the archives was essential for proving our hypothesis. We have seen his personal file at the Romanian National Archives and extract his personal dates. The improvements and the new ideas that he brought into accounting field in Romania could be seen only by studying his works and comparing with his contemporaries. For this reason we have read his *General accounting* and we tried to extract his most important contributions.

III. Background information

Dumitru Voina was a Transylvanian; he was born in Braşov on 2nd October 1893. After he finished the primary and secondary education in Braşov, in 1908, he attended the classes of the

Superior Commercial School also from Braşov obtaining the certificate of maturity no. 392-1910-1911 from 15 June 1911 (National archives of the state, the fund of the Academy of High Commercial and Industrial Studies from Cluj, personal file 112, paper 4).

Voina studied at the Normal Superior Institute of Commerce attached to the University from Budapest, at the University from Zürich and at the University from Paris, during 4 years, between 1911-1914 and 1916-1917, 1917-1918. These interruptions of the studies were because of the First World War when everybody was enrolled into the army. So, for the first two years of study he attended the Normal Superior Institute of Commerce attached to the University from Budapest. For the third year of study, for the first semester, he attended the Faculty of Political Science and Economics in Zürich, and for the second semester he attended the University from Paris. The fourth year of study was divided into first semester during 1916-1917 and second semester during 1917-1918, both at the Normal Superior Institute of Commerce attached to the University from Budapest.

Given the new conditions in Romania after 1918 he finishes the studies abroad and returns in Transylvania, more exactly in Cluj-Napoca, which was now part of Romania. Here he will do his PhD at the Academy of High Commercial and Industrial Studies and obtains his PhD with a very good thesis: *Phases in the evolution of the accounting*, in 19th November 1932.

His teaching career started as a provisional teacher at the Commercial School for boys from Lipova on 1st October 1919, continuing in 1920 at the Commercial School from Târgu-Mureş. Afterwards, also in 1920 he becomes professor at the accounting department, the study of commerce and commercial correspondence from the Commercial School for boys from Cluj-Napoca, till 31st August 1936.

In September 1936 he becomes permanent professor at the Commercial High School *Marele Voievod Mihai* for boys from Cluj-Napoca and also adjunct assistant at the Department of General Accounting and Banking from the Academy of High Commercial and Industrial Studies from Cluj.

Dumitru Voina started his activity at the Academy of High Commercial and Industrial Studies from Cluj-Napoca in 1934 in the pedagogical practice seminar where he was teaching commercial sciences, till 1939. After being assistant for almost six year at the Academy, in 1942 he was named associate professor of the Academy for the general accounting department and banking accounting department.

Apart of being accounting professor at the Academy, he was also the head of the accounting department (1948-1949) at the Institute of Economics and Planning from Brasov (the new name of the Academy), the Adjunct rector of the Academy of High Commercial and Industrial Studies from Cluj – Brasov (1945-1947), the director of the student cafeteria (1942-1945), president of the censor committee of the Academy (1943-1945).

Dumitru Voina's teaching activity was completed by the administrative function that he had at the General Secretariat of Education and the Directorate General of Education from Cluj between 1920 and 1922. For ten years (1923-1933) he was also inspector for the commercial schools from the country at the Ministry of Education, what helped him to see the lacks from the commercial education from Romania and also give him the legitimacy of proposing reforms in this area of education.

His recognition as an important personality and professor can be also seen in the fact that he was part of important commissions that decided about the reorganization of the commercial teaching in Romania, in the commissions which examined the applicants to the degree of Chartered Accountant.

IV. Dumitru Voina's work in the accounting field

The contribution of this professor in the development of the accounting in Romania cannot be underestimated. He wrote over 40 papers, having also studies in foreign languages (French and

Hungarian) including articles, courses, books, manuals concerning the accounting and the commercial teaching in Romania. He was also preoccupied by economical and cultural issues and by the organization of the commercial education in Romania (see annex 1).

Dumitru Voina was influenced by the German school of Nicklisch and Schär. The two authors who developed the materialist theories with two series of accounts, and who tried to demonstrated the scientific character of accounting and the primacy of human resource related with computing (Horomnea, 2006).

His first important work in the accounting field was his PhD thesis, *Phases in the evolution of accounting*, 1932. This book made him a pioneer of accounting in Romania, because it is the first work of accounting history written in Romania in which he structured the periods in the accounting evolution during the time in an international context. In this book Voina also noted that the subject of accounting included elements provided by different types of organizations that are not included in economic functions. The result was that the object of accounting was not just for the private sector but also for public budgetary institutions as we mentioned in our paper Fărcaş and Tiron-Tudor, 2011.

All his works brought significant elements in the accounting education, but his *General accounting course*, wrote in three volumes (1937, 1938, 1944) was his masterpiece. The first two volumes were used as manuals in the commercial schools. The last volume is the most complex and it is extended to all accounting sectors. In this book he develops the legal-economic theory. According with Dumitru Voina's conception, the account is defined as "a means of calculation to determine the status of the initial and successive movements of an asset or liability" (D. Voina, 1947).

V. General Accounting

In his *General Accounting*, Voina reached all the areas of accounting and explains from the most basic things like the differences between the meaning of the term *exploitation*, the types of exploitations and also the differences between *exploitation* and *enterprises*, what assets and liabilities are, and going to complex accounting operations, the theories of the balance sheet and the theories of accounts.

Dumitru Voina was part of the first professors in Romania who founded and helped develop accounting in our country. At that time, even at an international level, accounting was not considered still an independent science and important researchers and writers were trying to demonstrate the scientific character of accounting, between them was also Voina.

In the first part of his work professor Voina stated for the explanations and definitions that in the end will proof that accounting is not only "an arithmetic" part of the science economy of the enterprise. Trying to evidence the difference between economy and accounting Voina gives the definition of social economy as being the study of the big "economic body" and the study of commercial enterprises being the study of the economic phenomena in an enterprise.

He is not approving that accounting was included in the study of economy enterprises and was considered only an "arithmetic addition of the science economy enterprises" (Voina, 1947, p. 16). He argues that the accounting is an independent science and discipline: "Existing stock movements impose throughout the intervention of accounting and constitute the very fabric that is subject to accounting processing…" (Voina, 1947, p. 14)

This professor it has underlined very well and with strong and logical arguments the fact that the accounting is not part of the science of economy enterprises and that is an independent science (Voina, 1947, p. 23). In the same time D. Voina criticizes the affirmation of his contemporary, professor Evian, that "the accounting is an art, a technique", and also the patrimonial theory, that the accounting is part of the juridical disciplines, or that the accounting is being part of the mathematics only because it has equality for the balance sheet formula.

Voina sustains the scientific character of the accounting and says that no theory remains forever, any theory at some point will not be relevant and will let the place for another. Accounting is a science because it "works for the knowledge and representation of value movements, with objective methods" (Voina, 1947, p. 21), it has theories and principles, not only evidences.

Going further Voina explains the differences between *accounting and accounting techniques,* so that *accounting* means principles, theories, rules and *accounting techniques* are "procedures for practical application of useful principles which governs the numerical expression of values" (Voina, 1947, p.18). In his vision accounting is searching to find the correct calculation of costs, for producing more with lower costs, trying to find the economic efficiency. This is why he speaks about accounts sector, costs calculation, compared calculation (statistics), preliminary calculation (budgetary).

Voina is trying to explain the important terms that were used in accounting so he said that the term **resources** means the capital (equity + foreign), the **assets** are not only the fortune of a company and not all that has its fortune and the **liabilities** are not composed only from capital, how some of his contemporaries were sustaining. He explains that for starting the accounting of an economic entity we begin with doing the inventory and after that forming the initial balance sheet. The modifications of the assets and liabilities were shown in a snapshot (*tablou sinoptic*), presented by the German R. Breuer.

In his approach to show that accounting is a science he presents the balance sheet theories and the theories of accounts. For the balance sheet there were Walter le Coutre's theories, which professor Voina exposed and explained that the role of these theories is to explain the scope of the balance sheet.

Like his colleague and contemporary, professor I.N. Evian, Voina considers to develop the subject of the theories of accounts in his book, because he says that these theories helps to the understanding of the accounting (Voina, 1947, p. 401). He exposes and comments the theories of accounts, the personalist theories and the materialist theories. He considers for the materialist theories with one series of accounts that the most evident is Berliner's theory and he says that the difficulty of this theory is the way of how the losses and the expenses are treated as parts of the fortune. He says that the fact that an expense is considered part of the fortune is fine but not when it comes to losses.

He goes one and presents the materialistic theory with two series of accounts, mentioning Hügli, Kurzbauer, Augspurg, Nicklisch and Schär. The theory of Hügli and Schär was developed in our country by Professor I.C. Panţu.

For the Romanian authors Voina, mentions Evian, Spiridon Iacobescu and Alexandru Sorescu. Evian was the one that tried to build a theory of accounts in Romania based on Nicklisch's theory. Evian's theory was more contested in those times and Voina was also one of the contestants, together with Iacobescu and Sorescu. He considers that Evian's accounts theory is making confusion between the active with the fortune and the liabilities with the capital. He accuses Evian that his explanations are not having a scientific fundament and that are base on fiction.

Conclusions

The brief presentation of professor's Voina scientific and academic activity can show that he really was an important actor in the development of accounting and accounting education in Romania. He wrote books and courses that were used in commercial schools.

In the end we can say that he actually was a man of "deeds and words" because he actively contributed to the reforms in the commercial education in his period. He had functions that can show that he was a capable and appreciated professional and professor. Also the remarks that were found in the archives are showing the fact that his work was appreciated.

The analyze needs to be extended also to his PhD thesis. For sustaining our hypothesis we will need to analyze others professor's works from those times for having a clear imagine of his contribution. With this article we are making an introduction in professor's Voina work.

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Annex 1

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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 enviroment,

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, Pomezeu, Rieni, Roşiori, Săcădat, Sălacea, Sânicolau Român,Sânmartin, Suplacu de Barcău, Şuncuiuş, Tărcaia, Toboliu, Ţeţchea, Uileacu de Beiuş, Vadu Crişului.	91	**32**	40.66
1.2. Secondary Officers Credits		-	-	
1.3. Terţiari 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 pubic 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 compatimentele 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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INTERNATIONAL RESEARCH REGARDING CREATIVE ACCOUNTING

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Although creative accounting practices are not at all recent, only since 2000 this phenomenon has been widely publicized because of the financial scandals that had erupted worldwide. Obviously, creative accounting practices came to be used with nonchalance at enterprise level, irrespective of their size or the industry within which they operate, fact that appears from different studies undertaken globally in recent years.Even though there are many studies based on the creative accounting phenomenon and on other subjects deriving from it, we considered both interesting and necessary an analysis of the articles that tackle different aspects concerning creative accounting, published after 1990 until now within the highest rated journals in the field of accounting.
The main objective of this study is to identify the main research areas in order to emphasize the main existent shortcomings and to outline possible solutions concerning future research directions in this field. Of course, from this main objective derive a few sub-objectives which we will try to achieve by means of the quantitative study.
The quantitative study is based on the analysis of researches performed in the filed of creative accounting and its aim is to observe their evolution within the concerned period of time, to analyze the main research directions approached, but also to study the predominant research current and the main type of research applied. Moreover, within this stage we have also analyzed the geographical areas on which the studies performed within the selected articles were based. The present study is far from being exhaustive, but it surely represents a starting point and an informative source for future research in the field of creative accounting.
We may conclude that most of the researches conducted within the creative accounting field fall within the main research current, which in our case is positivism. Concerning the type of research, we can observe that the vast majority of articles are of empirical nature, but many theoretical studies have also been published.

Keywords: creative accounting, corporate governance, true and fair view, creative accounting techniques, research current

JEL Classification: M40, G34

I. Introduction

Taking into account that we live in a world where almost everything can be sold and bought, where the resources decrease with every passing day while population needs are continuously increasing, we cannot live without accounting. 'The main objective of accounting regulations is to obtain a true and fair view upon the enterprise's financial position and its performances, so that the information to be sufficient, accurate and reliable for all users.' (Puşcaşu 2010: 327). Nonetheless, accounting, whose purpose is believed to be the representation of organizational reality, suffers from the ambiguity of its condition, and therefore the users of accounting information are often deceived by the performance of managers or directors. Everything is based on the 'skill and imagination of the operator' that uses the knowledge and experience in the field combined with an optimal dose of ingenuity, but also the gaps within legislation in order to make certain arrangements resulting in profit maximization or earnings per share maximization, in

order to improve the company's image and liquidity, or simply to reduce costs or debt ratio. All these accounting tricks are just some of the techniques used by accounting professionals and even managers, often in collaboration with auditors, to create the desired image of the company. In this case we speak of *creative accounting* practices, a phenomenon that has developed with predilection after the 80s, leading to real conflicts between the legal and economic substance of accounting. Considering that since the late nineteenth century we have been both witnesses and actors in a process of business globalization, we have witnessed various changes and rapid developments in most activity branches, which had significant implications and influences on economic and financial spheres, this context leading to the urgent need of continuous information. Despite the fact that companies have multiple sources of information at hand, accounting information is, however, the most important source of information concerning accounting activity, which is used by both managers and directors, and other categories of stakeholders such as investors and creditors.

We consider that certain aspects of the creative accounting sphere are current issues for the Romanian economy, especially when the creative accounting practices can have a negative effect on companies' long-term performance and may mislead some categories of stakeholders such as investors, creditors or shareholders, whose decisions rely on an accurate information concerning the financial and accounting statements.

II. Research methodology

In order to carry out the proposed literature review and also to achieve the objectives set out above, we went over a number of five stages which will be briefly described below.

The first stage consisted of selecting the journals which represented the searching base of the most relevant articles concerning the topic covered by the study performed. As a result of this analysis we selected 14 international accounting journals, 9 of which are ISI indexed journals. *The second stage* consisted of selecting the articles published during 1990-2010 within the journals chosen for the study. The search was performed according to the following keyword 'creative accounting'. *The third stage* consisted of the actual selection of the articles relevant for the study, eliminating from our database the articles that refer to other aspects concerning accounting and those that fell outside the previously established period of time (1990-2010). The next step in this stage was represented by a brief analysis of the sample of selected articles, which after this stage was reduced to 57, from which 35 (61.4%) were published in ISI indexed journals.

Table 1. Journals selected and the articles corresponding to each publication

No. Crt.	The name of the international journal included in the study	No. of articles
1.	Critical Perspectives on Accounting (CPA)	14
2.	Abacus – A Journal of Accounting Finance and Business Studies (ABA)[ISI]	12
3.	Journal of Business Finance & Accounting (JBFA) [ISI]	10
4.	International Journal of Accounting (IJA)	6
5.	Accounting, Organizations and Society (AOS)[ISI]	5
6.	European Accounting Review (EAR)[ISI]	5
7.	Journal of Accounting and Public Policy (JAPP)[ISI]	2
8.	Journal of International Accounting, Auditing and Taxation (JIAAT)	2
9.	Management Accounting Research (MAR)[ISI]	1
10.	Journal of International Financial Management & Accounting (JIMFA)	0
11.	Journal of Accounting Research (JAR)[ISI]	0
12.	Accounting and Finance (AF)[ISI]	0

13.	Journal of Accounting anf Economics (JAE)[ISI]	0
14.	Accounting Forum (AFo)	0
	TOTAL	**57**
	From which ISI indexed journals	**35**

Source: Made by the author

Stage four consists of a detailed analysis of the 57 articles selected from the above mentioned publications, the aim being to identify the main lines of research they cover. Therefore, we made a classification of 10 research topics which will be presented below. Thus, we followed the main issue covered within each article, some of which can be included in several of the 10 research topics. Moreover, an important step in this stage was to determine the research current of each article, the type of research used, but also the geographical area on which the study focuses. Regarding the *main topic covered*, we identified the following research directions: true and fair view, financial reporting, corporate governance, creative accounting techniques, consistency or inconsistency of accounting standards, ethical behavior within companies, financial scandals: prevention measures and control solutions, information asymmetry: managers versus stakeholders, audit independence, reform of accounting. Concerning the *research current* we identified: the main research current (positivist) and the alternative research current (critic or interpretative). Finally, the *geographical area* is an aspect we have pursued within our analysis, which helped us identify the following main areas the studies focused on Australia and New Zeeland, Great Britain, United States of America, Canada, Asia and Europe (except Great Britain). *The fifth stage* is closely related to the previous stages, also within this stage we interpreted results obtained, drawing, thus, some conclusions concerning the aspects observed during the study, but also the objectives we proposed to achieve.

III. Results and discussions

3.1. The development of international research concerning creative accounting

Within this quantitative analysis, the first feature that we focused on was the article's *year of publication*, a relevant issue in determining the development of international research concerning creative accounting during the analyzed period (1990-2010). After analyzing the articles from the 14 international journals, we have noticed that the number of articles did not vary significantly from one year to another, but there is the situation in which in some years one has not published any relevant articles on the theme concerned (1990 and 1997). We noticed that the largest number of articles is published in 2006 (6 items), and at the opposite pole is, of course, the year 1997, when no articles have been published. It is worth mentioning that the researchers' interest for this subject related to creative accounting increased after 2000, when the largest financial scandals burst, scandals which were based including on creative accounting practices. Thus, before 2000, 18 articles have been published (31.5%), and from 2000, including, 39 articles have been published (68.5%).
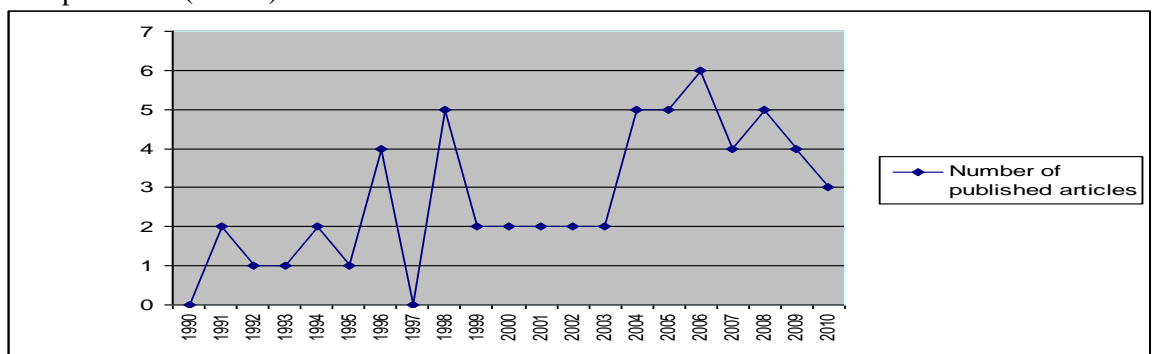
Figure 1. The development of international research concerning creative accounting

3.2. The main research directions in the field of creative accounting

The second feature that we considered important in conducting this study is the **main topic** covered by the articles from the selected sample. There were 10 main themes which will be briefly described, mentioning the number of articles that belong to each theme, emphasizing, at the same time, the degree of importance that researchers have granted to these issues. After analyzing the 57 articles from the sample selected, we identified 10 research areas: **t**rue and fair view, financial reporting, corporate governance, creative accounting techniques, consistency or inconsistency of accounting standards, ethical behavior within companies, financial scandals: prevention measures and control solutions, information asymmetry: managers versus stakeholders, audit independence, reform of accounting. In what follows, we will reflect the distribution system of the articles from the analyzed sample according to the research themes they approached concerning the creative accounting phenomenon.
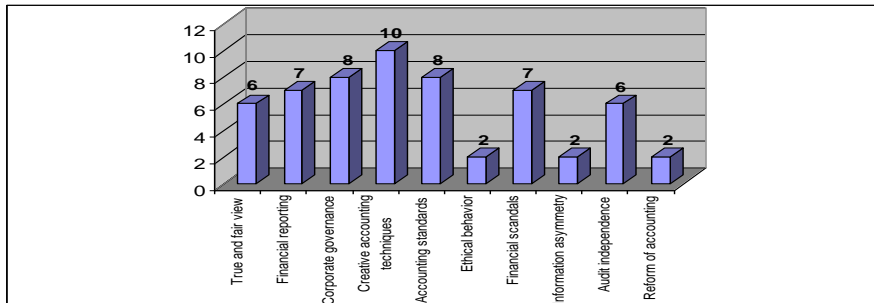
Figure 2.: Article distribution according to the research themes concerning creative accounting

Source: Made by the author

By making an analysis based on the above figure we can notice a high interest of the researchers for the *creative accounting techniques*, this theme being covered by 10 (17.55%) of the articles in the sample. Aspects related to the *consistency and inconsistency of the accounting standards* and to *corporate governance* were also dealt in a large number of articles, on each of these two themes identifying 8 (14.03%) relevant articles for the concerned period. Topics related to *financial reporting* and *financial scandals* were analyzed within 7 (12.28%) articles each. Further, *true and fair view* and *audit independence* were covered by a number of 6 (10.52%) articles each. The chart also reveals a lower interest manifested by the researchers for the topics related to *ethical behavior within companies*, *information asymmetry between managers and stakeholders* and also for *accounting reform*, each one of these themes being found in 2 articles (3.5%) of the analyzed sample. Overall, one can notice a relatively balanced concern for all research themes since there is no great difference between the number of items corresponding to each line of research.

3.3. The dominant research current

Before discussing the research currents within which the analyzed articles fall into, we must point out that, over time, researches conducted in the field of accounting were recorded in different research currents, starting with the *normative* current, and subsequently focusing on the *positivist* current. If we refer to the main research current, it is noticeable the shift from the normative current – which does not involve hypothesis testing and it relies primarily on reasoning and promotes subjective thinking – to the positivist current which appeared, in fact, as a response to the criticism brought to the normative current, and it focuses on the experimental testing of theories and the exposure of accounting practices through empirical approaches. As a result of the dissatisfaction with the limits of the positivist current, one registered an increased focus on alternative currents, such as *interpretative* and *critical*. More than 90% of the analyzed articles

fall within the positivist current, while the articles that fall within the alternative currents are clearly less with a share of only 7.6%.
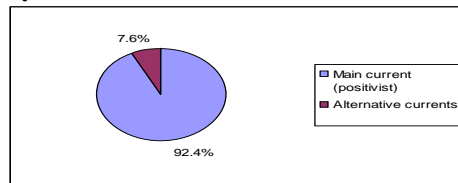
Figure 3.: Article structure according to the dominant research current
Source: Made by the author

3.4. Type of research

In order to obtain a more complete quantitative study, we considered necessary to analyze the type of research concerning creative accounting used at international level. Firstly, it is important to delimit the two great directions within which the researches in the accounting field fall into, namely: researches of *theoretical* and *empirical* nature. According to this classification we divided the articles into two categories: 68.42% of the articles are of empirical nature, while 31.58% are of theoretical nature. We can notice here the same shift of supremacy, from a theoretical approach to an empirical approach, respectively from a qualitative to a quantitative research. These results are justified considering that before 2000 (when the burst of the financial scandals brought the creative accounting practices to the researchers' attention) the researches were predominantly theoretical. Thus, after the year 2002 (the collapse of Enron), researchers have focused on testing previously formulated hypotheses, relying more on implementing specific methods and techniques for data collecting and processing.
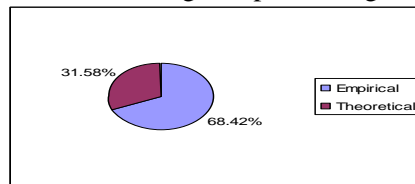
Figure 4.: Article structure according to the type of research used
Source: Made by the author

3.5. The analyzed geographical area

Taking into account that more than 60% of the analyzed articles rely on empirical research, we considered relevant to examine the geographical areas on which they focus; therefore, we chose Australia and New Zeeland, the United States of America, Great Britain, Europe (except Great Britain), Canada and Asia as the representative geographical areas of the current study.
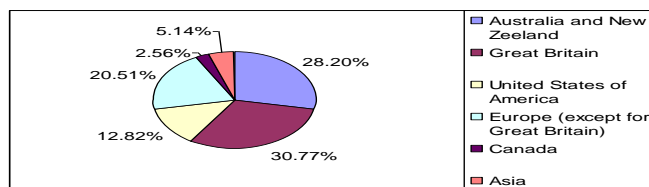
Figure 5.: Article structure according to the geographical area
Source: Made by the author

As reflected in the figure above, most empirical studies analyze the creative accounting practices from Great Britain (12 articles – 30.77%), followed closely by those from the Australian territory (11 articles – 28.2%), Europe (8 articles – 20.51%), United States (5 articles – 12.82%), Asia (2 articles – 5.14%) and Canada (1 article – 2.56%).

IV. Conclusions

We may conclude that most of the researches conducted within the creative accounting field fall within the main research current, which in our case is positivism. Concerning the type of research, we can observe that the vast majority of articles are of empirical nature, but many theoretical studies have also been published. After analyzing the articles according to the geographical area, we found that most empirical studies focused on Great Britain (or a parallel between Great Britain and the United States), Australia or Europe (except Great Britain). Our analysis revealed that the United States are occupying only the fourth rank, but, in our opinion, this did not happen because there were not enough studies focusing on this geographical area, but because the selection of the articles was made according to the keyword *creative accounting*, which is a term used mainly in Europe and Australia, while the term mostly used in the US is *earnings management*.

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SOME APECTS REGARDING THE CONSOLIDATED FINANCIAL STATEMENTS

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The study is divided into four parts: in the introduction are presented the theoretical aspects of the consolidated financial statements and the consolidation methods. During the second part are shown the structure rates calculated prior and after the consolidation, and in the third are calculated the financial rates of return and the effective tax rates of fixed assets. The conclusion of this study presents that although the consolidated entity is not a tax, it presents the group effort without the internal flows between entities within the group.
In terms of the world scientific research typology used by the authors, it refers to descriptive research, explanatory research and applied research.
In terms of the novelties, brought by this study, it is specifically determined, based on the actual database, the evolution of structure indicators, indicators of balance, the financial profitability indicators of corporate companies prior to and after consolidation.
Key words: Consolidation, financial statements, rates structure, working capital, Return on equity.

1. Introduction

International Accounting Standard Board in paragraph 6 of the Framework for the preparation and presentation of financial statements reads: "The framework refers to general purpose financial statements, including consolidated financial statements."

Standards governing the consolidated financial statements are: IAS 27 "Consolidated and Separate Financial Statements", IAS 28 "Investments in Associates", IAS 31 "Interests in Joint Ventures" and IFRS 3 "Business Combinations".

In terms of performance the need to prepare the financial statements is given by "the opportunity to evaluate better the management performance of parent company because in the case of the consolidated accounts, the group's total earnings could be compared with its total assets, thus being estimated the return on capital employed by the group over the period". Also the consolidated financial statements avoid the increase of turnover by intra-group sales and thus determine actual profit at the level of parent company.

The basis for preparing consolidated financial statements is the individual financial statements of Group companies where will take place reclassifications, homogenization and restatements of financial statements subjected to the group.

The Consolidation itself is made by one of the three well established methods: global integration, proportional integration and equivalent commissioning.

As follows:

"-Global integration, where the control of the group on the consolidation company is exclusive;

- Proportional Integration, when control of a company included in scope of consolidation is shared with other shareholders / associates outside the group;

- The equivalence, if and only if there is a significant influence from the part of the group over the company to be consolidated".

Because in the case study which we present, the consolidation has been made through the global integration method, we herein point out the stages to be followed:

"-The accrual of the balance sheet and the receivable and payable accounts of the subsidiary with those of the parent company;

- Elimination of mutual transactions and internal results;
-Elimination of the shares held by the parent company in the subsidiary's equity, operation which determines the separation of its equity into the share for shareholders / minority shareholders and the share for the group, found in the form of consolidated reserves and consolidated result;
- Preparing and presenting consolidated financial statements".

2. Calculation of structure indicators
In the study presented below we used real data from a company, the consolidation being performed by a specialized company.

Table 1: Balance sheet structure after consolidation

Indicator	N	N+1
Fixed assets	81,113,507	75,843,914
Current assets	96,985,468	111,889,181
Advance payments	0	0
Total assets	178,098,975	187,733,095
Home Equity	46,703,390	82,457,692
Current liabilities	68,990,595	55,638,727
Long-term liabilities	57,247,355	45,459,658
Revenue	5,157,635	4,177,018
Total liabilities	178,098,975	187,733,095

Source: processing by author

2.1. Rates of the asset balance sheet structure
Table 2: Calculation of the structure of balance sheet assets prior to consolidation

Indicator	Parent company		Beta company		Gamma company	
	Year N	Year N+1	Year N	Year N+1	Year N	Year N+1
1. The rate of fixed assets $\left(\dfrac{Active\ imobilizate}{Total\ activ} \times 100\right)$	42.17	34.77	25.70	35.21	71.85	60.54
2. Rate of current assets $\left(\dfrac{Active\ circulante}{Total\ activ} \times 100\right)$	57.83	65.23	74.30	64.79	28.15	39.46
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: processing by author

Table 3: Calculation of structure rates of balance sheet assets following consolidation

Indicator	N	N+1
1. The rate of fixed assets	45.54	40.40
2. Rate of current assets	54.46	59.60
TOTAL	100.0	100.0

Source: processing by author
Following the consolidation during the period N+1, the rate of fixed assets decreased compared to N period to the detriment of current assets.

2.2. Rates of liabilities prior to consolidation
Table 4: Calculation of structure rates of liabilities prior to consolidation

Indicator	Parent company		Beta company		Gamma company	
	Year N	Year N+1	Year N	Year N+1	Year N	Year N+1
1. Overall borrowing rate $\left(\dfrac{Datorii\ totale}{Total\ Pasiv}\times 100\right)$	68.38	51.11	74.34	76.67	129.16	125.19
2. Current debt rate $\left(\dfrac{Datorii\ curente}{Total\ pasiv}\times 100\right)$	3262	23.19	74.34	76.67	93.42	119.43
Term debt rate $\left(\dfrac{Datorii\ pe\ termen\ lung}{Capital\ permanent}\times 100\right)$	53.07	36.34	0	0	542.95	-29.68
Rate of global financial autonomy $\left(\dfrac{Capital\ propriu}{Total\ pasiv}\times 100\right)$	31.62	48.89	25.66	23.33	-29.16	-25.19
Rate of term financial autonomy $\left(\dfrac{Capital\ propriu}{Capital\ permanent}\times 100\right)$	46.93	63.66	100.0	100.0	-442.95	129.68
Rate of financial stability $\left(\dfrac{Capitaluri\ permanente}{Total\ pasiv}\times 100\right)$	67.38	76.81	25.66	23.33	6.58	-19.43

Source: processing by author

Table 5: Calculation of structure rates of liabilities following consolidation

Indicators	N	N+1
1 Overall borrowing rate	73.78	56.08
1.1. Current debt rate	38.74	29.64
1.2. Term debt rate	57.20	37.58
2.1. Rate of financial autonomy	26.22	43.92
2.2. Rate of term financial autonomy	42.80	62.42
3 Rate of financial stability	61.26	70.36

Source: processing by author

In terms of liabilities the rates following the consolidation dropped during N+1 to: global borrowing rate, the rate of current debt, term debt rate at the expense of the financial autonomy, financial autonomy term rate and the rate of financial return which saw increases.

2.3. Balance indicators: Working capital and net assets
Table 6: Balance indicators: Working capital and net assets prior to consolidation

Indicators	N			N+1		
	Parent Company	Beta Company	Gamma Company	Parent Company	Beta Company	Gamma Company
Permanent capital	105,671,213	2,352,945	1,164,423	133,495,768	2,458,169	-3,779,368
Fixed assets	66,128,734	2,356,454	12,708,533	60,436,835	3,710,215	11,777,064
Net working	39,542,479	-3,509	-11,544,110	73,058,933	-1,252,046	-15,556,432

capital						
Current assets	90,688,497	6,814,345	4,979,297	113,371,309	6,826,304	7,676,097
Current liabilities	51,146,018	6,817,854	16,523,407	40,312,376	8,078,350	23,232,529
Net working capital	39,542,479	-3,509	- 11,544,110	73,058,933	- 1,252,046	15,556,432

Source: processing by author

Table 7: Balance indicators: Working capital and net assets following consolidation

Indicators	N	N+1
Permanent capital	109,108,380	132,094,368
Fixed assets	81,113,507	75,843,914
Net working capital	27,994,873	56,250,454
Current assets	96,985,468	111,889,181
Current liabilities	68,990,595	55,638,727
Net working capital	27,994,873	56,250,454

Source: processing by author

Working capital in year N +1 following consolidation has doubled compared to the N.

Table 8: Net situation prior to consolidation

Indicators	N			N+1		
	Parent Company	Beta Company	Gamma Company	Parent Company	Beta Company	Gamma Company
Total Assets	156,817,231	9,170,799	17,687,830	173,808,144	10,536,519	19,453,161
Liabilities	107,228,766	6,817,854	22,845,649	88,827,343	8,078,350	24,354,238
Net situation (financial position)	49,588,465	2,352,945	-5,157,819	849,808,801	2,458,169	4,901,077
Equity	49,588,465	2,352,945	-5,157,819	849,808,801	2,458,169	-4,901,077

Source: processing by author

Table 9: Net situation following consolidation

Indicators	N	N+1
Total Assets	178,098,975	187,733,095
Liabilities	131,395,585	105,275,403
Net situation (financial position)	46,703,390	82,457,692

Source: processing by author

Net situation following consolidation (financial position has almost doubled in year N +1 compared to the base period)

Table 10: Receivable and Payable Accounts following consolidation

Indicators	N	N+1
Net turnover	366,107,501	363,695,408
Operating revenues	385,914,586	404,557,070
Operating expenses	347,155,675	363,759,384
Profit/ Operating loss	38,758,911	40,797,686
Revenue	4,806,625	4,456,583
Financial Expenses	13,260,372	9,108,971
Profit/Current loss	-8,453,747	-4,652,388
Extraordinary income	0	0
Extraordinary expenses	0	0
Profit/ Loss from extraordinary activity	0	0
Total revenues	390,721,211	409,013,653
Total expenses	360,416,047	372,868,355
Profit/Gross loss	30,305,164	36,145,298
Other taxes not included above	766,346	910,205
Tax profit	24,979,246	2,655,356
Profit/ Net loss	27,041,572	32,579,737
Profit or Loss for the fiscal year related to entities	477,767	-2,022859
Profit or Loss for the fiscal year related to parent company	27,593,378	35,582,812
Profit or Loss for the fiscal year related to interest	-1,031,573	-980,216

Source: processing by author

Net profit increased following consolidation during the period N +1 compared to N with 20.48%. From the above data results that the consolidated profit is determined by the relationship: profit or loss for the financial year related to the parent company plus the profit or loss for the financial year related to integrated entity plus the profit or loss for the financial year related to minority interests. Thus, we have for year N: 27,593.378 + 479,767 – 1,031,573 = 27,041,572 and for N+1: 35,582,812 – 980,216 – 2,022,859 = 32,579,737 that is, in both cases the consolidated net profit is smaller than that of the parent company for both the previous and current year.
We will determine, in this situation, the indicators of financial performance as follows:

3. Financial Rates of Return

Table 11: Financial Rates of Return

Indicators	N	N+1
	Parent Company	Parent Company
Financial return after consolidation $Rf = \dfrac{\text{Profit net}}{\text{Capitaluri proprii}} \times 100$	$\dfrac{27.041.572}{46.703.390} \times 100$ $= 57{,}90\%$	$\dfrac{32.579.737}{82.457.692} \times 100$ $= 39{,}51\%$
Return on fixed assets after consolidation $Rai =$ $\dfrac{\text{Profit net}}{\text{Active imobilizate totale}} \times 100$	$\dfrac{27.041.572}{81.113.501} \times 100$ $= 33{,}34\%$	$\dfrac{35.582.812}{75.843.914} \times 100$ $= 46{,}92\%$

Source: processing by author

Financial return after consolidation during the period N+1 was lower against the same period N due to the increase of equity compared to the base period. Return on fixed assets after consolidation increased during the period N+1 compared to period N due to a decrease of fixed assets value during the period N+1 compared to period N.

4. Conclusions
From the above we conclude that although the consolidated financial statements are not an entity tax they are mandatory and useful for certain category of companies by eliminating internal flows at the group level.

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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 this indicators are not correlated with indicators stipulated in international guidelines.

- d3. Financial indicators (environmental investment, costs, provisions). Suck indicators reflects in monetary terms companies attitude regarding the environmental. The values can be "0" if company does not report this information or "1" if company report 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 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:

$$EnvRep\_DI = \frac{\sum_{i=1}^{n} di}{m},$$ n – numer of element disclosed , m - numer of

posible elements to disclose, di – group of elements disclosed.

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.

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 foreign 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:

$F(EnvRep) = a0 + a1* Family\_INV + a2* Instit\_INV + a3* Privat\_INV + a4* Foreign\_INV + a5* Manag\_INV + a6 * Board\_INV$, where: a0 – constant, EnvRep – environmental reporting, a1, a2, a3, a4, a5, a6 – 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. F Change	
2	.553[b]	.306	.283	.22009	.046	4.047	1	61	.049	1.848

b. Predictors: The procentage of privat investors, The procentage 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 procentage of privat investors, The procentage of foreign investor

Table 3. Model coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			
		B	Std. Error	Beta	t	Sig.	VIF
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 rezults we can notice that the procentage of privat investors and the procentage 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 corelation between the procentage of private investors and environmental reporting (the model coefficient is negative) so companies in which the procentage of shares held by state is higher report more environmental informations that companies with are controled by private shareholders.

Foreign investors are positivily corelated 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
VESY	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 that 10%"; 1.00 = "between 10% and 50%"; 2.00 = "higher than 50%"

ENVIRONMENTAL REPORTING AND CORPORATE GOVERANANCE FOR FTSE 100 LISTED COMPANIES

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Because environmental information 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. Within this study, I have focused on internal characteristics, consisting mainly in how the entity is managed, in order to identify the existence of certain associations between the characteristics of corporate governance and the existence of environmental reporting. The literature in the field suggests various results related to the correspondence between corporate governance characteristics and environmental reporting. Within the factors suggested by the literature are the board structure, presence of the board committee, the separation between the Chairman of the Board and the Chief Executive Officer, shareholder structure. The paper represent an empirical analyze on how corporate governance characteristics might explain the level of environmental reporting. I suggest a model comprising corporate governance characteristics like: board independence, board size, existence of a Social Responsibility Committee that could explain environmental reporting. The sample comprises 48 companies listed at London Stock Exchange FTSE 100. From FTSE 100 I select only the companies that activates in sectors of activity that may have an impact on the environment such as Aerospace & Defence, Automobiles & Parts, Beverages, Chemicals, Electricity, Food & Drug Retailers, Food Producers, Gas, Water & Multiutilities, General Industrials, Health Care Equipment & Services, Household Goods, Industrial Engineering, Mining, Oil & Gas Producers, Oil Equipment, Services & Distribution, Personal Goods, Pharmaceuticals & Biotechnology, Tobacco. My results show that, from the point of view of the London Stock Exchange FTSE 100 listed companies, the presence of an environmental committee in the board help reduce the conflict of interests between the stakeholders and the company's management regarding the disclosure of environmental information. The environmental committee monitors the company's activity regarding the impact on the environmental, bringing about increasing transparency, and independence inside the board regarding environmental aspects. For assuring a high transparency level of environmental performance within a company, the board should ensure a sufficiently large number of members able to exercise an independent reasoning in order to solve potential conflict of interest. The directors represent the interests of the stakeholders and have more influence on reporting information regarding environmental aspects.
Keywords: Corporate Governance, Environmental Reporting, Empirical Analyses, Companies, FTSE 100
Jell Classification: M49

Introduction

During the last decade, the demand for environmental information reporting has increased dramatically within the stock listed companies (Beretta and Bozzolan, 2004). External users require relevant and credible information regarding the environmental performance of the entities (Di Piazza and Eccles, 2002). Because environmental information 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. A large number of studies can be observed in time focused on analyzing the time and space variation of the environmental reporting, emphasizing the factors which are determinant for environmental reporting (Cormier et al, 2005; Frost, 2007; Taylor and Shan, 2007; Sumiani et al, 2007). In the study conducted by Lee and Hutchinson in 2005 (Lee and Hutchinso, 2005: 86) the authors offer a current status of factors that can influence the decision to report environmental information: external factors (laws and regulations, entity's legitimacy, public pressure, public exposure), internal factors (charecteristics, cost/benefit ratio), individual factors (culture, attitude)

Within this study, I have focused on certain factors related to the entity, such as internal characteristics, consisting mainly in how the entity is managed, in order to identify the existence of certain associations between the characteristics of corporate governance and the existence of environmental reporting. Among the characteristics of corporate governance we could mention the board structure and composition, the existence of environmental committees.

Working hypothesis and Analysis of the Literature
I develop the following theoretical frameworks:

H1: The level of environmental reporting is positively influenced by the percentage of independent non-executive managers within the board of directors. The OECD principles and the majority of corporate governance codes respectively suggest the existence of both executive and non-executive managers within the board, the role thereof being the monitoring or management decisions.

The executive managers are employees of the company with a direct role in its management, while the non-executive managers do not participate directly in managing the company, having an objective and independent monitoring role on how the company is managed.

From the perspective of agency theory (Solomon, 2007: 82) the presence of independent non-executive managers in the board (board of directors) should help reduce the conflict of interests existing between the shareholders and the company's management, because their role is to independently monitor the company's activity, bringing about increasing objectivity, independence inside the board, thus leading to the minimization of agency costs. According to the OECD principles (OECD Principles, part VI) the board should be capable to objectively and independently analyze the economic operations exercised by the company. For this purpose, the board should ensure a sufficiently large number of independent members able to exercise an independent reasoning in order to solve potential conflict of interest. As independent managers should represent the interests of interested parties it is to be expected that they have more influence on reporting the environmental performance related information (Haniffa and Cooke, 2002).

Nevertheless, the specialized literature also introduces a negative perspective related to the existence of independent non-executive managers: in the event of a large board, the non-executive managers represent a powerless unjustifiable element within the structure. The supporters of this theory believe that the market wherein the company operates, has the capacity to determine a company's management to function properly, thus supporting the shareholders' interests (Solomon, 2007).

Studies suggest various results related to the correspondence between the number or percentage of independent non-executive managers and the level of voluntary reporting. Therefore, Akhtaruddin et al. (2009), Donnelly and Mulcahy (2008), Huafang and Jianguo (2007), Kelton and Yang (2008), Chen and Jaggi (2000), Bujaki and McConomy (2002) are all studies reflecting the existence of a positive correlation between the number of independent non-executive managers and the level of reporting, on the basis of empirical approaches, while Barako et al. (2006) reflects a negative association between the level of voluntary reporting and the ratio of non-executive managers.

I thus expect that a larger number or ratio of independent non-executive managers within the board would determine an increasing level of environmental reporting.

H2: The level of environmental reporting is influenced by the board size. Specialized literature believes that board size determines the efficiency and efficacy thereof (Xie et. al., 2001) because a larger board attracts more experienced individuals. A more efficient board incurs a more

efficient reporting system, and a more increased level of voluntary reporting at the same time, environmental reporting included.

Nevertheless, there are studies having proven statistically that there is no relation between the board size and the level of voluntary reporting: Halme and Huse (1997), Cheng and Courtenay (2004). I believe the level of environmental reporting might be correlated with the board size.

H3: The level of environmental reporting is influenced by the existence of a safety and social responsibility committee. The existence of such a committee would lead to an increasing importance given to these particular aspects of governing system, and as a result, an increase in the information related social and environmental performance within the company.

Research Methodology

Hence, the present paper is a fundamental, applicative research leading to the proposal of a model to be tested within 48 companies listed at London Stock Exchange FTSE 100. From FTSE 100 I select only the companies that activates in sectors of activity that may have an impact on the environment such as Aerospace & Defence, Automobiles & Parts, Beverages, Chemicals, Electricity, Food & Drug Retailers, Food Producers, Gas, Water & Multiutilities, General Industrials, Health Care Equipment & Services, Household Goods, Industrial Engineering, Mining, Oil & Gas Producers, Oil Equipment, Services & Distribution, Personal Goods, Pharmaceuticals & Biotechnology, Tobacco.

The dependent variable of the study is the Environmental Reporting Index 2010 (EnvRep) which was calculated using 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 doen'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 this indicators are not correlated with indicators stipulated in international guidelines.
− d3. Financial indicators (environmental investment, costs, provisions). Suck indicators reflects in monetary terms companies attitude regarding the environmental. The values can be "0" if company does not report this information or "1" if company report 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 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: $EnvRep\_DI = \dfrac{\sum_{i=1}^{n} di}{m}$,

n – number of element disclosed, n=3
m - number of possible elements to disclose, m=3
di – group of elements disclosed

I analyzed the following independent variables that reflect the corporate governance characteristics:

- **board_no** - The size of the Board of Directors (Total number of board members);
- **env_committee** - The existence of a Environmental/Safety/Responsibility Committee (We have marked with 1 the existence of such a committee and with 0 in case it doesn't exist);
- **indep_no** - The Percentage of the Independent Nonexecutive Directors on the Board (Number of independent non-executive managers within the board divided by the total number of the board members).

Analyses and results

For determining if three can be possible correlations between the dependent variable (Environmental Reporting) and dependent variables (board_indep, board_no, env_committee) we apply the following regression model: $F(EnvRep) = a0 + a1*board\_no + a2*env\_committee + a3*board\_indep$, where: a0 – constant, EnvRep – level of environmental reporting, a1, a2, a3 – equation coefficients, board_no - Board size, env_committee – existence of a Social Responsibility Committee, board_indep – percentage of the independent nonexecutive directors in the board of directors.

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 FTSE 100 listed companies. The results are presented in tables above.

Table 1. Environmental reporting model summary

Model	R	R Square	Adjuste d R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
2	.712[b]	.507	.485	.10364	.046	4.173	1	45	.047	2.765

b. Predictors: env_committee, board_no

Table 2. ANOVA test

Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	.497	2	.248	23.123	.000[b]
	Residual	.483	45	.011		
	Total	.980	47			

b. Predictors: env_committee, board_no

Table 3. Coefficients of the model

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Toleranc e	VIF
2	(Constant)	.652	.070		9.270	.000		

Env_committe e	.187	.032		.627	5.820	.000	.944	1.059
Board_no	.013	.006		.220	2.043	.047	.944	1.059

Analysing the rezults we can notice that the existence of environmental committee and the number of the board members are the only two independent variables that explains environmental reporting variation. The model explains 54,6% from the environmental reporting variation (Sig. Coefficient is lower than 0.01, Anova test reflects F Coefficient of 27.037 and Durbin-Watson Coefficient is 2.731).

We can see that the existence of an environmental, safety of responsibility committee on the board determine companies from FTSE 100 to disclose more environmental information. Also the size of the board is another corporate governance variable that could explain environmental reporting.

Conclusions and future research

From the point of view of the London Stock Exchange FTSE 100 listed companies the presence of an environmental committee in the board help reduce the conflict of interests between the stakeholders and the company's management regarding the disclosure of environmental information. The environmental committee monitors the company's activity regarding the impact on the environmental, bringing about increasing transparency, and independence inside the board regarding environmental aspects. For assuring a high transparency level of environmental performance within a company, the board should ensure a sufficiently large number of members able to exercise an independent reasoning in order to solve potential conflict of interest. The directors represent the interests of the stakeholders and have more influence on reporting information regarding environmental aspects.

So we can consider that implementing good corporate governance practices by establishment of environmental, safety or responsibility committee that monitor the environmental impact within the company and introducing a sufficient numbers of directors can assure transparency and objectivity can solve the agency's theory conflict and determine companies to report more voluntary information regarding environmental performance and other aspect. Our theory regarding good corporate governance assure environmental performance and good environmental reporting is can be partially validated for this sample and will be tested for other samples, like S&P 500 companies and others.

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Appendix 1. Table of variables

Company	EnvRep	board_no	indep_no	env_committee
BAE SYSTEMS	0,67	9	0,56	0
ROLLS ROYCE GROUP	1	8	0,5	1
GKN	1	9	0,5	1
DIAGEO	0,67	8	0,5	0
SABMILLER	1	11	0,64	1
JOHNSON MATTHEY	1	12	0,69	1
INTERNATIONAL POWER	1	14	0,69	1
SCOTTISH & SOUTHERN ENERGY	1	11	0,83	1
MORRISON(WM.)SUPERMARKETS	1	15	0,69	1
SAINSBURY(J)	1	12	0,64	1
TESCO	0,67	8	0,63	0
ASSOCIATED BRITISH FOODS	1	12	0,56	0
UNILEVER	1	12	0,5	1
CENTRICA PLC	1	10	0,73	0
NATIONAL GRID	0,67	7	0,57	1
SEVERN TRENT	1	14	0,5	0
UNITED UTILITIES GROUP PLC	1	10	0,5	1
REXAM	0,67	10	0,45	0
SMITHS GROUP	1	14	0,73	1
SMITH & NEPHEW	0,67	9	0,45	0
RECKITT BENCKISER GROUP PLC	1	11	0,67	0
IMI	1	11	0,42	1
WEIR GROUP	1	12	0,58	1
AFRICAN BARRICK GOLD PLC	1	9	0,5	1
ANTOFAGASTA	1	11	0,55	1
BHP BILLITON	1	9	0,5	1
EURASIAN NATURAL RESOURCES CORP	1	13	0,58	1
FRESNILLO PLC	0,67	11	0,44	0
KAZAKHMYS	1	8	0,5	0
LONMIN	1	11	0,6	1
RANDGOLD RESOURCES	0,67	8	0,63	0
RIO TINTO	1	14	0,58	1
VEDANTA RESOURCES	1	15	0,57	1
XSTRATA PLC	1	13	0,69	1
BG GROUP	1	17	0,53	1
BP	1	12	0,58	1
CAIRN ENERGY PLC	1	11	0,55	1
ESSAR ENERGY PLC	1	11	0,45	1
ROYAL DUTCH SHELL	0,67	10	0,7	0
TULLOW OIL PLC	1	10	0,7	1
AMEC PLC	0,67	8	0,63	0
PETROFAC	0,67	16	0,5	0
BURBERRY GROUP	1	12	0,5	0
ASTRAZENECA PLC	1	12	0,75	1
GLAXOSMITHKLINE	1	9	0,57	1
SHIRE PLC	1	6	0,5	1
BRITISH AMERICAN TOBACCO	0,67	9	0,6	0
IMPERIAL TOBACCO GROUP	1	11	0,46	1

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
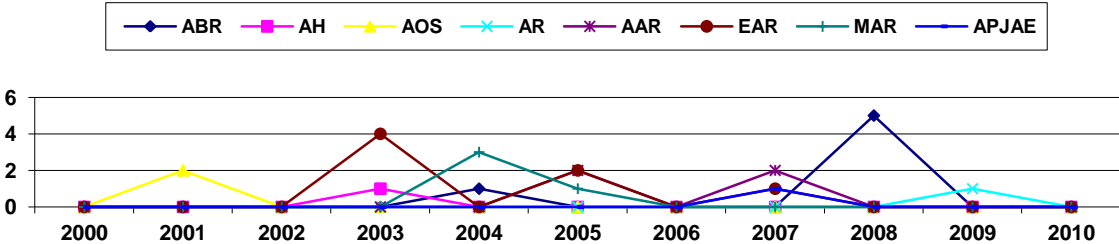
Source: accomplished by author

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	Positivistic	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 et al.	2008						x	x	x
AH	Maines	2003	x	x				x	x	
AOS	Power	2001	x				x		x	
AOS	Mouritsen et al.	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 et al.	2005	x	x			x		x	
EAR	Cerbioni & Parbonetti	2007	x	x		x	x		x	
EAR	Mora et al.	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	2003	x	x	x			x	x	

	& Roberts									
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 *et al.*	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.

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ACKNOWLEDGEMENTS:

ADAPTATION OF THE MANAGEMENT ACCOUNTING TO THE CONDITIONS OF THE ECONOMIC CRISIS IN THE URBAN PUBLIC PASSENGER TRANSPORT

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This study fall within the scope of the management accounting and is based on the establishment and control of costs and performance within the entities from the urban public passenger transport. Our scientific approach was initiated as a result of some personal research studies in the domain of accounting and management control. We started from the need to know and quantify the costs and the performance in a domain which, despite its important position within human activities, is nowadays a hard-to-solve problem in most of the modern cities. The main aim of the research is to present an organization method of the management accounting, so that it enables the calculation of a pertinent cost on every profit center, and finally, the establishment of the result obtained by comparing the cost with the incomes. We critically realized the current organization conception of the management accounting at an entity from the analyzed domain, aiming to underline the need to organize and implement a modern management accounting, which would enable to control costs and to increase the performance of the entities in this domain, starting from the premise that there are enough similarities between the entities in the domain. The main research methods we have used in order to carry out this scientific approach were the analysis, synthesis and qualitative research. We have studied the specialized writings in the field published in the country and abroad and the legislation in force in the concerned domain. The research emphasized the fact that, in present, there is organized no proper management accounting and, that it is compulsory to organize and implement a management accounting based on the use of a modern method, namely the method of costs on activities, as well as to integrate it with the direct – costing reasoning. The major implications of the proposed system for the research domain consisted in establishing a pertinent cost, oriented towards the entity's management, as well as optimizing the result, by permanently correlating the (direct and indirect) expenses with the activity's volume, namely the degree of using the capacity of transport with the tickets price. The added value consists in carrying out a rigorous study of the current organization conception of the management accounting in an important domain of the urban activity and in the projection of a modern leading system through costs.
Keywords: management accounting, direct costing reasoning, ABC method, activity, transport route
JEL classification: M41, *M49*

1. Introduction

The aim of this paper is to organize and implement a management accounting which would correspond to the specific nature of the entities from the urban public passenger transport and to be adapted to the conditions of the current economic crisis.

Since there are enough similarities between the entities of the analyzed domain, we consider that the researches and experiments carried out with the aim of using some methods through which

the objectives continuingly harmonize with the resources, although they initially had in view only a certain entity, they can be adapted and generalized at the level of all entities from the urban public passenger transport. In this context, our research has as a reference model the Public Transport Operator (RAT) Craiova.

Management accounting is the analytical representation of the entities interior processes which lead to qualitative and quantitative transformations in the patrimony mass. The acquired information is designed for administrators as interior beneficiaries who must answer the question of how to allocate and manage the resources used by investors in order to achieve performance.

Taking into account these requirements, we will further analyze the notion of management accounting organization at RAT Craiova in order to establish if it can meet the need of informing all its users, they can provide a pertinent cost, as well as operative information on the profitability on every type of service and on the whole entity.

2. The critical analysis of the current organization conception of managerial accounting

In present, RAT Craiova has its own conception of organizing the management accounts, being on one side facilitated by the autonomous data processing, and not having on the other side a clear purpose. The objective of this organization method is to compare the collected expenses with the incomes distributed at the level of the profit centers. On these grounds, in the case of incomes, a calculating distribution is being applied.

The expenses are collected within RAT Craiova on three profit centers (sections) in which were established, for each profit center, three cost centers, plus three more independent cost centers.

In what the expenses are concerned, it results from the carried out analysis that the primary documents provide information not only for the financial accounting but also for the managements accounting, through their integrating codes which enable the identification of the following elements: management account, expense account from the financial accounting; the activity; the account pertaining to the operation that affected the expense in the financial accounting.

On the basis of the software available to RAT Craiova, the data can be processed (sorted and centralized) in five collecting situations and distribution.

Series of expenses neither can be identified on profit centers (sections) and nor they have a character of indirect administration expenses. For these particular expenses, the entity carried out a fundamental study on the basis of some elements specific to the activity, from which resulted the following coefficients (percentages): section 1 (activity 11) = 0,56 or 56%; section 2 (activity 9) = 0,27 or 27%; section 3 (activity 13) = 0,17 or 17%.

In what the incomes are concerned, the primary documents provide through the integrating codes information on: the incomes account of the financial accounting; the activity that generated the income; the account corresponding the action that affected the income in the financial accounting.

By processing this information, on the basis of the software, RAT Craiova obtains the following information regarding the income: the number of the sold tickets; the incomes generated by the sale of tickets and subscriptions; the handout of the account of incomes on activities; the incomes centralizing situation.

We notice that, concerning the incomes recording, RAT Craiova adopted a monist accounting system. The incomes are identified due to the accounts of the 7 class of the General accounts plan in which they are analytically open on types of activities.

Another remark is referring to the fact that the management accounting does not use accounts of financial results that will compare the incomes with the expenses, on activities, and will determine the efficiency or inefficiency of every activity.

On the other side, the incomes have a direct character towards the profit centers only partially. Most of the incomes are distributed on activities on the basis of some conventional coefficients.

We also consider questionable the direct character towards the profit centers of incomes from the selling of tickets in stalls, on the basis of their distribution to routes, taking into account that a stall covers two or more routes that pertain to different profit centers.

Following this analysis, we can state that RAT Craiova meet most of the requirements on the management accounting organization with the aim of achieving a modern management.

3. Research methodology

The main research methods we have used in order to carry out this scientific approach were the analysis, synthesis and qualitative research of the current organization conception of the management accounting at RAT Craiova, including the costs calculation methods. In order to carry out this study we have taken and processed data from the analyzed entity (RAT Craiova). We have studied the specialized writings in the field published in the country and abroad and the legislation in force in the concerned domain.

4.The results of the research

Although the conception of managerial accounting organization meets almost completely the control necessities of the interior activity of the entity, from the analysis we have carried out, we observe that it can be improved so that the data on the costs of activities facilitate the decision making process aiming to increase the efficiency of the performed activities.

In this context, we consider that the optimum organization of the management accounting, which would fully capitalize on the information necessary to the management board and to orient the entity's activity, can be made only if concomitant methods and techniques are used in a system, which would take only the essential things from it and present advantages for the entity that applies it.

Starting from these grounds, the system we propose combines the costs on activities method (ABC), used to calculate costs, with the direct - costing reasoning, used to establish and analyze the profitability on types of activities and on the whole entity.

We have oriented on the possibility of achieving this integration starting from the particularity of the object of activity of the entities from the urban public passenger transport and the influence factors which imply a certain structure of the production cost.

Cost on activities method (ABC) represents one of the most recent methods used by the management accounting. It hasn't yet registered an evolution in the costs calculation, but it brought series of innovations in the treatment manner of the indirect expenses, in comparison with the classical, traditional methods of calculating costs. Starting from the transversal splitting of the entity on activities and from the principle that the activities consumes resources, and the products (the services provided, in the analysis of this study) consumes activities, the ABC method proceeds to a multiple accounts distribution, based on the causality relations of the indirect expenses, that enables at the managers' "command" to calculate a cost, which is not necessarily more exactly, but is always pertinent. In the same time, it is a method of management since it provides information regarding the activities management in order to form the basis of the operational and strategic decisions and to evaluate the results of these decisions.

The implementation of the cost on activities method (ABC) will enable to improve the current management accounting in two directions.

The first direction of improvement refers to the reconsideration of using the management accounts. On one side, it is compulsory to renounce to the static role of the management accounts, in present only the debit part of them being used, and on the other side, we consider mandatory to include the incomes accounts at the levels of profit centers and data comparability on accounting manner, which would lead to their increasing informational role. We can achieve it by using different variants. One variant, more difficult, would be to introduce some management accounts, which are not in present included in class 9 from the General Accounts Plan, such as:

„Internal deductions regarding sales"; „Internal deductions regarding the analytical results"; „Results from sales".

A simpler variant of our choice in this study, supposes the use of the existing management accounts, but one of them have new accounting roles and functions (accounts 902, 903 and 931), taking into account that RAT Craiova is not an entity which produces material assets.

The second direction of improvement concerns the finality of the management accounting, which is lacking in the current organizing manner, namely the cost calculation on every type of car/route transport constituted, as a cost center, as well as comparing the cost with the incomes generated at the level of the concerned center.

This means that for every transport route or type of car there will be established a distinct analytic at accounts: 921 „Expenses of the basic activity"; 902 „Internal deduction regarding the production"; 903 „Internal deductions regarding the results obtained"; 931 „Incomes generated by the basic activity".

When calculating the costs we can use as a cost carrier the travelled kilometer or route, namely the complete route travelled by the bus/tram between the departure and arrival station. Thus, all the direct costs can be calculated on every route, and monthly direct cost on the cost center is calculated in relation to the number of routes. The indirect expenses (consumption of activities) are added subsequently to this cost, and are distributed through the methodology specific to ABC method, due to the cost inductors and the total cost of every route transport is thus obtained. By comparing this cost with the income distributed to every transport route, the result on the route can be established at the end of the month, and the cost center becomes a profit center.

Apart from the pertinent cost, it is also very important for the entity's management, especially in the conditions of the current economic crisis, to operatively determine the profitability of every route and on the whole entity.

In this regard, within the implemented management accounting we proceeded to the use of the direct – costing rationing, which is based on the permanent correlation between the (direct and indirect) exploitation expenses with the degree of using the transport capacity and with the tickets price.

The quantification of this correlation can be achieved by calculating the indicators: the profitability threshold, coverage factor, the dynamic safety coefficient and the safety interval (Călin, Man and Nedelcu 2008: 285).

These indicators were calculated in table 1, the analysis comprising the data for the two transport routes, 2R and 9, within profit center. It is very important for the entity management to know the four indicators because:

- The break-even shows the point from which any increasing of the passengers number on the route bring profit to RAT Craiova, and its activity becomes profitable, as well as any decrease of the passengers number brings losses on the concerned route, thus the activity of RAT being unprofitable, if the connection between the optimization factors of the activity is respected (costs, tickets price and the structure of transport routes). The profitability threshold can be established at the level of the center profit, the transport route or on the whole entity. Knowing the profitability threshold the tickets price can conversely established.

- The coverage factor expresses the potential profitability and represents the percentage of the necessary turnover for covering the indirect expenses and obtaining profit. This indicator can contribute to the decisions-making process of creating new passengers public transport routes or of renouncing at some existing routes.

- The dynamic coefficient of safety indicates the relative decrease of incomes so that RAT Craiova reach the break even and avoid losses.

- The safety interval has the same meaning as the dynamic coefficient of safety, but, in this case, the information are presented in absolute sizes and not in relative sizes.

Except the calculation of the four indicators for optimizing the result (Călin, Man and Nedelcu 2008: 304-307) of the carried out activity, it is also important for RAT Craiova management to determine the influences of the factors modification on the profit that contributed to its calculation: the selling price of tickets, number of passengers, direct and indirect expenses.

Thus, we start from the existing situation presented in table nr. 1 (to simply the calculations we supposed that RAT Craiova has only routes 2R and 9 – the calculations are being made following the same methodology no matter the number of transport routes – and that it obtains incomes only from the selling of tickets on the two routes), according to which the entity registers the following indicators: profit 98.125 lei, coverage factor 45,30%, break-even 86.282 lei, the dynamic coefficient of safety 71,51%. The RAT Craiova management aims to increase the profit. For this purpose, it can act on the optimization factors and can decide:

- either a tickets price increase, and in this case, in comparison with the initial situation, the value of all calculated indicators will increase, excepting the profitability threshold whose value will decrease (positive situation);
- either a degree of occupation increase, so an increase on the number of passengers, a situation in which will lead to an increase of the profit and of the dynamic safety coefficient, while the coverage factor and the profitability threshold will remain unchanged (positive situation);
- either a direct expenses reduction, which will lead to the same evolution of the calculated indicators as the first situation, namely the tickets price increases;
- either an indirect expenses reduction, a situation which will lead to an increase of the profit and the dynamic safety coefficient, while the profitability threshold decreases, and the coverage factor will remain unchanged (positive situation).

Cumulating the four decisions previously taken, the management board will achieve the expected result, that is an increased profit, as well as a positive evolution of the other indicators specific to the relation cost – volume - profit, representing a favorable situation for the entity.

Yet, in the practical activity of RAT, some of the optimization factors can have an unfavorable influence on the profit, and, thus, it is important to determine it so that RAT management actions through a favorable decision of other optimization factors.

For example, if the price of tickets is reduced, the profit will decrease. This can be compensated either by reducing the direct expenses, or by reducing the indirect expenses.

In conclusion, the management of the modern entity is in the position to take rational decisions that will lead to the achievement of some optimum results only if we know the manner of action of each of the optimization factors and, especially, the reciprocal influences of the concerned factors.

5. Conclusion

For the cost optimization of the public passenger transport, the management of RAT Craiova must have managerial accounting which will provide it the relevant information.

The analysis of the current situation has emphasized the fact that RAT Craiova has its own conception of organizing the accounting management, in which the accounting accounts has only a statistic role, being used only their debit part. Furthermore, it is not calculated a real cost, but there is an extra-accounting comparison of the collected expenses with the incomes distributed on the basis of some conventional coefficient, at the level of the profit centers.

In this context, we consider that it is necessary to propose the implementation of a management accounting which would combine the cost on activities method (ABC), used for the costs calculation, with the direct – costing reasoning, used to establish and analyze the profitability on types of activities and on the whole entity.

The cost on activities method (ABC) will enable, on one side, to reconsider the use of management accounts by renouncing to their present static role and by assigning new accounting roles and functions to some of them (accounts 902, 903 and 931), taking into account that RAT

Craiova is not an entity which produces material assets, and on the other side, will enable to establish more exactly the route transport and the degree of participation of every route to the profit mass.

The use of the direct – costing reasoning will enable to optimize the result obtained due to the correlation of the indirect and direct expenses with the activity's volume, the degree of using the transport capacity and with the tickets price.

In conclusion, the implementation of the management accounting in the presented version will enable RAT Craiova management to take some rational decision in order to optimize the result obtained and, what it is extremely important, to anticipate the consequences of this type of decisions.

Table 1 - Optimization calculations of result RAT Craiova

Explications	Initial situation	Optimization factors				
		Ticket price increase	Number of passengers increase	Direct costs reduction	Indirect costs reduction	The final situation
1. Income from ticket sales:						
- route 2R: 208.845 x 1,2 lei	250.614	313.268	263.144	250.614	250.614	328.931
- route 9: 34.830 x 1,5 lei	52.245	62.694	54.857	52.245	52.245	65.830
Total	**302.859**	**375.962**	**318.001**	**302.859**	**302.859**	**394.761**
2. Direct costs						
- route 2R: 208.845 x 0,65 lei	135.609	135.609	142.537	114.865	135.609	120.608
- route 9: 34.830 x 0,86 lei	30.033	30.033	31.452	26.471	30.033	27.795
Total	**165.642**	**165.642**	**173.989**	**141.336**	**165.642**	**148.403**
3. Margin on direct costs						
- route 2R: 208.845 x 0,55 lei	115.005	177.518	120.607	135.749	115.005	208.323
- route 9: 34.830 x 0,64 lei	22.212	32.740	23.405	25.774	22.212	38.035
Total	**137.217**	**210.258**	**144.012**	**161.523**	**137.217**	**246.358**
4. Total indirect costs	39.092	39.092	39.092	39.092	34.092	34.092
5. Profit	98.125	171.166	104.920	122.431	103.125	212.266
6. Coverage factor	45,30%	55,92%	45,30%	53,33%	45,30%	62,40%
7. The break-even	86.282	69.900	86.282	73.298	75.246	54.628
8. Dynamic safety factor	71.51%	81,40%	72,86%	75,80%	75,15%	86,16%

Source: Adaptation by Călin, Man and Nedelcu 2008: 305. Data were taken from the accountability of RAT Craiova, 2008.

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THE IMPACT OF ECONOMIC CRISIS ON ACCOUNTING PROFESSION

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This article appears as an extensive study of the impact of global economic crisis on the accounting profession and accountants, our research highlights the development and fortuitous changes in accounting under the restrictions and auspices of the global recession. The article begins with the study and comparison of international responses on the subject treated. Thus, we studied foreign literature, as well as articles in numerous newspapers, journals of international stature. Then our research is oriented mainly towards identifying responses to the following questions: How did the accounting profession develop under the auspices of the global recession? What does itimply the new culture in the accounting profession and innovative practice in the field? What is the role of the accountant in crisis management? What problems does the accounting face up as a significant pawn in crisis? Using deductive reasoning we have established conclusions referring to the global recession mark upon the profession and have determined the general trend at present time in accounting. In times of economic recession, the role of accountant has changed, getting augmentative and multifaceted dimensions. It is required, more strongly, the need of guidance for accountants on providing integrated services to the entities they serve. Thus, we noticed the position of the accountant-consultant, as an important pillar for the entity, perspective which gives us an image of the specialist accountant, who always ensures the security of the business. Also, in the context of recession, professional accountants should be concerned with the identification of financial engineering which could lead to an exit from the crisis and to reduce and mitigate its negative effects, but also to prevent and reduce the potential intensity of future crises. Accounting, as a mirror of events in the economy in order to fulfill its mission and to ensure success in times of crisis, it must be concerned with improving financial reporting in order to rebuild confidence and information on users and to remove their skepticism towards financial reporting. Accounting is required to commit to a system of high quality financial reporting, commitment which could provide users with confidence and security. Also, in times of crisis, to achieve accounting objectives, there should be abandoned the erroneous conception that the responsibility for various problems and failures occurred at the level of individual entities and the level of the global economy, it could belong to accounting.
Keywords: global economic crisis, the accounting profession, professional accountant consultant, financial reporting, reliability of the information
JEL classification: M41, *M49*

I. Introduction

The global economic crisis is, in addition to a threat, an opportunity to review the accounting profession, which requires a change in the obsolete trends, and a modernization and alignment for the purposes of the latest practices and trends in the field.

The National Courier in its article of September 6, 2010 entitled "Accountants can play an important role in combating the crisis" wrote that "Despite the fact that professional accountants often complained that they were guilty of financial crisis, they can play an important role to

overcome this crisis." The CECCAR doctrine makes out that the accounting profession has an important role upon community, that the public relies on credible information provided by the accountants and they base on this information for effective financial management and decision .

The current international economic environment remains a turbulent one, characterized by high economic uncertainty. While some countries continue to face economic downturn, with dire predictions and also announcing the recession and economic decline for years to come (eg. Spain), in other states there are experiencing slight growth, but its rate is significantly slowed (eg. Romania). However, the context remains a pessimistic one and also the next periods. 2012 seems to stand under the sign of global austerity as experts forecast the global economy in 2012 which shows that the euro area will undergo a strong recession and the World`s biggest economies would record sluggish growth.

In this conjuncture dominated by controversial developments is rendered more striking a new culture in the accounting profession.

As it is a topical issue and a focus in this paper we will study how the accounting profession was influenced by the recession, answering questions like:
- How did the accounting profession develop under the auspices of the global recession?
- What does imply the new culture in the accounting profession and innovative practice in the field?
- What is the role of the accountant in crisis management?
- What problems does the accounting face up as a significant pawn in crisis?

II. Analysis of Previous Research

Nouriel Roubini, the economist who predicted the crisis in 2008, believes that in 2012 the recession will affect all Europe, the Chinese economy will face a period of slowdown, and the United States will register a small growth.

In this pesimistic context, a new culture in the accounting profession appears to be imperative. In the conditions that those to whom it refers are in a constant change, professional accountants should consider the need for innovation within their profession. Taking into account the words of Burke Hedges, well known author, speaker and trainer, who predicted "Change or you will be changed! Since the change is not an option, it is preferable to take advantage of it and to accept it fully, instead of waiting for it to take advantage of us." (Hedges and Price 2000:105), we emphasize the need for evolution and adaptability of the new accounting requirements imposed by the current economic environment.

Moreover, the President of the International Federation of Accountants (IFAC) Robert Bunting highlights at the most recent Congress CECCAR, the need for a new culture in the accounting profession, anticipating that the role of accountants in the world will change in the current economic context. In his view, the accounting profession bears an important role in that it basically creates the business cycle and ensure the market stability, offering to the companies reliable information upon to base when investing.

Lazaro Arias, president of the Institute of Certified Public Accountants of the Dominican Republic supports the position of the accountant-advisor, as a prominent contributor to optimize resources of small and medium sized business and reducing operational costs. According to his conception, accounting assurance provided by the contractor identifies where to reduce the costs. To this end, in 2009, the Institute confessed the intention to train and educate its members in basic counseling issues, to raise and maintain professional standards attached to the best practices.

In turn, Marin Toma, the President of CECCAR Romania, said in an interview published in March 5, 2012 The Economist that "the accountant not only provides bookkeeping and accounting system, but integrated services that every enterprise needs without to employ these services separately."

Certified accountants and chartered accountants, reunited under the generic name, accountants, are called to be "health advocates" for financial economic entities (Domnişoru and Vînătoru, 2009:76), and under the global financial crisis, their role became augmentative.

It has been noted that the global recession has become a consistent incentive to improve assurance provided by professional accountants in financial reporting. The assurance of financial reporting is essential to reduce the skepticism of the users of financial information (especially managers and investors), users who, in order to take timely decisions and now, given the conditions of crisis, need the best insurance ever.

III. Research Methodology

This article examines, discusses and compares the responses on the accounting profession and accounting professionals under the overall global economic crisis and financial setting using deductive reasoning, conclusions about their imprint on the global recession and leading the overall trend in accounting.

IV. The Results of the Research

First, we consider that to adapt to the new conditions imposed by the economic crisis and financial accounting professionals should exceed reflection works in accounting and focus on providing integrated business services. Especially nowadays, they are considered specialists which public community can not miss and they have confident status for economic entities. For these reasons, we support the opinion of Lazaro Arias, president of the Institute of Certified Public Accountants of the Dominican Republic that accounting professionals need to focus increasingly on the position of accountant-advisor and seek to reinforce this position.

Professional accountant, as an adviser for the economic entity it serves, has to ensure the security of the business in all its evolutionary stages.

The purpose of this approach emphasizes that we must not neglect the distinction between the two professions: the accountant and the chartered accountant.

The chartered accountant is the person who acquired that status under the law and has the power to keep accounts and to prepare the work on the financial statements. More specifically, the chartered accountant is a person who is trained to implement in the life of the financial entity statements using a specific language accounts.

However, chartered accountant specializes in the highest degree of training in accounting, which allows access to all specific profession work: financial, accounting and tax consulting, research, analysis, financial engineering, business evaluation, etc.

We believe that in order to access the position of accountant-consultant, there are two courses of action, taking into account the distinction between the two professions (certified accountant and chartered accountant):

- Certified accountant must go beyond the "holding" of accounts, to study the past and prepare balance sheets, to dedicate and to provide economic and financial analysis to support the effectiveness of running a business and become permanent promoter for improvement in the economic entities.

- Chartered accountants, in turn, must be included among those who take decisions and use their resources to bring value to the entity that offers its services. They must be able to anticipate and actively participate in change, avoiding the mentality of "statistician". Also, the chartered accountant should focus on use of information to improve performance, increase profits and increase competitive advantage.

In the present context, we consider that professional accountants should try to stop exercising their work traditionally and anticipate that their role will gain scale, while they have become specialists in measurement and business information.

Thus, since the global economic crisis, the role of the accountant has changed and its industrial advisory services are becoming increasingly vital, we think that he must stand apart from the position of "statistician" and to be rational as an innovator within the law focusing more on forecasting, in order to ensure economic and financial health of the entity in the service where they operate.

Second, since accounting is a mirror of all phenomena in the economy, we believe that its role and that of the chartered accountant in the management of global financial and economic crisis is undoubtedly primary.

Accountancy and the accounting profession is an essential lever to overcome the crisis but also to prevent and attenuate its effects. Do not forget the role of accountancy, of financial reporting in general, as factor of economic growth and welfare. In absence of financial reporting and trust provided to decedents and interested public,would not exist: bank loans, investments, economic growth.

In the context of recession, we consider that the accountants should be concerned and interested in indentifying those financial engineering leading to overcome the crisis as soon as possible and to reduce and attenuate its negative effects, but also to prevent and reduce the intensity of new potential crises.

Thirdly, we note that there is an erroneous tendency, which must be avoided, according to which the responsibility for different problems and malfunctions, both at the level of individual entities and at the level of global economy, was unjustifiably attributed to accountancy.

But it is very important to emphasize the fact that the accountants should bases on the information delivered to them by other people, who are supposed to do their job properly. Accounting does not produce the phenomenon of crisis; it only reflects faithfully the situation of an entity at a given time, reflecting what happens in that environment. Is regrettable that, although the phenomenon of crisis is occurred and developed in business environment, sometimes the responsibilities tend to be looked elsewhere, and usually in such circumstances, the accountant is firstly concerned.

It is known that there are two schools of accounting: an Anglo-Saxon school and a Latin-continental school, each with its values.

Latin conception is very keen to rules. According to this conception, the accountancy is controlled by state and orientated towards all the partners of the economic entity: fiscal administration, owners, creditors, employees, etc. Assets are valued at the historical cost.

Anglo-Saxon conception, in turn, promotes the principles. But, as the principles leave room for interpretation, embellishment elements of accountancy rapidly arise, which unfortunately distort the reality. Anglo-Saxon accountancy serves, above all, the interests of investors. It is focused on the evaluation of assets to the market value (mark to market), which means to adopt the doctrine of the just value.

The Anglo-Saxon doctrine favors, in terms of governance, the shareholder model at the expense of stakeholder model, which takes into account interests of all participants to the life of the entity and which belongs to the continental doctrine.

For example, the European Union decided to leave the initial politic of European accounting normalization and joined, for rated groups and societies, and optionally, for other categories of entities, to the international referential IAS/IFRS, of Anglo-Saxon inspiration and elaborated by a private organism, International Accounting Standards Board.

In this situation, the natural question which can be asked is: which economic model is more resistant to the crisis?

For many years, Americans and British have accused the leaders of continental Europe that the economies of their countries are sclerotic, dominated by state, and that for thriving we need a free market. However, the American president Barack Obama admitted that, from many points of view, continental Europe handled better in crisis because it seems to still agrees the formula of

higher taxes and social security of citizens, rather than a more free market. Despite these strength points, forecasts show that U.S. and UK will recover more quickly from the crisis than most of continental Europe.

Giving its opinion about the best model to follow, the newspaper The Economist through its article „Europe's economies - A new pecking order. There has been a change in Europe's balance of economic power; but don't expect it to last for long", published on may 7, 2009, militated for the Anglo-Saxon model, one of the reasons being that it gives more power to the individuals and not to the state.

In this respect, remarkable is the opinion of Marin Toma, President CECCAR Romania, a view that we share, taking it into account as the best choice and that ultimately, internationally thinks of interweaving the values of the two models: to have a standardization based on the principles, combined with rules.

Fourthly, we can note another aspect, also very important: accountancy during the crisis facing a loss of confidence among users of accounting information.

For this reason, we believe that scientific research as a way to overcome the crisis should be aimed at seeking scientific solutions to reduce the degree of uncertainty. Thus, the idea to "restore confidence" in financial information gets interest.

Financial reporting plays a critic role in establishing and maintaining the confidence of the investor public. The aim of the financial reporting is to offer credible and useful information for various users of information provided by accountancy, to assist them in decision-making processes.

The information provided by the accountancy must be neutral, reliable and able to portray the economic results in an accurate and faithful manner. The accountancy should undertake the commitment of a correct and high quality financial reporting system, commitment which offers confidence and safety to the potential investors.

James L. Kroeker, chef-accountant at U.S. Securities and Exchange Commission confessed in an interview the fact that the actual financial crisis revealed the type of information that the investors, regulatory authorities and also others users of financial reports need and should see reported in the financial situations of a company.

He asked in January 2008, the FASB (Financial Accounting Standards Boards) to improve the financial reporting for many funding, securitization and other transactions that were not previously consolidated in the balance sheet, arguing that the existing standards needed improvements to what companies should report as assets and liabilities. In response, FASB has completed and finalized an important standard of initiative for the accountancy of financial assets transfers. These requirements entered in force for the reporting of results from 2010. The new standards also imposed a series of new information, which are designed to provide better information on a company's exposure to risks. (1)

In times of financial crisis, the confidence of the investors has the biggest potential to be tormented by uncertainty and therefore to be taken as essential components for assuring the success on short and long term: transparent reporting and objective audition of financial situation, and also a system of independent and objective reporting standards.

Also, CECCAR considers that the most important measures that should be considered to improve users' confidence in financial reporting information in the next period are:

- strengthening the role of the international regulatory and supervisory organism;
- improving the practices of financial presentation;
- strengthening the standards for a better presentation of methodologies related to the evaluation.

V. Conclusions

We can conclude that, in times of economic recession, although there is an erroneous tendency according to which the accountancy is responsible for the different problems and malfunctions faced by the economic entities and the economy as a whole, it represents an essential lever to overcome the crisis, but also to prevent and attenuate its effects.

Clearly, under the financial and economic crisis manifested at the international level, accounting profession has evolved to a new culture in the field. The role of the accountant was changed, receiving augmentative dimensions and multiple facets. Thus, it is necessary the guidance of professional accountants to provide integrated services to the entities they serve. In this respect, we notice the position of professional accountant – consultant, as an important pylon for the entity. From this perspective, the professional accountant is seen as an adviser of the management a specialist who always watches to ensure the business security. But the accountant should not act as a dilettante in consulting; on the contrary, he must act to raise and maintain professional standards attached to the best practices in consulting field. Also, the professional accountant should become a defendant of the financial health of the entity he serves, by orientating towards the realization of economic-financial analyses and previsions and militating for the growth of efficiency, the improvement of performances, the growth of the profit and the increase of the competitive advantages.

Furthermore, the accountancy, as mirror of the phenomena from the economy, to fulfill its mission and goals, especially in times of crisis, must be concerned with improving financial reporting system in order to regain the confidence of the users of information.

Thus, we conclude, emphasizing the idea that in the context of the current scientific research we should focus increasingly on finding solutions to reduce the uncertainty in financial reporting to ensure the public of the credibility of the information necessary for the substantiating of various decisions to be made, accountancy being forced to undertake the commitment of a financial reporting system of high quality, commitment that gives to the users confidence and security.

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SOME CONSIDERATIONS OVER THE INTERNAL CONTROL IN THE CONTEXT OF CURRENT ACCOUNTANCY REGULATIONS

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Through the hereby study we set ourselves on an analysis over the internal control and the ways of implementation of it. The final purpose of our research is represented by the characteristics of the internal control system in the context of current accountancy regulations. The accomplishment of such goal has forced us to research the current literature in the area and also the legal regulations over internal control.
Of course, the accomplishment of such a research was possible only after a pertinent analysis over the opinions expressed in specialty literature regarding this area.
Our research wants to be with a theoretical and applicative character. It is based on analysing the internal control system, the methodology of internal control and the steps of internal control. We express our belief that the implementation of the internal control in a very exact manner comes as an aid to the company management and lead to the accomplishment of managerial objectives and policies.
In what it regards the result of our research there can be drawn the following conclusions: from the legal regulations (OMFP nr. 3055/2009), there is no clear conclusion over the procedures and policies of implementation of internal control applicable to an economical entity; also there are not presented in a detailed way the types (forms) of internal control, being presented in the legal regulations only a classification of them after the time in which they are exercised (before, during or after the finishing of the operations); also in the legal regulations there is developed a certain way of internal control, represented by the financial and accounting internal control, as if the other forms of internal control do not exist; in what regards the components of internal control, these are presented in another way, but similar to already known models of internal control (Coso and Coco); also in the legal regulations there are presented the general objectives of internal control, without developing the differentiate objectives on each for of internal control.
Keywords: internal control, financial and accounting internal control, methodology of internal control, techniques and procedures in internal control, types of internal control.
JEL Code: M40, M41

1. Introduction

The objective of the current article if to present the author's opinion regarding the modifications imposed to the introduction in the accounting legislation of several theoretical aspects regarding the way of implementation of internal control at the economical entities.

The internal control methodology is defined as being an assembly of inter-dependant activities which, through the usage of some specific procedures and techniques, has as a goal the accomplishment of the knowledge process of a phenomenon or an economic activity through reporting, the definite way of manifesting those to the legal regulations, the norms and instructions through which they were defined.

Through the undergone research, we tried to answer the question, what is the methodology of implementation of internal control and which are the steps of accomplishing the internal control.

The results of the research and the conclusions which we have reached confirms the fact that in the legal regulations (OMFP nr. 3055/2009), there is no clear statement which the procedures and the implementation policies of the internal control applicable to an economic entity are.

2.The Concept of Internal Control

In general, control consists of surveying, analyzing and verifying permanently or periodically a certain activity or situation, in order to follow its course and take measures to master the potential risks, and measures for improvement. Internal control consists of any measure taken by the management with a view towards improving the management of the risks to which the entity is exposed, and towards increasing the probability that the aims and objectives established be fulfilled.

The system of internal control represents the sum total of policies adopted by the management, which contribute to fulfilling managerial objectives, preventing and detecting frauds or errors, to the accuracy and completeness of accounting records, as well as to the preparation in due time of financial-accounting information.

The role of internal control may be summed up in the following:
- limiting non-economical and inefficient operations;
- ensuring the integrity of the patrimony;
- ensuring a rigorous and effective management of activities;
- respecting the directives of the management;
- respecting legal provisions;
- ensuring the reality and accuracy of accounting information.

Internal control presupposes:
- an appropriate information system;
- a hierarchical and defined organizational structure, which would ensure the separation of tasks and the supervision of activities;
- a manual of internal control procedures or internal work norms.

The existence of a rational and correctly applied system of internal control constitutes a serious assumption regarding the reliability and credibility of annual financial records and the concordance between accounting and factual reality.

According to the international audit standards (ISA), internal control is the process conceived and undertaken by those appointed to governance, management and other employees, with the aim of providing reasonable assurance on the accomplishment of objectives regarding the credibility of financial records, the efficiency of the activity and its conformity with the applicable legislation. It follows that this control is conceived and implemented in order to approach identified business risks that could hamper the achievement of any such objective.

National audit norms stipulate that the internal control system consists of an ensemble of policies and procedures, undertaken by the management of a given entity in order to ensure a rigorous and efficient management of activities in said entity.

According to current legislation, internal control represents the ensemble of forms of control undertaken at the level of public entities, including internal audit, established by the budget administrators according to their objectives and legal provisions, in order to ensure the economical, efficient and effective administration of funds, which also include organizational structures, methods and procedures.

3.Regulations regarding internal control

a. *The aim of introducing internal control*

According to current regulations (OMFP 3055/2009), the internal control of an entity aims at ensuring:
- the conformity with current legislation;
- the implementation of management decisions in an entity;
- the efficiency of the entity's internal activity;
- the reliability of financial information;
- the efficacy of the entity's operations;

- the efficient use of resources;

- the prevention and control of risks regarding the achievement of objectives etc.

Consequently, internal control procedures aim to:

- on the one hand, ensuring the activity of the entity and the personnel behavior complies with the framework of current legislation, with the values, norms and internal rules of the entity;

- on the other hand, to verify if the accounting, financial and transaction information correctly reflects the activity and the situation of the entity.

In the context of consolidated annual financial statements, the area of accounting and financial internal control refers to the organizations belonging within the consolidation.

Internal control is applied throughout the operations undertaken by the entity, as follows:

a) prior to undertaking operations, on the occasion of budget drafting, which will allow budgetary control after the operations;

b) during operations, for instance, regarding the percentage of actual production being executed or the percentage of penalties registered;

c) after finalizing operations, in which case verifying is done, for instance, in order to analyze the profitability of operations and to ascertain conformity or possible anomalies that need to be corrected.

Accounting and financial internal control of the entity is undertaken in order to ensure a management of records and financial supervision of its activities, in order to comply with defined objectives.

Accounting and financial internal control is a major element of internal control. It regards the whole of the processes of obtaining and communicating accounting and financial information, and contributes to its reliability and conformity to legal provisions.

Similar to internal control in general, it relies on a system comprising especially the elaboration and application of policies and procedures in the field, including the system of supervision and control.

Accounting and financial internal control aims at ensuring:

- the conformity of accounting and financial information published with the regulations applicable to it;

- the application of the management's instructions regarding this information;

- the protection of assets;

- the prevention and detection of fraud and accounting or financial irregularities;

- the reliability of information disseminated and used internally with the aim of control, to the extent to which it contributes to elaborating published accounting and financial information;

- the reliability of annual financial statements published and of other information released on the market.

b. *The components of internal control*

Internal control comprises tightly related components, such as:

- a clear definition of responsibilities, adequate resources and procedures, ways and systems of information, corresponding instruments and practices;

- the internal dissemination of pertinent, reliable information, whose knowledge allows everyone to exercise their responsibilities;

- a system that seeks, on the one hand, to analyze the main risks identifiable with respect to the entity's objectives, and, on the other hand, to ensure the existence of procedures that manage these risks;

- corresponding control activities for each process, conceived so as to reduce possible risks that would affect the accomplishment of goals of the entity;

- a constant surveillance of the internal control apparatus, as well as an examination of its functioning.

The purpose of internal control is to ensure the coherence of objectives, to identify the key factors for success and to communicate to the leadership of the entity, in real time, information on performance and perspective. Regardless of the nature or size of the entity, efforts undertaken for a satisfactory internal control are tied to the application of good practices.

The human resources policy must consider aspects such as the recruiting of qualified personnel, career management, lifelong formation, individual evaluations, employee counseling, promotions and corrective actions.

Control activities are an integral part of the management process, by which the entity seeks to accomplish its objectives. Control regards the application of norms and procedures of internal control, at all hierarchical and functional levels: approval, authorization, verification, the evaluation of operational performance, the securing of assets, the separation of functions.

c. *Requirements for implementation*

According to accounting rules, one must consider:

- the existence of a manual of accounting policies;
- the existence of application procedures for the manual;
- the existence of controls, which would ensure compliance with the manual;
- knowledge of the accounting and fiscal legislation;
- the undertaking of specific controls regarding weak spots;
- the identification and adequate management of anomalies;
- the adaptation of software to the needs of the entity;
- conformity with accounting regulations;
- ensuring the accuracy and comprehensiveness of accounting records;
- respecting the qualitative features of information in the financial statements, so that it satisfies the needs of users;
- the preparation of information necessary to the group's consolidation;
- defining and distributing elaboration procedures for the consolidated financial statements, to all entities to be consolidated.

d. *The evaluation of internal control*

The evaluation of internal control starts from elements such as:

- the existence of procedure guides and manuals;
- guaranteeing the evolution of the internal control system;
- ensuring the possibility of access to the system for external control;
- ensuring the possibility of confronting theoretical description with reality.

In the framework of an IT environment, internal control starts from elements such as:

- the existence of a formalized IT strategy, elaborated with the input of operational management;
- the involvement of management and its sensitizing to risks caused or increased by computerization;
- the allocation of resources, which demonstrate the capacity of the system to accomplish its goals;
- the recruiting of personnel qualified to work with the technologies used, and the existence of a continuous learning plan, to allow the upgrading of knowledge.

The specific risk elements brought about by the use of software refer to the evaluation of aspects such as:

- the level of the entity's dependence on its computer system, with an influence of the continuity of usage, when dependence is too elevated;
- the level of confidentiality of information circulated in the system;
- the obligation to respect current fiscal provisions, the protection of persons, intellectual property, or specific regulation of certain areas of activity.

4. The methodology of internal control

The methodology of internal control is defined as an ensemble of interdependent activities that, by the use of specific procedures and techniques, has as a purpose the knowledge of an economic phenomenon or activity by reporting on their concrete manifestation in relation to legal provisions, norms and instructions which define that activity.

The methodology of internal control presupposes the following stages:

a) The stage of programming the internal control:
- defining the control program;
- establishing the objectives and tasks;

b) the stage of preparing internal control:
- gathering data;
- establishing control procedures and techniques to be applied.

c) the stage of effecting internal control:
- verifying the accuracy of accounting records in relation to justifying and accounting documents, and to reality;
- following the authenticity and conformity of the document specific to each operation, in conformity with internal and legal provisions;
- verifying the conformity of operations with the provisions of internal norms and of current legislation;
- applying the techniques of internal control: inspection, observation, investigation (the interview, questioning), confirmation, calculation, analytical procedures etc.

d) the stage of compiling control documents:
- finding notes;
- control record or report.

e) the stage of using the findings in the control documents: any infringement of the legal and internal norms that regulate the management of material assets or money, the contracting and discharge of payments and expenses, the fulfilling of professional duties must engage the full responsibility of the persons involved (manages, accountants, internal control bodies, administrators), which responsibility is formulated legally as disciplinary responsibility, contraventional responsibility, patrimonial responsibility and penal responsibility.

5. Conclusions

Regarding the organization of internal control in the context of current accounting regulations, the following conclusions can be drawn:

– the legal regulations (OMFP no. 3055/2009) do not clearly state what the procedures and implementation policies are for internal control, applicable to an economic entity;

– also, they do not present the types (forms) of internal control in detail, providing only a classification of these according to their time frame (prior, during, and after finalizing operations);

– also, in the legal regulations, only one form of internal control is discussed, that accounting and financial internal control, as if the other forms did not exist.

– regarding the components of internal control, these are presented in a different, but similar, form to the already established models of internal control (COSO and CoCo);

– regarding the modalities of implementing internal control, only some general aspects are presented.

– also, in the legal regulations, the general objectives of internal control are presented, without developing differentiated objectives for each form of internal control;

– regarding the methodology of internal control, we propose that it comprises the stages: programming, preparation, execution, the compiling of control documents, and the use of information gathered in the process of internal control;

– also, in the local regulation, specific procedures and techniques for verifying internal control are not presented. We propose that these be listed as follows: inspection, observation, investigation (interview, questioning), confirmation, calculation, analytical procedures etc.;

– the legal provisions only attribute real importance to one of the components of internal control, that is accounting and financial internal control, hence the detailed delineation of the general objectives of internal control according to the financial and accounting function;

– still, the management of entities should not limit the sphere of applicability of internal control merely to accounting and financial internal control, since the applicability of internal control is much wider than that of accounting and financial internal control;

– regardless of the mode of organizing internal control, the manager, in order to achieve managerial objectives, must choose the most appropriate forms, techniques or procedures of internal control.

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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

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 (Dykxhoom 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, where 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 1st year	Percentages 2nd 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 semeters), 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.
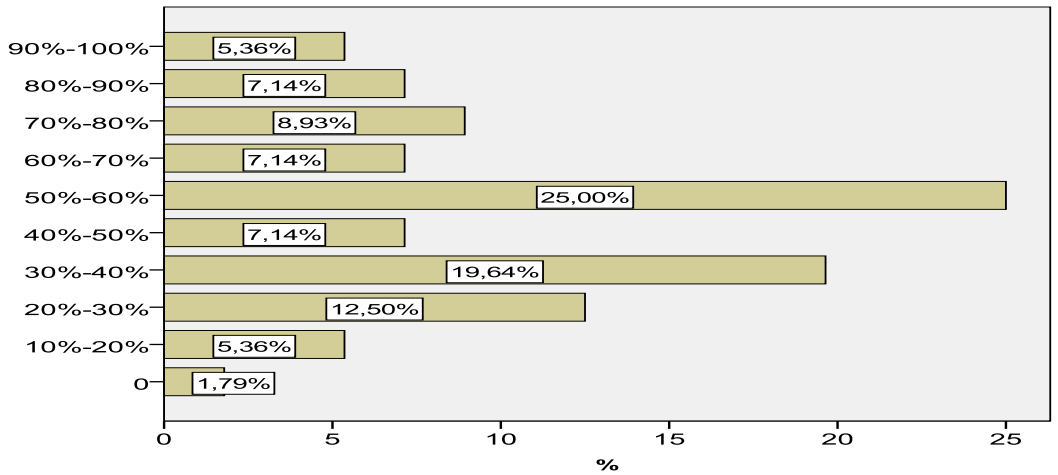
*Figure 1.***The degree in which the master programme will contribute to finding a job in the field – results after two semesters (1st year)**.

Source: authors' calculus.
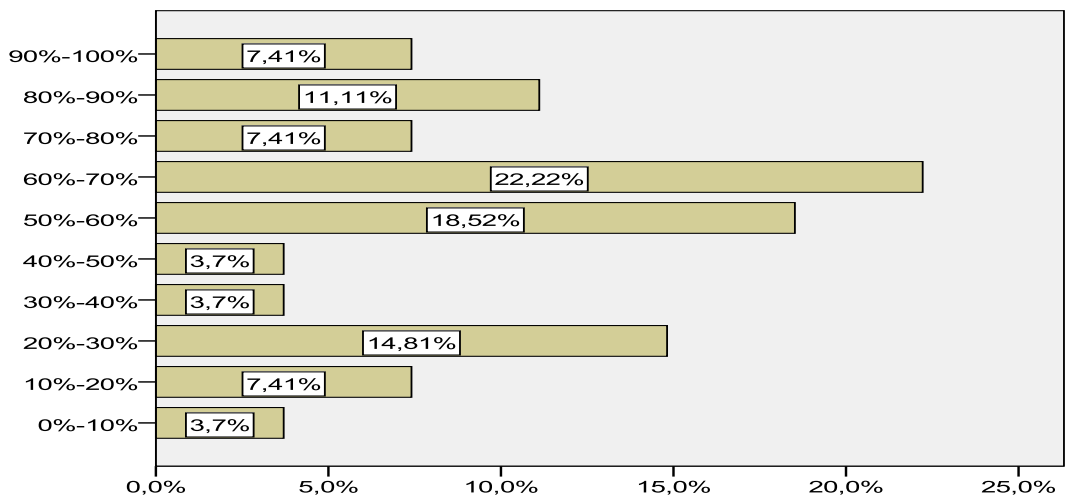
*Figure 2.***The degree in which the master programme will contribute to finding a job in the field – results after three semesters (2nd year)**.

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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QUALITY OF ACCOUNTING INFORMATION TO OPTIMIZE THE DECISIONAL PROCESS

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Abstract: This article provides information on business and therefore need managers to obtain information relevant accounting, reliable, clear, accurate and lowest costs to optimize decision making. This need derives from the current economic environment. The survival of organizations in a competitive environment, to which they must adapt, is conditioned by obtaining accounting information which should be qualitative, opportune, vital, and in a short time. This information is related to patrimony, analytical results, the market (dynamics, dimensions, and structure), and relationships with business partners, competitors, suppliers. Therefore focus more intensely on the quality of accounting information. Definition of quality of accounting information but leave the boundaries and features of accounting communication process and aims to determine "quality criteria" or "qualitative characteristics" to develop a measurement tool. Note that the reviewliterature was found that the normalization and accounting dotrine, criteria for definition of quality of accounting information are not identical, their selection and ranking is different. Theory and practice also identifies the fact that information itself is worthless. Instead it is valuable once it is used in a decisional process. Thus, the economic value of the accounting information depends on the earnings obtained after making a decision, diminished by information cost. To be more specific, it depends on the table or on the implemented decision tree, on the informational cost and on the optimal condition established by the decision maker (due to the fact that producing accounting information implies costs which are often considerable and profits arise only form shares). The problem of convergence between content and interpretation of information sent by users also take, and the quality of information to be intelligible. In this case, those who use, say users should have sufficient knowledge about business and accounting. Also were studied data on how the easiest to increase intelligibility provided by management accounting information. It was found that there are different possible behaviors of managers in the dissemination of accounting information in relation to how the organization deals with information about the external environment and as a result of research efectaute have identified some solutions that managers can limit the effects of uncertainty in information dissemination accounting. Therefore the present study, the detailed approach and identify the quality requirements of modern economic information system, comes to effectively support managers in making decisions.
Key words: accounting information, relevance, incertitude, decision, costs
JEL classification: M40, M41, M49

1. Introduction

Nowadays, economic organizations can no longer be led through traditional methods based on intuition, experience and talent, manifested by a manager. This phenomenon has been generated by the increasing complexity of elements which are led, by the dynamics of economic process both in production and in other fields of activity. It is necessary to have a specific activity of informing which should connect the leading process to the execution process. *Information* has become not only "raw material", needed by leaders but also the linking part between the two

processes. Only with the help of information can the deciding party observe permanently the economic processes for the entity as a whole, for each part of the activity and it can also act upon them. That is why treating the *accounting information system* as a component of management is necessary and opportune at present, as managers are aware of their roles.

In the economic context, managers have to answer many important questions, such as: Is there enough cash to pay taxes? What is the production cost of each product category? Can the enterprise afford raising salaries? Which production line is more profitable? etc.

Thus, to find solutions to these problems, the manager must be capable of defining the type of information needed and required, and the informational system should be capable of offering the information.

Practically, things are not exactly as stated, as the manager is forced by circumstances to use available information from all available sources. Peter Drucker underlined that *„the manager will never be able to take over all actions needed. Most decisions are based on incomplete knowledge – due to the fact that information is not available and it would cost too much time and money. Nothing is more painful, more common than the presupposition that we should wait for decisions based on incomplete information”.*

Thus, despite objective difficulties in obtaining, producing information, managers need qualitative accounting information to help them plan, adopt, implement and control decision.

2. Evolution of economic thought on criteria and qualitative characteristics of accounting information

Defining the quality process of accounting information starts from delimiting particularities of the process of communicating in accounting and it aims at „quality criteria” or „quality characteristics” in order to elaborate a measurement instrument.

It is a fact that, *in accounting norms and doctrine, criteria which allow defining the quality concept of accounting information are not identical, as their selection and hierarchy are different* (Minu, M., 2002:111-138).

American norms stated in[88] Statement of Financial Accounting Concepts no.2 identify the following characteristics: intelligibility, pertinence *(relevance), feasibility and comparison. This concept reveals that „utility of information in making decision”* is the first quality. It is ensured by *relevance, feasibility of provided information considered primary qualities.*

On a global level, accounting norms[89] have been strongly influenced by the American concept and it has the same characteristics: intelligibility, pertinence *(relevance), feasibility and comparison*. The general restriction is identical with the one specified by FASB (Financial Accounting Standards Board): production cost or analysis of information should be less expensive than the cost brought by using information.

In Great Britain, specialized organisms[90] have different points of view from the American ones: *relative importance* is the prime quality for information to be useful; *relevance and feasibility* are main qualities and comparison and intelligibility are secondary qualities.

According to French norms[91], „ *accounting information should give users an adequate, loyal, clear, precise and complete description of events and situations”*. French norms used to think that accounting information has as an objective a clear image of represented reality and it followed the principles: regularity, honesty, prudence. It did not suppose any hierarchy or articulation of quality criteria. At present, there is a structure of qualitative characteristics and ideas referring to the quality of accounting information, different from Anglo-Saxon ones. Thus, the *object of*

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[88] APB **-** Accounting Principles Board; AICPA - American Institute of Certified Public Accountants; FASB - Financial Accounting Standards Board

[89] IASB- International Accounting Standards Board; IASC-International Accounting Standards Committee

[90] ASB - Accounting Standards Board

[91] CNC - Conseil national de la comptabilité; OECCA - Ordre des Experts - Comptables et Comptables Agréés

accounting information in annual financial statements is „to offer a useful representation of reality in an enterprise", and the characteristics of accounting information are: *pertinence, intelligibility* and other characteristics which comprise a series of accounting principles (such as method permanence), as well as relative *importance, cost, opportunity and comparison.*

In Romania, after the changes occurred in three essential stages (1990-1994, 1994-2005, 2006-present) Romanian norms[92] have adopted and introduced quality criteria in elaborating and spreading information as IASC did. Thus, in „The general framework to set up and present financial statements", elaborated by the Committee for International Standards in Accounting, in the chapter „Qualitative characteristics for financial statements", point 24 it is stated "*Qualitative characteristics are the attributes that determine utility of information offered in financial statements. The four qualitative characteristics are: intelligibility, relevance, credibility and comparison."* Also, *„applying main qualitative characteristics and adequate standards has as a result financial statements which reflect a real image of the enterprise."*

A conclusion on the above points of view may give a definition of qualitative characteristics of accounting information:

-*pertinence (relevance)* → capacity of the information to influence decisions and to allow assessment of past, present and future events, either by confirming them or by correcting past evaluations.

-*feasibility* → presupposes a lack of errors or elements which lead to misinterpretations and is appreciated according to neutrality, prudence, credibility, integrity, allowing a real representation of a situation.

-*intelligibility* → represents the quality to be easily understood by users, if they have enough knowledge on business, economic activity and accounting.

-*comparison* → is the quality to capitalize on information, both in time and space.

At the same time, we can observe a controversy about hierarchy of qualitative characteristics by norm organizations, some of them considering (ASB, FSAB) pertinence and feasibility as main characteristics, others (IASC/IASB, OECCA, CECCAR) intelligibility and pertinence.

The main common point is given by the fixed objective which can be thus summarized *"accounting information must serve to make an economic decision".*

In practice, establishing equilibrium between qualitative characteristics is necessary because no information may have all qualities, more often than not, the focus is on a single characteristic. In general, the aim is to realize a balance between characteristics. The relative importance in different cases is a problem of professional rationale.

3. The quality of accounting information in the decision making process

Accounting information does not have intrinsic value, it acquires value when it is used in the decision making process. Thus, the economic value depends on the earnings obtained from making an optimal decision. To be more specific, it depends on the table or on the implemented decision tree, on the informational cost and on the optimal condition established by the decision maker (due to the fact that producing accounting information implies costs which are often considerable and profits arise only form shares).

Thus, quality is appreciated according to two parameters:

      -information utility;
      -information cost.

These parameters sustain the idea that *production cost or analysis cost of information should be lower than the profit made after using the information.* Thus, according to general economic principles, additional information should be produced only if the value is higher than costs. (Diaconu, P., 2002:78).

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[92] CECCAR – Romanian Certified Accountant Expert Board

There are *differences in the hierarchy of main qualitative characteristics* (Diaconu, P., 2002:10): if information provided by financial accounting is feasible (*credible*) and pertinent (*relevant*), in managerial accounting pertinence (*relevance*) is more important than feasibility (*credibility*).

This controversy is determined and maintained by the modality to carry on a task:

-financial accounting has to provide exact information, and, at the same time, neutral, prudent and exhaustive to all users, not to allow making a decision in an uncertain environment, even if it is affected by the operability to provide information;

-managerial accounting operates with relevant data, based on statistics, which are sometimes incomplete, but can be the base of managerial decision.

Thus, imposing qualitative characteristics, even in a hierarchy is a necessary condition but not sufficient to have the guarantee of quality.

Some authors (Cristea, H., 2003:14-15) think that managerial accounting information is complex and refers to relevance for leaders' responsibilities, relevance in decision making process, in obtaining real-time valuable information.

For information to be produced by managerial accounting and useful in the decision making process, it should have a series of traits (Diaconu, P., 2002:79). It should

    -reflect economic reality correctly;
    -be relevant for the person who uses it;
    -be produced in real time;
    -be correct;
    -be intelligible.

The problem of convergence between content of sent information and its interpretation by users is also related to the quality of being intelligible. In this case, users should possess enough knowledge about business and accounting. In order to increase *intelligibility of provided information by managerial accounting* we should:

    -avoid terminology difficult to understand
    -use diagrams and tables;
    -use reports and comparative figures;
    -use flexible models to present reports;
    -present reports and negative factors together with solutions to eliminate them
    detail the level of reporting.

It is concluded that there are possible behaviours of managers to spread information in accounting based on how they approach the data on the exterior environment, that is:

-if the environment is stable, uncertainty is strong and past actions become irrelevant, managers will try to demonstrate obtaining future performance by presenting actions which allow adapting and controlling the environment;

-if the environment is stable managers sustain the capacity to obtain future performances by appealing to past performances.

Due to these situations, managers' behaviours in spreading information will be different:

managers who manifest reduced tolerance to uncertainty propose a less formal spreading and try to present the real situation of the enterprise;

managers who manifest increasing tolerance to uncertainty will only offer compulsory information without explaining and controlling uncertainty;

Beyond these considerations, there are some solutions which can limit the effects of uncertainty*:*

presenting outcomes or outgoings as variation intervals;

using three points of estimation (maximum level, minimum and medium level);

associating probability to a production value to be achieved;

using sensitivity analysis – this process represents the variation of factors that determine a situation (sales volume, unitary cost, inflation rate, sales price per unit, etc.) and registering their

effect on outgoings. Thus, sensitive factors are identified and analysed before making a final decision;

using trustful intervals when elements can vary from a statistical point of view.

If accounting information, as a result of a modern informational and economic system, may efficiently support the manager in making decisions, it has to satisfy the following *requirements*:

-to provide concrete data so that the manager may anticipate the effect of a decision;

-to present the information uniformly, constantly and operatively;

-to identify, structure and quantify significant relationships from the past, anticipating future reports using modern mathematical methods;

-to combine financial data with data on basic activities in order to appreciate achievements, to control expenses and ease the making of decisions;

-to overcome difficulties and threats in an enterprise as a whole;

-to cover information until a certain level, and the degree of details should correspond to the hierarchical level, thus reducing the necessary time to read information reports;

-to use personnel and technical equipment efficiently and effectively to realize speed and precision with minimum costs;

-to present data and information so that it minimizes future interpretations and analysis;

-to ensure elasticity and adaptability to change for the unit;

-to be realized as a whole with minimum costs.

4. Conclusions

In the present economic context, enterprises are forced to continually adapt to a turbulent economic environment induced by global economic crisis which become increasingly difficult to predict, being, at the same time under the pressure of ensuring the maximum security to all interest factors: investors, banks, clients, suppliers, unions, governmental institutions, etc. This situation, although it complies with the logics of the process, presents difficulties for managers. Accounting information comes as an intrinsic component of the informational system and it is a useful instrument to run a modern enterprise, due to the following factors:

-the majority of decisions in an entity are provided by accounting;

-it has the role of supporting the management by offering information related to planning and control;

-it allows managers to have an image over the whole organization;

-it has the role of helping mangers reduce waste and create value;

-it links other components of the information system of the entity (marketing, production, personnel, etc.);

-it is a measurement instrument for the economic performances.

The role of accounting information, its qualities and characteristics have significantly increased in the past decades due to the fact that it influences users' behavior in the process of decision making. It is obvious that each user wants to have relevant qualitative information with low costs, in order to diminish uncertainty and to offer the possibility to make the best decisions, these requirements designating, in fact, the necessity to produce qualitative accounting information.

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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:

Model 1: $Pit = \alpha0 + \alpha1 * BVit + \alpha2 * Eit + \varepsilon it$ (1)
Model 1: $Pit = \alpha0 + \alpha1 * CiBVit + \alpha2 * CiEit + \varepsilon it$ (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 R^2. 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. nased on the parent company theory).

Table no. 1: Empirical results for regression models 1 şi 2

Period/Sample		Characteristics MODEL 1					Characteristics MODEL 1				
		Const.	Bv	E	F	Adj. R²	Const.	CiBV	CiE	F	Adj. R²
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. R²	Model 1 Ent.T	64.70%	65.90%	69.00%	79.40%	74.20%	77.90%	66.30%
Adj. R²	Model 2 PaCo.T	60.60%	65.30%	66.60%	80.20%	77.50%	78.40%	66.90%
Δ Adj. R²	(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 şi 2 applied on the reduced sample

Period/ Sample	Caracteristics	MODEL 1 (reduced sample)					Caracteristics	MODEL 2 (reduced sample)				
		Const.	Bv	E	F	Adj. R²		Const.	CiBv	CiE	F	Adj. R²
2003-2008 **n= 85**	Alfa	14.572	0.377	3.843		**76.20 %**		15.26	0.496	5.047		**76.80%**
	t	4.881***	3.139**	5.693***	125.712			5.171***	3.353****	6.454***	130.034	
	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).

  Model 3: $P_{it} = \alpha_0 + \alpha_1 * BV_{it} + \alpha_2 * CiE_{it} + \varepsilon_{it}$ (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. R²
2003-2008 **n= 548**	Alfa	11.836	0.604	4.282		**67.50%**
	t	10.866****	10.584****	11.277****	532.828	
	VIF	-	2.511	2.511		
2003-2008 **n= 85**	Alfa	13.858	0.441	4.735		**79.20%**
	t	4.976****	4.625****	6.944****	149.588	
	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).

V. Acknowledgements

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COMPANY PERFORMANCE MEASUREMENT AND REPORTING METHODS

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One of the priorities of economic research has been and remains the re-evaluation of the notion of performance and especially exploring and finding some indicators that would reflect as accurately as possible the subtleties of the economic entity.

The main purpose of this paper is to highlight the main company performance measurement and reporting methods. Performance is a concept that raises many question marks concerning the most accurate or the best method of reporting the performance at the company level. The research methodology has aimed at studying the Romanian and foreign specialized literature dealing with the analyzed field, studying magazines specialized on company performance measurement. If the financial performance measurement indicators are considered to offer an accurate image of the situation of the company, the modern approach through non-financial indicators offers a new perspective upon performance measurement, which is based on simplicity. In conclusion, after the theoretical study, I have noticed that the methods of performance measurement, reporting and interpretation are various, the opinions regarding the best performance measurement methods are contradictive and the companies prefer resorting to financial indicators that still play a more important role in the consolidation of the company performance measurement than the non-financial indicators do.

1. Company performance – conceptual approaches

Performance will always remain a contested, continuously-evolving concept. The performance concept can be narrowed down through an almost infinite number of definitions, many of which refer to specific contexts or functional perspectives. Reaching a consensus regarding the definition of performance is difficult at the level of an entity, since we must take into account the type of activities a certain entity is specialized in and the different interests of the one involved. Most times the objectives of the entities tend to be vague, constantly shifting, controversial and, sometimes, contradictive. Under these circumstances, the performance is a subjective and multi-faceted phenomenon. As to what an economic entity is concerned, many shares may influence or are influenced by the activities provided by the respective entity and this is exactly why divergent perspectives regarding the performance exist on a large scale. The specialized literature offers no unitary outlook upon the concept of performance, it either gives particularized definitions, which encompass certain facets, or general definitions that are difficult to quantify (Siminică 2008: 107):

- M. Porter considers that the company performance depends upon its capacity of creating value for its clients;
- A. Buirguignon defines performance as reflecting the accomplishment of organizational objectives;
- Eli Cohen associates performance with efficiency, analyzing the results obtained by the company in comparison with the used resources;

- Philippe Lorino states that, for a company, performance represents what contributes to optimizing the value-cost couple and not only what contributes to diminishing the cost or raising the value;
- C. Marmuse considers performance to be the element that, on the long run, keeps the competition at a distance through a strong motivation (based on rewarding systems) of all the members of the organization.

Bourguignon's definition of performance, based on the *action-result-success* trinomial is very widely used in the specialized literature. The essence of this approach consists in defining the three dimensions as follows (Bourguignon 1997: 89-101):
- **action performance:** performance is a process and not a result that occurs at a certain point;
- **result performance** (result of the action)**:** performance measurement is understood as an evaluation of the results obtained as the consequence of an activity (process). This meaning relates only to value: performance measurement is regarded as an ex-post evaluation of the obtained results.
- **success performance:** performance does not exist independently, but it depends on the company representation of success made by various categories of users of the accounting information.

Performance can be defined as a state of competitiveness of the economic entity, reached through an efficiency and productivity level, which ensures its durability on the market (Niculescu 2005: 43).

Professors C. Bărbulescu şi C. Bâgu have stated that performance represents the level of best obtained results. They consider that, correlative performance measurement implies concepts of competitiveness and competition advantage (Bărbulescu şi Bâgu 2001: 55). However, it is inevitable that the performance notion foregrounds efficiency and effectiveness and that expression indicators acquire a special diversity. Reaching a company-level performance implies direct or indirect re-evaluation of the competitiveness, competition advantage, efficiency and effectiveness concepts.

2. Financial performance measurement indicators

In the course of time, performance has been either measured through the size of the company or through its productivity and profit. Managerial accounting researchers have become aware of the fact that performance at an organizational level cannot be quantified only through accounting or financial indicators. Especially that in the new age organizations cannot raise their competitiveness only for the rapid development of new technologies represented by physical shares or by an excellent management of shares and financial debts.

In the specialized literature, financial indicators related to the company performance are presented in three large categories:

- *Accounting result and derivative indicators.* The accounting result is actually the result from the financial statement. It is a fundamental indicator that can be explained through a structural analysis of the profit and loss account, namely an analysis of the intermediary balances of administration. The accounting indicators present the company performance in absolute values. Using rate indicators is recommended for various comparisons: the personnel expenses balance in the turnover, the productivity rate, the commercial margin balance in the turnover, etc. These indicators offer an image concerning productivity;

- *Traditional productivity indicators.* These indicators offer information regarding productivity, namely, reporting is made at the value of the invested assets. The most well-known indicator is ROI (return on investment), determined as a ratio between result and invested values. A traditional productivity indicator is the *Financial productivity ratio* determined as a ratio between net result and company equity (known as ROE – return on equity in the specialized literature). The financial productivity ratio offers information that allow companies to make comparisons

regarding the productivity expected by shareholders and, therefore, to assess the financial attractiveness of the company. Another indicator used to evaluate the economic productivity is the Return on capital employed (all the used financing methods are being taken into consideration) determined as a ration between the operating result and the capital employed;

- The new category of financial indicators. A representative indicator is EVA (Economic Value Added), whose positive value suggests that the company has managed to create value from a strictly financial point of view after payment of all capital contributions and especially after payment of capital shareholders. The economic value added is determined based on the relation:

Operating result = operating result – (average weighted cost of the capital x adjusted capital employed)   (1)

EVA is an indicator that is better related to the stock market flow than other financial measures. From the perspective of the local performance, this indicator is used for evaluating the performance of divisions at a group level.

Financial indicators offer a short-term perspective upon performance, which represents one of the limits most frequently formulated. The information offered by them do not allow for a good reactivity on behalf of the managers. Another limit is represented by the fact that financial indicators are indicators of result and not of process, they are the effect of decisions of various origins and, through time reporting, of various durations. The information offered by these indicators is often difficult to comprehend by the managers. Financial indicators are often the result of complex and even debatable calculations, requiring complex economic and financial knowledge. Generally, the information provided to the deciding factors must be obtained rapidly and it must be intelligible in order to facilitate quick decision-making.

The fields of interest concerning management, investors and creditors are presented in the following table, together with the most frequently used methods of performance measurement.

Table no. 1. Performance indicators according to segments and perspectives

Management	Investors/Shareholders	Creditors
Operational analysis	**Investment productivity**	**Liquidity**
Gross margin	Net assets productivity	General liquidity
Profit margin	Social capital productivity	Acid test
Added value	Earnings per share	Liquidity value
Gross revenue surplus	Cash flow per share	
Net revenue result	Share quotation increase	
Analysis of operational expenses		
Structural analysis	Total productivity for shareholders	
Revenue leverage		
Comparative analysis		
		Financial leverage
Resource management	**Profit usage**	
Asset turnover	Dividend per share	Leverage degree
Working capital management	Dividend ratio	Financial stability (Debts/Capitalization)
	Distribution/un-allocation ratio	Financial autonomy (Debts/Equities)
Stock turnover	Dividend-coverage degree	
Receivables turnover	Dividends/Total assets	
Suppliers turnover		
Productivity	**Market performance**	**Debt service**

Economic productivity (net)	PER	Interest-coverage degree
Gross productivity	Cash-flow multiplication degree	Debt-coverage degree
Net assets productivity	Value on market/Accounting value	
Economic value added		Fixed-expenses coverage degree
Economic profit	Relative movements of quotations	
Cash-flow productivity		Cash-flow analysis
Free cash-flow	Value vectors	
	Company value	

Sourse: Helfert 2006: 113

All the three basic groups are interested in the success of the business, each from a different point of view. From the variety of the presented indicators, the crucial business test is the productivity of the invested capital and its effect upon the assets owned by the shareholders. These indicators are the best interpreters when they are approached as a system of correlations, sensitive to managerial decisions, which may be influenced by the evolution of the specific value-creating vectors.

Many individual indicators are, by nature, merely static elements and cannot be interpreted accurately in the context of activity dynamics. The drawbacks are connected to the limits of the traditional accounting principles. This way, the necessity that managers should adopt an economic perspective, based on cash flows, in order to consolidate the decision-making activity, which, on the long term, will also determine a performance based on accounting information, has been highlighted.

3. The profit and loss account – image of performance

The complex informational background of the financial statements has led to their being acknowledged, nationally, as well as internationally, as the manager's fundamental instruments on all organizational levels. Referring to their importance, P.A. Samuelson, Nobel prize winner for Economics, states: *it is compulsory for the modern man to gain at least some knowledge in the accounting elements. Everyone that works in economics must be able to understand the two essential mapping features, balance and the profit and loss account.* (Samuelson 1964: 107)

Alongside the other components of the financial statements, the profit and loss account provides information regarding the company performance, each company's objective and each investor's mission.

In time, the profit and loss account has been the subject of concern for specialists and normalizers.

As a first performance-reflection model, the profit and loss account has been outlined in 1494 by Luca Pacioli, who considered that "the purpose of each merchandiser is to make profit that is legal and competent for his sustenance" (Paciolo trans. by Rusu and Cuciureanu 1991).

The profit and loss account represents the effect of the operational decisions of the management upon the company performance, upon profit, and upon loss for shareholders for a certain period, respectively. The profit and loss calculated within this document increases or reduces shareholders' level of equities from the balance sheet. Therefore, the situation concerning the obtained results is a necessary extension of the balance, in order to gain accuracy regarding some important components of the modifications in shareholders' capital, and in order to offer detailed information necessary for the measurement of a company's performance.

The information regarding the company's performance, and especially regarding its productivity, reflected in the profit and loss account, is used for:

- evaluating potential modifications of the company's economic resources so that they can be controlled in the future. The information regarding performance changeability is therefore extremely important.

- anticipating the company's capacity of generating treasury flows with the existing resources.
- formulating statements regarding the company's efficiency in using new resources.

The presentation method of the profit and loss account varies from one country to another, according to the informational contents and the form of presentation. The impact of the implementation of the 4th Guideline by the European Union member states has generated a host of profit and loss account models. In countries like Belgium, France, Italy, Portugal and Spain it is illegal that commercial societies publish their profit and loss accounts with the classification according to functions. Even among the countries that allow the four models to be used there are various varieties of their usage, as can be seen in the following table:

Table nr. 2 Methods of the profit and loss accounts in the countries of the European Union

	According to functions		According to nature	
	Vertically	Horizontally	Vertically	Horizontally
Austria	X	X	*	X
Denmark	X	X	*	*
Finland	*	*	*	*
France	*	X	*	X
Germany	X	X	*	*
Greece	*	X	*	X
Ireland	*	*	X	X
Italy	*	*	*	*
Luxemburg	X	X	*	X
Great Britain	*	*	*	*
Holland	*	*	*	*
Portugal	*	*	*	*
Romania	*	*	*	*
Spain	X	X	X	*
Sweden	*	X	*	*
* = Permitted by national legislation				
X = Banned by national legislation				

Source: Ştefănescu 2005: 126

The development of the financial markets and of the financial communication requirements regarding future performance anticipation, imposed by the investors, requires a dynamic measurement of the performance. In order to accomplish this, two currents are fighting for supremacy in the accounting world: "current operating concept" and "all inclusive concept", referring to operations included in the determination of the result.

According to the "correct operating concept", in the profit and loss account only the consequences of normal operational transactions of the current fiscal year are to be included, while the ones that do not concern operations need to be reported upon the reserves. In this version, only the operational transactions allow for a pre-visualization of the companies' future performance.

The users of this concept remove all elements that are not significant to highlighting the performance in the balance from the profit and loss account.

The "all inclusive concept" implies including in the profit and loss account elements that involve the growth or decrease of equities in the fiscal year, except for dividends distribution or capital decrease due to distribution by shareholders, and shareholders' contributions, respectively.

This dual approach upon the result sets forth to offer the users an answer for two categories of needs: that of measuring the performance of the activities (current operating concept) and that of measuring enrichment (all inclusive concept).

In the last years the tendency to presents the company's performance in a single financial statement, rather than in two or more, has been noticed (Săcărin 2002: 128). This situation corresponds to the global result, an indicator that projects new dimensions upon the economic-financial performance analysis.

The measurement of the global result determines the dimension of the company's performance. It refers to the fluctuation in the company's equities, as a consequence of different sources, except for the ones generated the operations with the owners.

It is an indicator more encompassing than the result highlighted by the profit and loss account, since it also includes elements determined in the equities, but which do not transit the income and expenses accounts. Its analysis highlights the contribution of all production factors to the forming of the result, it its economic form.

The most complex understanding of the *global result* concept is offered by IFRS 1. From this point of view, the boundaries of the accounting result are overcome, and "differences of conversion, income or latent loss in the financial instrument, actuarial income and loss associated to provisions, the effect of modifications in accounting methods, and the correction of fundamental errors" are also included (Ristea and Jianu 2004: 226).

4. Non-financial indicators – a modern method of measuring performance

The new financial performance measurement trend that uses non-financial indicators has brought about severe criticism towards the financial indicators, including criticism towards their aggregated form, too slow in offering useful information that would aid the managers in understanding the deep causes of the issues or that would help them initiate quick corrective measures. In the last years, a growing number of companies have started to lay stress on the measurement of certain non-financial aspects that have a financial impact, which had not yet stirred the interest of the managers, such as the clients' loyalty, the satisfaction degree of the employees or other aspects concerning performance improvement, but which are not financial and have a later impact upon productivity.

Poincelot & Wegmann (2004) present them in opposition with the financial indicators: they are considered to be non-financial because they do not convey the financial objective of a company directly like the productivity indicators based on the result or on the turnover do and they can be qualitative or quantitative indicators, sometimes expressed in monetary value (for example the expenses for client-forming programs, client marketing expenses), as the authors emphasize. Considering the nature of the non-financial indicators, these cannot lead to a global evaluation of the company's value creation in arithmetic terms. For the evaluation and guidance of the performance, Poincelot & Wegmann generically term the non-financial indicators *non-financial criteria.*

As to what the *contractual approach* is concerned, the two authors present the advantages of introducing non-financial criteria in the systems of performance measurements:

- *the non-financial evaluation criteria facilitate the coherence between strategy and the assignment of decisional rights* either by playing the role of an incentive mechanism, or as an essential component of the control system, or the two roles mentioned above simultaneously, or as a proper modality of evaluation of the realized performance (therefore they represent a mechanism that stirs, controls and evaluates performance, since they are much more adapted than the financial criteria). Poincelot & Wegmann have noticed that these non-financial criteria predominate when the decisional function is decentralized.

- *using non-financial criteria may favor the internal coherence of the organizational architecture.* After studying various representative research papers (Jensen and Meckling 1992, 1998; Horngren et all. 2003), the author have reached the conclusion that in the contractual literature the relations between the organizational architecture and the non-financial criteria have not been clearly established.

- presenting the non-financial indicators to the directors in the incentive agreements (agreements with bonus) as a means of reducing conflict (conflicts between directors and shareholders, conflicts between directors and employees). To Ittner, Larcker & Rajan, the managerial incentive agreements based exclusively on financial dimensions are not the most efficient means of motivating the directors to act according the interests of the shareholders (Ittner, Larcker & Rajan 1997: 231-255). This way, the three authors suggest using non-financial indicators, which quickly provide the shareholders with information regarding the effort put by the directors into creating value at the level of the organization (therefore, the presence of the non-financial indicators represents a means of reducing the conflict between the directors and the shareholders at the level of the organization).

The non-financial indicators for a company's performance measurement may unify the information offered by the financial indicators, but the fact that the process of creating a set of indicators that are relevant to the activity performed by each company is difficult, leads to their being less used. The application and analysis difficulty of these indicators is determined not only by the complexity of the process of selecting the information that is most relevant to the respective company, but also by the high costs required by the stages necessary in creating a set of activity-specific indicators.

The necessity of introducing the non-financial indicators in order to guide and evaluate a company's performance has been advocated by Kaplan and Norton, for instance: "the financial indicators cannot reflect the global performance of a company".

Any performance measurement system includes a subjective side as well. Therefore, using various indicators evaluated by various interested parts (partners) is recommended, the company thus benefiting from various points of view at the performance level.

5. Conclusions

The performance of a company implies entwining various types of abilities that characterize the activity of the company, such as: productivity, profitability or competitiveness. From a chronological point of view one may notice that the specialized literature as well as the exercise has emphasized the company's performance measurement through traditional financial indicators. In the past decade a new methodology of assessing performance at a microeconomic level has emerged and has developed, based on the company's capacity of creating value in the performed production and sales activity. These indicators that measure the internal and external value of the company (EVA, MVA) have developed as a consequence of the higher demands of the shareholders and of the market as well. As companies perform their activity in a more and more dynamic environment, analysts are more open to non-financial aspects when it comes to reaching certain conclusions concerning the company's performance.

Therefore, in order to measure a company's performance, it is necessary to resort not only to the financial results, but to a global vision upon inter-dependences between internal and external, quantitative and qualitative, technical and human, physical and financial parameters of the company management. Even though more and more analysts confirm the importance of analyzing non-financial indicators, the financial indicators will hold the supremacy in consolidating the measurement of the company's performance due to ease with which the results can be analyzed and interpreted.

In this context, one may state that an easy solution that can be adopted by each company when performance measurement is aimed at does not exist. Each organization that best characterizes the activity and its specific situation.

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EFFICIENCY OF FINANCIAL CONTROL IN ROMANIA

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In this paper the authors present ways to measure the effectiveness of financial control in Romanian companies. Thus, based on the concept of economic efficiency the authors show ways to increase efficiency and results achieved by ANAF control lately.
Key words: control, efficiency, economy, effort, effect
Jel classification: M41

1. Introduction

Although the concept of efficiency is met praxology, most forms it takes are expressed by the concept of economic efficiency as a way of expressing actions capacity to produce positive economic effects.

Terms of efficiency come from the French word which signifies efficacy, the quality of the effect (positive) expected.

The explanatory dictionary of the Romanian language shows that the efficiency understands "the quality of the effect (positive) expected".

The concept of economic efficiency is addressed in various works only after 1909, although some indirect analyzes are common since the nineteenth century. It appears that economic class was taken in technical economics, as suggested by Michael Draganescu, or natural sciences.

In a practical sense, energy efficiency has always concrete dimensions. The principle of economic efficiency is discussed in theory in the eighteenth century by Maupertuis, which makes it the principle of least action thus: "It is a natural maximum action to achieve the aim pursued with minimum expenditure of resources. When this maximum is happily applied, the consequences can be expressed in two forms logically equivalent to a single product, while decreasing labour, for both the work produced in increasing numbers."

2. Method and results

Generally, one can say that efficiency is a measure of achieving a goal, objective, proposed. Such a conception has the advantage that correlation implies at the same time, comparison between the proposed goal and the degree of fulfilment of its coordinates.

Given that any phenomenon and economic process is viewed as dual aspect, quantitatively and qualitatively, which found that economic efficiency is simply a ratio between the sides of the economic phenomenon under review and may be viewed as a result of activity, knowledge human.

This is actually an expression of economic efficiency through quantitative measurement of its forms:
- Direct form, i.e., effect / effort;
- Indirect form, i.e. effort / effect.

A. Iancu believes that the economic efficiency means "increase maximum results with minimum effort, expense and time". The same author points out that "economic efficiency can be understood only in the whole process of reproduction and only within social life".

Economic efficiency can be assessed by volume indicators (annual income, annual income, total income, expenses, and etc. currency.) As may be options for effects, for example, to be higher but resource consumption leading to inflated the lower efficiency at a lower volume per unit of effort effects. Hence, the efficiency of financial control can be determined by comparing the effects of efforts, as follows:

$$e = \frac{E}{\varepsilon} \quad \text{or} \quad e' = \frac{\varepsilon}{E}$$

Where:

is - is effective financial control;

E - effects achieved (income identified);

 - Efforts (expenses specialized control staff).

The effects can be quantified by volume indicators (physical output achieved) or value (revenue, profit, etc. currency receipts.). Efforts can also be expressed in physical units of volume (number of employees) or value units (volume of investment, production costs, material costs etc.

Given the above, we define the efficiency of financial control part of the economic efficiency of the entity, category targeting systemic financial stability of the entity, and make the balance on the one hand the results of the control (identified additional revenue) with costs personnel supported, on the other.

The control action is expressed in the results following its implementation measures. Control results, that its effects can be grouped into two categories:

a) Direct and immediate effects of control, quantifiable elements that can be known, tracked and summarized, from one period to another;

b) Indirect effects that shape over time, such as: extension of control measures, the branches, industries or the economy.

In the effort to achieve control, are taken into consideration, first, all expenses of maintenance and operation control device (salaries, allowances, subsistence allowances, school fees and improvement of control bodies, etc.). Also, bear in mind the effort of the national economy by depriving it of intake specialists working in the control device.

Ways to increase the efficiency of control can be grouped as: modernization of the control, increased training, rational organization of work control, moral and material incentives and tax control independence.

We believe that in the control must consider the factors that influence efficiency and financial control that can be grouped into two categories: factors direct and indirect factors.

The category of direct factors we considered body control, awareness of his training and methods used during control to increase efficiency.

The category of indirect factors is taken into consideration in our view the material conditions in which the control, audit-specific legislation, relations between inspectors and economic entity and factual situation, that the control objectives, control period checked and results.

Finally note that financial control of the results by attracting additional amounts to the state identified the corollary of control.

Effectiveness of control has resulted in 2011 in an effort NAFA collection of revenues by collecting the amount of 133,914.5 million. As a share of the budget submitted by the MPF program, revenues were approximately 99.97% and represented 26.5% of GDP. The good results obtained A.N.A.F. In 2011 were caused by the adoption of efficient management, which aimed to increase the performance of all Agency activities, leading to largely counteract the negative impact of macroeconomic presented.
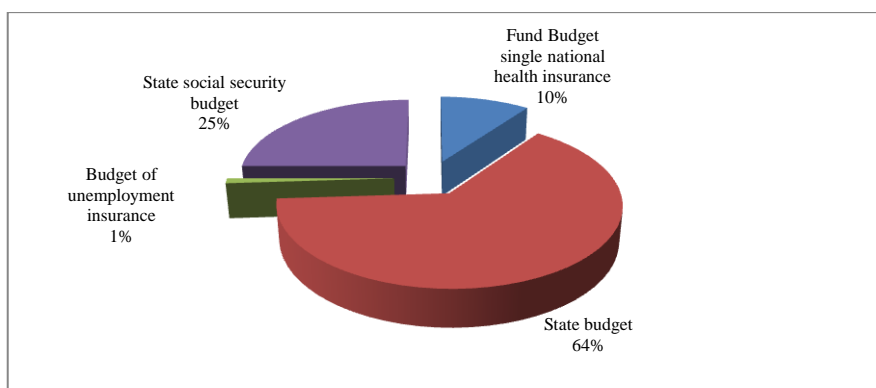
Figure 1: Income structure of NAFA on budgets in 2011

Greatest contribution to total revenues of the National Tax Administration Agency have incomes of state budget (64%) and state social security budget (25%).

Budget revenues (consisting mainly of income tax, income tax, and VAT and excise duties) were 85637.3 million lei, by 1.4% over the programmed (84460.2 million lei). Largest contribution to the formation of a state budget without VAT, accounting for 40.1%, followed by income tax (21.7%) and tax (12.4%), as shown and in the following figure.
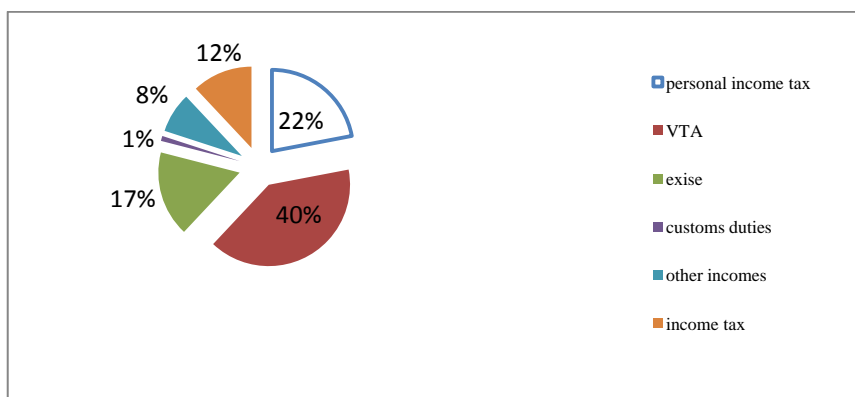
Figure 2: Weight of the main taxes in the state budget in 2011

Previous year, income tax recorded in 2011 increased by 137.5 million lei (0.8%), exceeding the budgetary provisions (18,274.3 million) by 1.5%.

In 2011, revenue from excise duties, accounting for 2.8% of GDP, were 14272.1 million lei, surpassing the level recorded in 2010 (15.3%) and was programmed (+ 7.2%).

Budgetary provisions to the value added tax were made at a rate of 96.9% (34322.4 million, compared to 35,405.0 million lei). Revenue share in GDP was 6.8%, 1.3 percentage points lower than that recorded in the previous year.

The tax budget provisions were made at a rate of 93.8%.

The receipts in customs duties were 679.4 million lei, exceeding the budgetary provisions of 145.3 million lei, by 27.2 percentage points respectively.

Provisions of the revenue budget for 2011 social security budget have been made at a rate of 101.3%. The share of gross domestic product revenues was 6.8%, 0.6 percentage points higher compared with 2010.

Fund revenues single national health insurance in 2011 recorded a decrease of 737.0 million (-5.1%) than in 2010. Share in GDP income in 2011 was 2.7%, 0.2 percentage points lower than the same period last year. Budgetary provisions in this budget were made at a rate of 95.6%. Compared to 2010, the unemployment insurance budget has decreased revenues to 483.1 million (-24.6%), due to the reduction of 0.5 percentage point contribution from 01.12.2010. Budgetary provisions have been exceeded by 13.4%.

mil lei	inciome tax	personal incomne tax	VTA	excise	customs duties
2010	13.040	18.414	40.874	12.383	971
2011	10.617	18.551	34.322	14.272	679
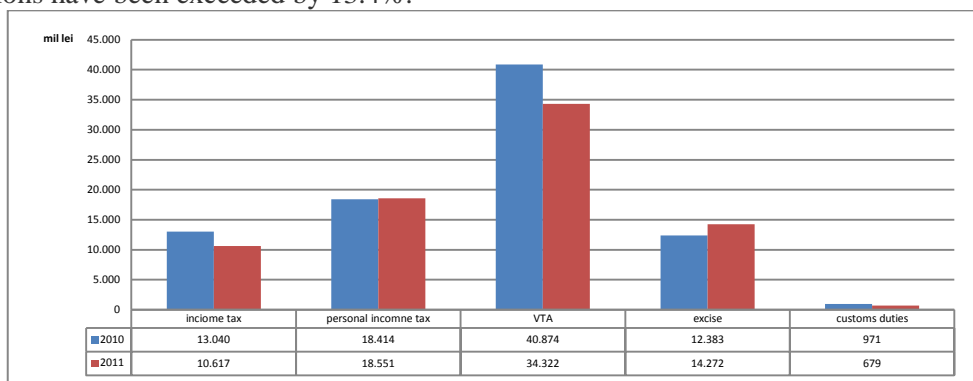
Sursa: http://www.anaf.ro/public/wps/portal/ANAF
Figure 3: Evolution of the main revenue taxes of the state budget

Large and medium taxpayers are an important issue for revenues because their contribution to revenues is significant: taxpayers generate 46.6% of total revenues and medium taxpayers - 23.6%. Meanwhile, specialized monitoring of these categories of taxpayers is necessary because of high levels of related late payments.
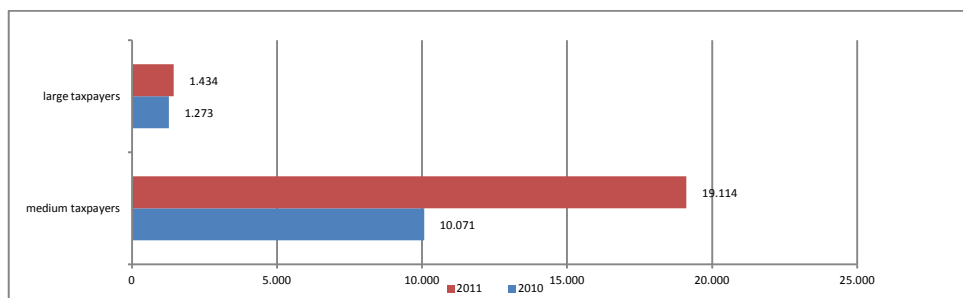
Sursa: http://www.anaf.ro/public/wps/portal/ANAF
Figure 4: The evolution of large and medium taxpayers

Unfavourable economic conditions have created difficulties in fulfilling financial obligations even some fiscal discipline economic agents. In addition, there were situations where insufficient or delayed allocation of budgetary resources by some public institutions determined the accumulation of unpaid tax obligations.

3. Conclusions

Although control knows widening its sphere of action and a diversification of forms of expression, in conclusion I would like to say that certain restrictions must be subject to control. Knowing these limits and restrictions are both important and necessary for the control authorities (who need to know precisely how far they stretch their duties) and for administration and management bodies (who are not entitled to restrict or expand at will action control, to prevent checking targets or require performance of unnecessary interventions or illegal).

A. A first limit of financial control that is given to objectively ascertainable facts and compliance with regulations in force is necessary for control bodies have not contributed in any way to create such situations or to prepare documents and records which mirror.

Two. Second, to verify an activity must be necessarily a genuine and accessible source of information control body. This means that when the technical and operational records and accounting records are kept in order and completed to date, economic control, and financial manager could be held in good conditions and its results are not conclusive enough. Accessibility of information sources takes into account not only formal or legal aspect (right to consult), but body control and opportunities to understand and interpret that information, regardless of their form of presentation or delivery. We refer especially to cases where information processing and financial accounting are provided by modern information systems.

Three. Thirdly, content and complexity of each control actions require a certain profile, level of qualification and competence of the responsible body to perform. This means that any check cannot be entrusted to anybody of economic control, and financial manager.

Four. On the other hand, is an attribute of management, financial control is, in principle, irrelevant to line managers. But, in a real democracy and strengthen the rule of law that limit is increasingly attenuated. Extending the organizational control intervention independent professionals, creating bodies with full autonomy in control, and the increasing role played by mass media make it possible to check all hierarchical levels.

Five. In many cases, financial control bodies may not take direct decisions about the direction of future work units or departments checked, according to the regulations in force such decisions are the competence of management, the higher authorities or other bodies, which generates a specific branch to propose measures and decision making in the context of clearly defined responsibilities.

Six. Finally, other limitations and restrictions may be imposed by the very objectives of control (how to select them in all possible aspects of control), subjective or personal factors (such as preparation of the audit, their intelligence and insight, ability to work and their ability synthetic) or even social factors (possible kinship, friendship or collegial with people to be controlled). Obviously, can be discussed and other influences, generated by the organization and assessing the work of control, such as material incentives to control bodies, moral incentives, management's position of these organs or to the findings and their proposals, the degree of personal responsibility and the like. All this creates limitations and restrictions inherent in daily exercise financial control.

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CONTEMPORARY APPROACHES OF COMPANY PERFORMANCE ANALYSIS BASED ON RELEVANT FINANCIAL INFORMATION

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In this paper we chose to present two components of the financial statements: the profit and loss account and the cash flow statement. These summary documents and different indicators calculated based on them allow us to formulate assessments on the performance and profitability on various functions and levels of the company's activity.

This paper aims to support the hypothesis that the accounting information presented in the profit and loss account and in the cash flow statement is an appropriate source for assessing company performance. The purpose of this research is to answer the question linked to the main hypothesis: Is it the profit and loss statement or the cash flow account that reflects better the performance of a business?

Based on the literature of specialty studied we tried a conceptual, analytical and practical approach of the term performance, overviewing some terminological acceptations of the term performance as well as the main indicators of performance analysis on the basis of the profit and loss account and of the cash flow statement: aggregated indicators, also known as intermediary balances of administration, economic rate of return, rate of financial profitability, rate of return through cash flows, operating cash flow rate, rate of generating operating cash out of gross operating result.

At the same time we had a comparative approach of the profit and loss account and cash flow statement, outlining the main advantages and disadvantages of these documents.

In order to demonstrate the above theoretical assessments, we chose to analyze these indicators based on information from the financial statements of SC Sinteza SA, a company in Bihor county, listed on the Bucharest Stock Exchange.

Keywords: accounting information, performance, result, profitability, cash flow.
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. For business performance analysis we chose to present two components of the financial statements: the profit and loss account and the cash flow statement.

Company performance - concept, content, approaches

Reviewing the literature we can say that currently the term 'performance' has a high degree of complexity and can have different meanings: a positive result of an activity, competitiveness, profitability, productivity, adaptability, growth, efficiency, satisfaction, success, achievement (Jianu 2007: 12-23).

Some authors define the notion of performance as "the degree to which a company meets the requirements of the economic environment both internal and external through an optimal combination of effectiveness and efficiency" (Buşe 2005: 136).

In the American literature no clear distinction is made between performance analysis by the rates of return and those of profitability, the two concepts are often used interchangeably (Pinches 1990). The continental literature, who is of French inspiration, expresses a negative attitude towards the confusion of the concepts of profitability / return and their use as synonyms (Vernimmen 1988: 313).

The literature in Romania claims that profitability is an economic category which reflects the company's performance (Petrescu 2008: 31) and represents the ability of an enterprise to make profits by using factors of production and capital, regardless of their origin (Robu and Georgescu 2000: 190). A complex research of the concept of performance is achieved by Julia Jianu, who concludes that "performance is a state of competitiveness of the enterprise which ensures sustainable presence on the market" (Jianu 2007: 24).
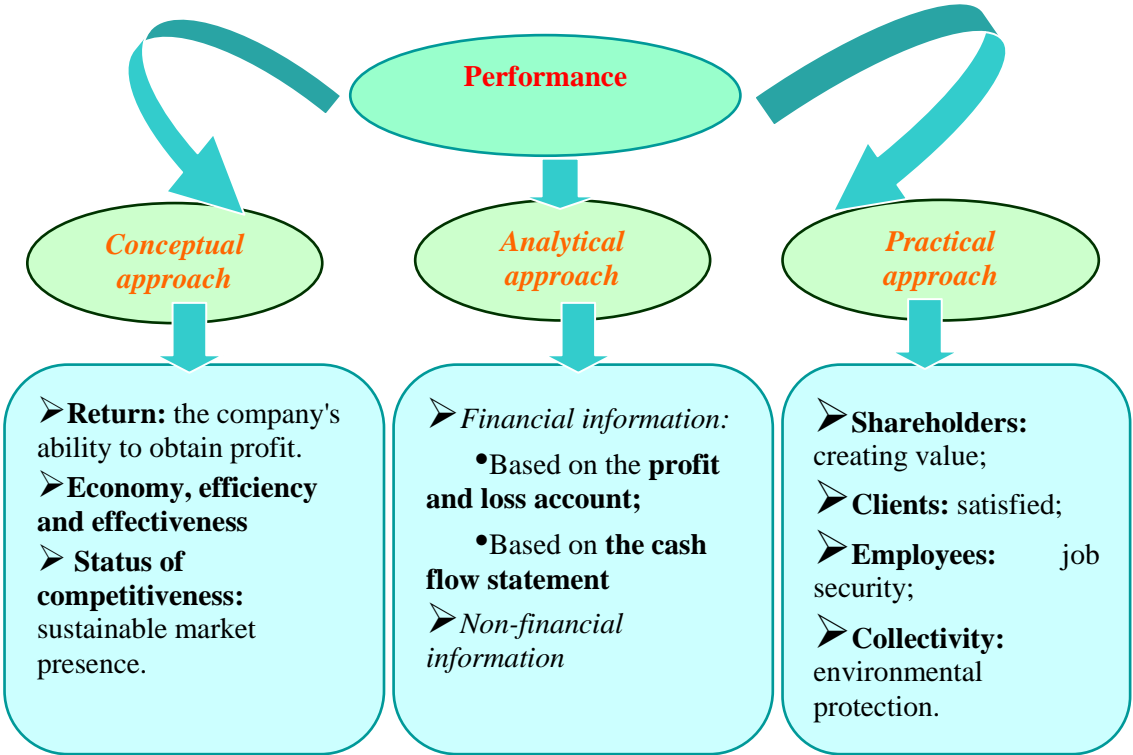
Figure 1 Approaching the term performance
(Own projection)

We believe that the components of financial statements reflect the different aspects of the same events and transactions. Thus for evaluating the performance of an economic entity it is not sufficient to analyze only the *profit and loss account*, but we must take into consideration *the cash flow statement* and other non-financial information.

Profit and loss account - the traditional tool for assessing the company's performance
Most companies have as main objective to maximize the profit, so traditionally the company performance is evaluated based on profit, reflected in the profit and loss account. The profit and loss account gives a retrospective view of the operations that influenced the financial result of the exercise (Moscviciov 2011: 75) and explains the way the result of the exercise is formed as an expression of partial or global adjustments between different types of income and expenses (Mironiuc, 2006: 342). This analysis expresses the firm's profitability on various levels.

For measuring the profitability we can use two categories of indicators: the profit and the rates of return.

I. *The profit* expresses in *absolute values* the business' profitability and it is "the main component of wealth of a society and reflects both the company's performance and the capacity of the company to reinvest and pay dividends" (Mironiuc 2006: 237).

In the analysis of the profit as it is presented in the profit and loss account we must consider its components, whose aggregation leads to the building of a series of aggregated indicators, also known as intermediary balances of administration.

Operating income = Turnover + Other operating income	Material expenses				
	Staff expenses				
	EBITDA = (RBE, EBE) (Earnings Before Interest, Taxes, Depreciation Amortization); **Gross operating result**	Amortization Depreciation Other operating expenses			
		EBIT= (RE) (earnings before interests and taxes) **Operating result**	Financial income – Financial expenses		
			Current result	Extraordinary income– Extraordinary expenses	
				Gross result	Income tax
					Net result

Figure 2: The formation of the net result and its aggregate indicators
(*Model adapted from Moscviciov 2011: 184*)

II. *The rates of return* express in relative indicators the profitability of a company and represent the enterprise's efficiency in using its capital and resources at different levels. Profitability reflects the level of remuneration of capital, and we could speak about return only when the surplus obtained by the investor is compared with the invested capital (Ştefea 2002: 271).

1. The economic rate of return reflects the relationship between economic results and economic means employed to achieve it. In the literature we can distinguish several formulas for calculating this indicator, depending on which we have different names for the indicator (Pierre 2004: 25-32; Niculescu 2003: 215-222):

a) The economic rate of return on total capital or assets (Ret), known in Anglo-Saxon literature by the name *"Return On Assets" (ROA),* is a global measure of profitability that highlights the capacity of the total capital of the enterprise, materialised in its patrimony, to generate profit, and is calculated as the ratio between gross profit and total assets.

b) The economic rate of return on invested capital (Rei) - is established as the economic rate of return - in French literature, or Return On Investment (ROI) - Anglo-Saxon literature. The rate expresses the level of remuneration on the capital gains, determined as the ratio of the result before interest payments and income tax (EBIT) or the operating result and the capital invested.

c) The economic rate of return on employed or permanent capital (ROCE - Return On Capital Employed) – means the profit that the company gets from the money invested in the business and is determined as the ratio of the result before interest payments and income taxes (EBIT) and the capital employed.

2. The rate of financial profitability or the rate of equity's profitability, known in the Anglo-Saxon literature as the *"Return On Equity" (ROE)*, and in the French as *"financial rate of return" (Rf),* allows *assessment of the efficiency of shareholders' equity investments and of the appropriateness of keeping* them and is calculated as the ratio between the net income for the year and the equity.

Cash flow statement - modern tool for performance measurement
The analysis method based on cash flow is a more modern financial analysis compared with the classical one, based on the financial statement relying on tables of financial flows. Producing the cash flow table is mandatory for listed companies and large companies according to IAS 7, and optional for small and medium size enterprises that apply simplified accounting rules.
The ensemble of the financial flows complete the analysis of the entity's performance by a more dynamic and more global approach that enables reconstruction of the financial flows of the period according to the nature of operations, thereby identifying the existence of any cash difficulty of the entity (Petrescu 2008: 306-310).
Structure of the cash flow statement
The cash flow statement should highlight the existence, movement and transformation of cash along the financial year, related to the entity's activities, classified into: operating activities, investing activities and financing activities.
An entity shall report the cash flow statement using the direct method, which requires the use of the information in the balance sheet, to determine the flow of receipts and payments and the indirect method, which is based on information from the balance sheet, income statement and explanatory notes having as starting point the profit or loss of the year adjusted with the items not affecting the treasury of the entity.
Main indicators calculated in the cash flow statement
The information provided by the cash flow statement allows calculations of several financial ratios, of which we mention here:
- *Rate of return through cash flows*, determined as the ratio of cash flow from operations and the capital invested - provides managers with information on the profitability of investment in terms of operating results;
- *Operating cash flow rate* - a measure of the entity's ability to discharge current liabilities by use of the operating cash flows (Buşe 2005: 335-336).
- *Rate of generating operating cash out of gross operating result* – shows the ratio to which the gross operating surplus generates effective cash corresponding to the operation.

Profit and loss account versus cash flow statement - comparative approach

Table 1 Comparative approach of the profit and loss account and cash flow statement

Profit and loss account	Cash flow statement
General aspects	
Main purpose : Presenting *a genuine image* of the entity.	
Traditional, static presentation	More *modern, dynamic* presentation
Reflects the *expenses and incomes* by their nature.	Reconstructs *financial flows* of the period according to the functions of the operations.
Allows calculation of the *global result*.	Calculates the *treasury variation*.
The assessment of the enterprise's ability to *generate profit*.	The assessment of the company's capacity to *generate cash* or cash equivalents.
Information about *profitability and return*.	Information about *liquidity and payment capacity*.
Advantages	**Disadvantages**

It is mandatory for all companies.	It is a mandatory document only for *big companies.*
Highlights all revenues and expenditures of a financial exercise, explaining the formation of the *result*.	Explains only the *variation of liquidities* on different levels of the activity.
Permits the assessment of enterprise profitability, the cash flows not being significant in this respect.	Is *influenced* by the policy of liquidation of claims and of debt servicing.
Disadvantages	**Advantages**
Potential cash flows. A high profit does not mean that there is more cash.	*Actual cash flows.* You cannot spend profit, you spend money!
Can be manipulated by the company's management, by the adoption of decisions with negative effects on long-term	It cannot be easily manipulated in favour of management, because it is not influenced by the accounting policies adopted.
Does not consider the risk of failures to receive payments (even in the case of provisions).	Takes into account only *the amounts actually received.* Highlights the differences between spending, usages and payments and also between incomes, resources and collections.

(Own projection)

In order to demonstrate the above theoretical assessments, we chose to analyze these indicators based on information from the financial statements of SC Sinteza SA, a company in Bihor county with tradition in Romanian chemical industry, listed on the Bucharest Stock Exchange.

Assessment of performance on the basis of the profit and loss account

Table 2 Structure indicators of the result for the period 2009-2011

Indicator	2009	2010	2011
Gross operating result (EBE=EBITDA)	1 059 958	405 068	-786 249
Operating result (RE = EBIT)	418 281	145 387	- 1 479 491
Gross result (RB)	619 925	33 637	-1 330 486
Net result (RN)	479 528	15 329	-1 330 486

Source: www.sinteza.ro

Analyzing the indicators we can see that the entity is becoming less efficient, recording declining profits in the 2009-2010 period, while in 2011 the result of the activity is loss. While in 2009 the gross and the net results are higher than the operating result, in 2010 the situation is changed, and in 2011 the company registers losses on all levels of the indicators of result.

Table 3 Rates of return for the period 2009-2010

Name of indicator	Calculating formula	2009	2010
1. Economic rate of return			
a. Economic rate of return on total capital (ROA)	$= \dfrac{\text{Gross profit}}{\text{Total assets}} \times 100$	0.36 %	0.019 %
b. Economic rate of return on invested capital (ROI)	$= \dfrac{\text{RBE (EBITDA)}}{\text{Invested capital}} \times 100$	1.65 %	1.20 %
c. Economic rate of return on capital employed (permanent) (ROCE)	$\dfrac{\text{RE (EBIT)}}{\text{Total assets- Current debt}} \times 100$	0.25 %	0.083 %
2. Return on equity (ROE)	$= \dfrac{\text{Net result}}{\text{Equity}} \times 100$	2.28 %	0.009%

During 2009-2010 we can notice that the main economic rates of return and the return on equity record an unfavourable downward evolution. In 2011 the results take the form of losses, so we cannot talk about profitability.

One cannot say that the company is efficient, unless the economic rate of return is at least at the level of the minimum rate of return in the economy (the average interest rate: 6-8%, source www.bnr.ro) taking into account the economic and financial risk assumed by the shareholders and the creditors of the company. From the analysis of various forms of economic profitability rate in 2009-2010 we can see that they recorded values below the average interest rate.

The return on equity shows a significant downward trend, reflecting the decreased ability of the company to release net profit through the equity employed in the activity.

Performance assessment based on cash flow statement

Table 4 Indicators determined on the basis of the cash flow statement

Indicator	Calculating formula	2010	2011
Operating cash flow *(FTE)*	FTE = EBE - Δ NFRE	1 041 416	1 832 030
Total cash flow (net cash variation) *(FNT)*	FNT = FTE + FTI + FTF (operating, investment, financial cash flows)	1 995 684	- 3 270 847
Rate of return through cash flows	$\dfrac{\text{Operating cash flow}}{\text{Invested capital}}$	1.15 %	1.05 %
Operating cash flow rate	$\dfrac{\text{Operating cash flow}}{\text{Current debt}} \cdot 100$	24.30%	29.25 %
Rate of generating operating cash out of gross operating result	$\dfrac{\text{Operating cash flow}}{\text{Gross operating result}}$	2.57	-

Source: www.sinteza.ro

The evolution of *operating cash flow* in the period under review is favourable, recording a growth. The cash flow surplus resulting from the operation is a source of supporting the needs of the investment and financing activities during the period. The drop in gross operating surplus usually drives the reduction of the operating cash flow, but the decrease of the working capital

needs generated an increasing operating cash flow. This is a favourable aspect on the company's operating activities.

Overall, the *total cash flow* decreased in 2011 compared to the previous financial exercise, passing from surplus to shortage of cash, leading to assessing of the alteration of the enterprise's financial position as a bad one at the end of 2011, mainly as an effect of funding policy, with the entity not calling on new sources of funding. The cash flow from investing activities was negative in the period analyzed due to significant payments for purchased assets.

The rate of return through cash flows shows a slight decrease and records low values, a negative aspect upon the return on investment.

The operating cash flow rate shows a rising trend, the debts arising from the activities of the entity being covered at a rate of almost one third by the operating cash flow.

The rate of generating operating cash out of gross operating result registered a value higher than 1 in 2010, reflecting a positive operating cash flow, higher as compared to the gross operating result, due to lower operating working capital needs. In 2011 based on an operating deficit, a positive operating cash flow is generated, reflecting the gap between the time of recording the money income / spending and the time of their collection / payment, as well as the existence of elements of revenue and expenditure that do not generate cash flows.

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 in the cash flow statement is an adequate source for assessing the company's performance and may be influenced by non-financial information.

The conclusions of the analysis of performance of the company Sinteza SA are as follows:

- *on the basis of the profit and loss account* we can notice that the company's performance fell in the period 2009-2011, reflected by the decrease of the overall results and of the values of the rates of return, passing from profit to loss, which is an unfavourable evolution.

- *from the analysis of performance based on cash flows*, we found that during 2010-2011 the company's performance is limited to *operating activities*, reflected in a *growing surplus of liquidity,* meaning a positive aspect and the *total cash flows* shifted from a cash surplus in 2010 to a cash deficit in 2011, as a result of the investing and financing policy.

In our opinion the assessment of the performance of an enterprise is the result of a process of complex analysis, whereby we must take into account the most relevant information sources.

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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: t*he 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?

- *Chosing 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 (Buşe, 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.)
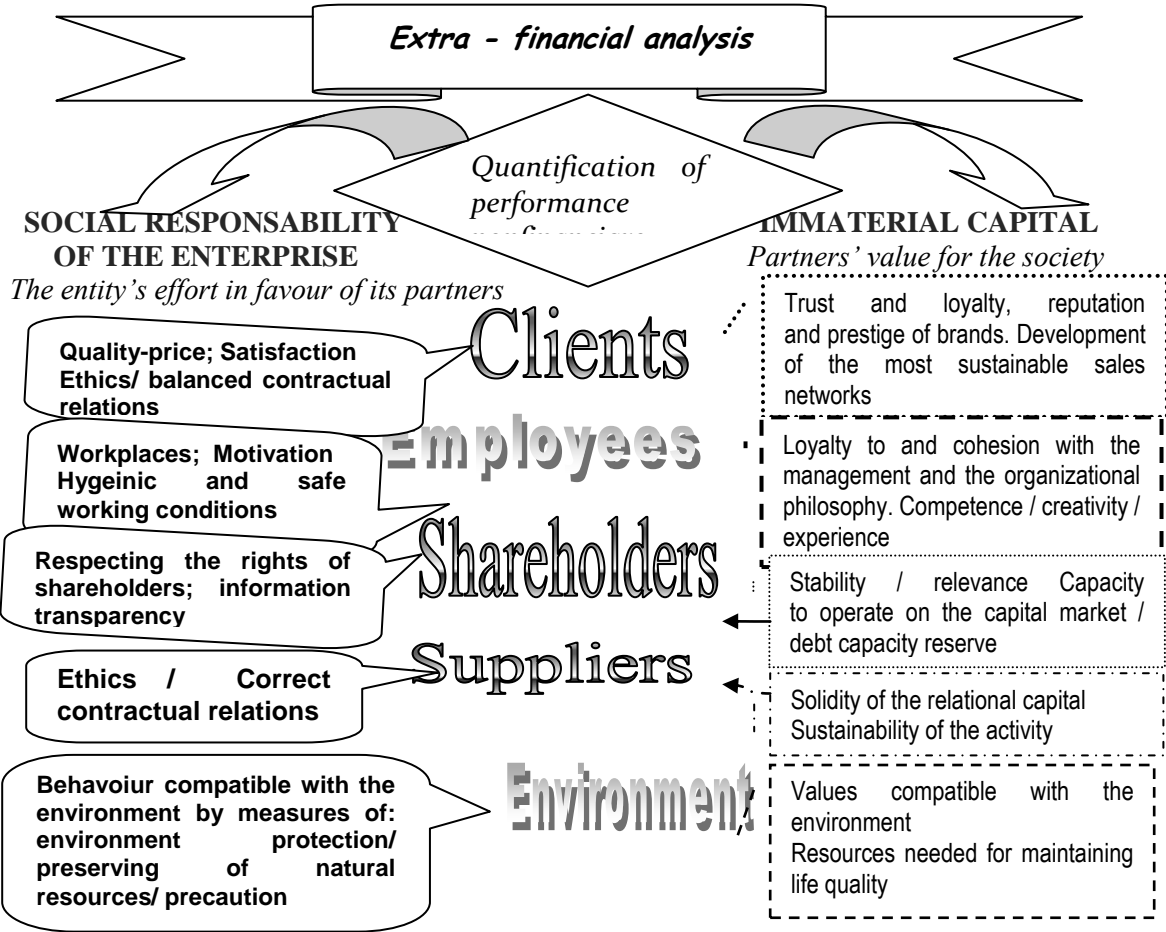
Figure 1 Performance from the point of view of the relation with stakeholders
(Authors' adaptation after Mironiuc M., 2009, p. 157)

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 implemention 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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THE DEFINITION OF GOODWILL- A CHRONOLOGICAL OVERVIEW

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The purpose of this paper is to offer a full perspective on the evolution in time of goodwill definitions. This paper is part of the research conducted in the doctoral dissertation and we consider it is very important to have a full understanding of the concept studied in order to develop on this subject. We use a chronological analysis and review definitions from the late 1800s until today. The definitions are given by prominent scholars of the time, published in highly ranked journals and books or offered by international accounting boards. We approach the definition from an accounting and a legal perspective. Our findings are that, in time, the definitions offered either improve on an old definition or are completely original. Some elements used to describe goodwill remain the same throughout the whole period we studied. The conclusion of our study is that this type of in-time analysis is beneficial to the researcher in the way that it offers a complete picture of the concept and its history.
Keywords: goodwill, definition, chronological
JEL Code M41

I. Introduction

Goodwill is one of the intangibles which have always been a constant problem of accountants and accountancy ever since its existence was first acknowledged in the 1880s. Many authors have since then defined the concept of goodwill (Dicksee&Tillyard, 1906, Seed, 1937, Gynther, 1969, Fess and Niswonger, 1981).It is interesting to observe that the divergent opinions with regard to the definition of goodwill over timeare also true about the accounting treatment of goodwill worldwide today.

Many questions which researchers raised about goodwill one hundred years ago are still being answered today, which represents a strong reason to study this topic, which is challenging, current, ambitious and also important both to stakeholders and to the field of research.This paper makes the first step in comprehending the meanings of goodwill as they were conveyed in the last hundred years by the most esteemed accounting professors or researchers of a certain time, and in the latest years by the international accounting boards which have a significant influence in accounting worldwide. Our study continues the study of Courtis(1983), but improves on that study by adding definitions from 1983 to the present time, by including international accounting boards'definitions alongside academic definitions alone, by linking the definitions to one another through the elements which we find similar.

We consider our study to be important and useful to the field of research because it gathers only the best, carefully selected definitions of goodwill, which have taken the test of time, offered only by outstanding academics, published in highly ranked journals or famous books which have become part of the accounting history, or by influential accounting boards, namely the International Accounting Standards Board and Financial Accounting Standards Board.

II. Literature review

By the end of the 19th and beginning of the 20th century, business combinations were not very common, sole owners and family businesses were still the most spread types of businesses on the market. Meanwhile, the only form of existing goodwill referred to the quality of the services or products offered and the reputation of the business or the correctness of the owner. Before accounting institutions were formed, individual writers and researchers of the time based their writing on personal experience and referred to legal cases in common law. One of the first

authors to give a definition for goodwill that is still popular today was Professor L.R. Dicksee in the first book dedicated entirely to goodwill, "Goodwill and Its Treatment in Accounts" (1906). Goodwill he says, "is the benefit arising from connection and reputation, the probability of old customers going to the new firm which has acquired the business" (cited by Courtis, 1973, p.3).

Although there is no internationally accepted definition of goodwill from a legal perspective, Courtis (1973) identifies numerous cases in common law where definitions were offered. One of the best legal perspectives was offered by Lord Macnaghten in 1901. He said goodwill "is the benefit and the advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in the custom... Goodwill is composed of a variety of elements. It differs in its composition in different trades and in different businesses in the same trade". Macnaghten's view of goodwill is strongly related to the elements which comprise it.The comprising elements of goodwill have been subject to change over time, along with the creation of institutions or accounting bodies which regulated their valuation.

III. Research methodology

We approach a chronological, qualitative overview of the definitions and the conceptualization of goodwill starting from the late years of the nineteenth century to this day. By analyzing accounting writings and the legal encounters of the term goodwill we offer a clarification of this concept and its nature. The diversity of definitions explaining goodwill for more than a decade will inherently advance criticism about the substantiality, complexity or logic abiding when formulating these definitions. In order to prevent such criticism we only considered for this paper the definitions which were given by prominent scholars of the time, published in articles or books which proved their substantiality over time, appeared in legal cases which are considered precedents, especially in the common-law countries and in the international accounting standards worldwide.

In conducting this research, for the beginning of the period studied we used the first books which were published about goodwill. Dicksee published the first book on goodwill in 1897, but we used the later, third edition, which was published in coauthorship with Tillyardin 1906. P.D. Leake published his valuation theory of goodwill in 1914, but for our paper we used the later version republished in 1921. We also used journals which are ranked in the Thompson Reuters (ISI) Web of Knowledge, especially for the period after 1900,when accounting journals were first indexed in this database. The most cited papers were published in the following journals: *The Accountant*, which is the first journal of accountancy worldwide, *ABACUS*, *Accounting Review* and not least, *The Accounting Historians Journal*, which was the *sine qua non* journal for this type of research.

We consider the chronological content analysis conducted in the research of our topic to be important and adequate at the same time, because it is crucial to have a thorough understanding of the evolution of goodwill in order to properly work with the concept further along when demonstrating the importance of this intangible asset in investors' behavior on the market.

IV. Research findings

Defining goodwill is a process which has spread over a long period of time, from the late 1800's until today, and has not yet found closure. The stretch over time and the continuity of this process was best explained by Hughes (1982), as cited by Bloom (2008):

"...there was no one Truth and never will be. The origin of goodwill can be revealed through history, but its nature is a matter of personal interpretation."

The earliest reference to goodwill was cited by Leake (1921), "I gyue to John Stephen …. My whole interest and good will of my Quarelle" (i.e. quarry) and goes back to 1571. This citation does not give a definition of the term, but it proves it has been acknowledged more than four

centuries ago and it seems to be the oldest, most famous quote about goodwill researchers ever found.

The oldest definition authors refer to appeared in Bithell's "A Counting House Dictionary" in 1882 as cited by Courtis (1983):

"The advantage connected with an established business of good repute. A well-established business presents an expectation of profits to any one entering upon it, and is worth paying for. Anyone having such a business and who is willing to relinquish the expectation of the business by transferring it for consideration to someone else can do so by what is technically called "selling the Goodwill of that business"".

There are two important aspects in this definition which perpetuated over time: first, goodwill is viewed as an "advantage" and to this day the international accounting boards refer to goodwill as such and the second aspect is goodwill's attribute of "expectation of profits" which is also part of its description today.

In the first book ever written on goodwill, "Goodwill and Its Treatment in Accounts" Dicksee and Tillyard (1906) revise the most important legal cases of that time, which give definitions of goodwill, and summarize them into a very suggestive paragraph:

"...where the locality of the business makes the trade, Goodwill as a disposable asset represents the advantage derived from the chance that customers will continue to frequent the premises in which the business has been carried on; that where the business is one which depends upon the reputation of a firm, the Goodwill consists of the advantage which the owner (whether original or by assignment) derives from being allowed to represent himself as such; and that where the value of the business depends on its business connection, the Goodwill on sale consists of the right to be properly introduced to those connections."

Again we find an element in this definition which remained constant over time: the advantage associated to the concept of goodwill, derived from the location of the business, the reputation orbrand significance, or the prior to the sale business connections.

In 1921 the illustrious chartered accountant P.D. Leake publishes the second book dedicated entirely to goodwill called "Commercial Goodwill. Its History, Value and Treatment in Accounts", where he elaborates the "Super-profit Valuation Theory of Goodwill". He defines goodwill as:

"...the right which grows out of all kinds of past effort in seeking profit, increase of value or other advantage... The exchangeable value of the right depends upon the probability of earning future super-profit- the term "super-profit" meaning the amount by which revenue, increase of value, or other advantage received exceeds any and all economic expenditure incidental to its production".

The main idea of Leake's theory is that the value of commercial goodwill is the current value of a super-profit which diminishes annually on a straight line pattern. He also identifies the "advantage" associated to goodwill which results from the difference between revenue and expenditure incurred in obtaining that revenue.

For the first time, in 1937, H.D. Seed relates goodwill to law associated with its components- namely trade names, trademarks, patents or copyrights. He develops the thesis that goodwill should only be valued in association to the valuation of the whole business. The influence of his predecessors is evident in the qualities Seed attributes to goodwill when defining it:

"The advantage which arises from the good name, reputation and connections of a business; alternatively, the benefit which accrues to the owner of a business from the likelihood that such business will earn, in the future, profits in excess of those required to provide an economic rate of remuneration for the capital and labor employed therein."

In 1946, in an attempt to probably express the frustration of some writers to find the best definition for goodwill, Harry Norris, in his book "Accounting Theory. An Outline of Its Structure", as cited by Courtis (1983), brings a little true humor into the definition of goodwill:

"If X is a live pedigree dog, and Y a dead one, then perhaps X-Y=Z. But Z doesn't mean anything in itself. The label 'goodwill' in business accounts closely resembles Z; its use is as sensible as trying to find what makes a dog tick by dissecting it."

What Norris probably means is that what gives value to goodwill are precisely its components, which cannot be valued separately, therefore are all included under the name of goodwill. Even though a funny definition, the truth behind it still emerges to the surface today, when accountants admit that the notion of goodwill contains elements which cannot be separately valued as asstes.

In 1969, Gynther approaches the definition of goodwill in a way that is still valid today, and this validation in time of his definition makes it, in our opinion, one of the most convincing definitions we managed to find in our research. Gynther(1969) admits that goodwill has been a "thorny problem" of accountants over time and the motive for that may be the fact that the real definition has been replaced by just means of calculation for goodwill. He says:

"Goodwill exists because assets are presented, even tough they are not lined with the tangible assets. For example "special skill and knowledge", "high managerial ability", "monopolistic situation", "social and business connections", "good name and reputation", "favorable situation", "excellent staff", "trade names", "established clientele" are assets in this category. The sum of the value of these assets...is the value of Goodwill".

The list of the elements which form goodwill thatGynthermentions is definitely not an exhaustive one, but our attention will be directed to those elements in another research paper. He draws attention to an aspect that is still troubling accountants today, what is the value of goodwill and what does components does it encompass?

In 1975, Gibson and Francis are among the first researchers to define goodwill with connection to consolidation:

"Goodwill on consolidation is the term used to describe the excess of the cost of investment in subsidiaries over the book value of the equity acquired."

In 1981, Fess and Niswonger, define goodwill with relation to the higher rate of return it can bring in a business combination:

"Its (goodwill's) existence is evidenced by the ability of the business to earn a rate of return on the investment that is in excess of the normal rate for other firms in the same line of business."

In 1981, when the International Accounting Standard Committee exposed its first draft for ED22 *Accounting for Business Combinations*, they defined goodwill as "the excess of the purchase price over the assigned values of the net identifiable assets acquired."

In 1983, the International Standard Committee issues IAS 22 *Accounting for Business Combinations*, where goodwill is defined as "the future benefits from unidentifiable assets".

In 2010, the International Accounting Standards Board issued the International Financial Reporting Standard 3 *Business Combinations* and replaced IAS 22. IFRS 3 defines goodwill as: "future economic benefits arising from assets that are not capable of being individually identified and separately recognized". The definition confirms that the value of the business as a whole is bigger than the sum of the accountable and identifiable net assets.More important however than this descriptive definition, the IFRS 3 defines goodwill by means of how it should be measured:"Consideration transferred to obtain control *plus* Amount of non-controlling interest (using either option) *plus* Fair value of previously-held equity interest *less* Fair value of the identifiable net assets of the acquiree (100%)"(Paragraph 32, under IFRS 3 Revised 2008 (IFRS 3R)).

The Financial Accounting Standards Board issued the Status of Statement No. 142, SFAS 142,*Goodwill and Other Intangible Assets* in 2001 and in 2007 SFAS 142 Revised where they define goodwill through how it is measured: "the aggregate fair value of purchase consideration, any non-controlling interests in the target company, and any equity interests in the target company already held by the acquirer on the transaction date less the net fair value of identifiable assets acquired and liabilities assumed in the business combination". The very similar definition

of goodwill offered by the FASB to the one offered by the IASB is explained by the convergence process both institutions signed up for.

From a legal perspective, until today, no international legal or financial institution has published an act or another legal form of regulation with regard to goodwill. In many common-law countries, some trials have been considered important precedents to others and many accounting related trials mentioned goodwill. By large, over the last hundred years we studied, what most cases referred to in connection to goodwill, was in fact connected to its components.The location of the business, the social and business connections, trademarks, copyrights, patents, skilled workers, the quality of the services or products sold, the customer loyalty, the reputation of the business were all subject to trial. Legal opinions with regard to goodwill also highlight the importance of the element of advantage which we identified in almost every definition accountants give of this term.

Even if there is no *Goodwill Law,* to be sanctioned internationally, in 1967, the World Intellectual Property Organization is formed, who, in its own words "is dedicated to the use of intellectual property (patents, copyrights, trademarks, designs, etc.) as means of stimulating innovation and creativity", in a fair manner and with respect to the regulations of this worldwide organization. The importance of this institution to goodwill has proved to be crucial in time, because all the intellectual property elements mentioned above, which were prior to this included in goodwill, had now grounds to be valued on their own and not be considered goodwill components anymore.

Another milestone in close connection to the definition and components of goodwill happened in 1990, when the Swedish company Skandia, for the first time, gave meaning and draw a clear perspective of the concept of intellectual capital, which is a major component of goodwill. Until today, the intellectual capital is not accounted for separately, but there is an international interest, both in business and in academic research of how it could become an independent intangible asset. When this happens, goodwill will be short of one more important element, and its accounting value will drastically drop, meaning its value won't be as significant to the business as it is today.

V. Conclusions

The purpose of this paper is to offer an overview of goodwill definitions, going back for longer than a century and to understand how goodwill evolved, through the definitions given by academics, professional bodies of accountancy and courts of law. We have coveredmostly accounting definitions and legal opinions.

Our findings indicate that goodwill has been defined over time in two different ways: by academics who indicated mostly the elements comprising goodwill and its characteristics and by the international accounting boards which define goodwill through the way it is measured. The most common characteristic which we encountered was the *advantage* brought by goodwill in a business combination, which is the only constant characteristic mentioned both by academics and institutions over time.

This study is the result of a chronological qualitative analysis of the concept of goodwill and it brings novelty to the literature by improving on existing studies dating in 1980s, and completing them to the day.

This study is extremely useful to both academics and professionals who want to use a brief but comprehensive analysis of goodwill definitions. The authors wish to continue this study with a similar chronological analysis of goodwill components and the accounting treatment of goodwill.

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INSOLVENCY CRISIS PERIOD. FEATURES ON THE SALE OF GOODS OF THE DEBTOR

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Development on tangible research is useful both for investors and owners of fixed assets and for the authorities and the public.

The paper aims to conduct a thorough research of legal, accounting and tax on assets and investments of the appropriateness and effectiveness as an indicator for assessing the companys development management decision. The paper starts from the concept of \"property in insolvency proceedings\".

During the current crisis has significantly increased the number of companies became insolvent. In the context of globalization as a result of economic and financial relations between companies in different countries of Europe, entry into insolvency of a company lead financial dificulties for business partners. No longer than a step up form entry into insolvency themselves.

Insolvency is the status of the assets of the debtor that is characterised by the insufficiency of the monies available to cover the debts, liabilities and certain liquids. The purpose of this law is to establish a procedure for covering the liabilities of the debtor\'s collective in insolvency proceedings. By insolvency proceedings \' shall mean collective insolvency proceedings and egalitarian concursuală applicable for the liquidation of the debtor\'s estate to cover liabilities, followed by deletion from the register in which the debtor is registeredThe company is the driving force of the economy and the company that moves after a strategy based on competitive know how is the future of the economy. The present work aims to offer this know how to the companies.

The liquidation of assets of the debtor will be performed by the liquidator under the supervision of a judge-trustee in bankruptcy. To maximize the value of the property of the debtor, the liquidator will make all arrangements for exposure in the market in a form appropriate to their advertising costs being borne from the debtor\'s estate.

The work treats in detail the aspect of the capital investment in long term assets, the effects of the insolvencz procedure on the development of the business.

Theoretical and scientific support of work is the ensemble of concepts, princes, researches, studies of cases, techniques of audit and the acknowledged methods of management from the special national or international literature.

Keywords: insolvency, assets
JEL Codes: M41, M21

The company is the economic engine of the company, and the knowledge-based economy is the future, so the research carried out is addressed to this entity, and the meniţi to assist it and to help in its work.

During the current crisis has increased the number of companies which have entered into insolvency.

Insovenţa is a general condition, present not only in Romania. In the context of globalization as a result of economic and financial relations between the undertakings in different States of Europe, the entry in the insolvency of a company lead to financial difficulties for inplicit business partners, is no longer just a step up from the entry in the insolvency proceedings. Insolvency and companies not evades. However as a result of the economic crisis, more and more companies

have opted for the insolvency of the company debitoarei, salvagardarea on the basis of a restructuring plan, well founded.

 a. if the proceeding was initiated as a result of the application of one or more creditors;

   b the judicial administrator), from the date of his appointment and until the fulfillment of a period of 30 days from the date of the definitive table display of receivables, provided they have demonstrated their intention to vote on the report referred to in art. 59. (2);

   c) one or more creditors who have announced their intention to vote on the report referred to in art. 59. (2), together with at least 20% of the total value of the claims contained in the definitive claims within 30 days from the date of the definitive table display of claims.

Plan of reorganization will include:

a) the categories of claims that are not disadvantaged within the meaning of the law;

   b) disadvantaged categories of receivables treatment;

   c) whether and to what extent the debtor, members of the Group of economic interest, associations of companies, partnerships and associations of undertakings in partnership with full partners will be download from liability;

   d) compensation to be offered to holders of all categories of receivables, compared to the estimated amount that could be received by distribution in the event of bankruptcy; the estimated value will be calculated from the date of the proposed plan. Insolvency proceedings under the law 85/2006 is a procedure in favour of debitoarei, giving it a last chance to safeguard the conditions of approval by creditors of the reorganisation plan, pursuant to article 94, paragraph 1 provides that the following categories of persons will be able to propose a plan of reorganization under the conditions below: a) the debtor, with the approval of the general meeting of shareholders/memberswithin 30 days of the final table display of receivables, provided that the wording, according to art. 28, intention, if the procedure of reorganization was triggered by him, and according to art. 33 para.

Lease payment of assets of the debtor to his creditors may be carried out only where prior written consent of them about this way of extinguishing their claim;

   F. partial or total liquidation of the debtor's assets for the implementation of the plan shall be made in accordance with art. 116-120;

   G. modification or extinction of real guarantees, with granting compulsory, for the benefit of the creditor has a security guarantee, or equivalent protection, as provided in art. 39. (2) (a). (c));

   H. extended due date, and changing the interest rate, penalităţii or any other clauses in the contract, or other sources of obligations; The plan will specify appropriate measures for its implementation, such as: a. the keeping, in whole or in part, by the debtor, his business leadership, including the right of disposition over the property of his estate, with oversight by the judicial administrator appointed in accordance with the law;

   B. obtaining financial resources to support the completion of the plan and their sources of origin;

   C. transmission of all or some of the property of the debtor's goods by one or more natural or legal persons, whether before or after the confirmation of the plan;

   D. merger of the debtor under the law;

   E. liquidation of all or some of the assets of the debtor's property, either separately or as a unit, free of any charge, or lease payment of their creditors of the debtor in the account claims they have against the debtor's estate.

J, reorganisation plan may provide for the conversion of debts into equity value budget;

   L. inserting in articles of incorporation of the debtor-legal-person or persons referred to in (a). (C) and (D) of rule: a prohibire of the issue) of shares without voting rights;

   b) determination in the case of the various categories of ordinary shares, a proper vote between distributions of this class;

c) in the case of preferential categories of actions with their priority over other types of regulatory actions, the appointment of managers representing those categories of actions in response to the obligation to pay neonorării dividends. I. amendment of the Constitution of the debtor, in accordance with the law;

J. issuance of securities by the borrower or any of the persons referred to in (a). C and D, as required by law. 31/1990, republished, with subsequent amendments and additions, and law No. 297/2004, with subsequent amendments and additions. For inclusion in the plan of a broadcast of securities is required express consent, in writing, of the creditor who is to receive the securities issued, you will be given prior to the acceptance of the plan by the trustee in bankruptcy judge, in accordance with the provisions of art. 98 para. 3. By exception to the provisions of art. 205. (2) of law No. 297/2004, with subsequent amendments and additions, the operations referred to in this subparagraph shall be considered exempted from the operations within the meaning of art. 205. (1) of the law referred to above;

K. Notwithstanding the provisions of (a).

The liquidation will start immediately after completion by the liquidator of inventory and submission of the assessment report. The goods will be sold as a whole in the block-in running-or individually. Method of sale of the goods, namely the public auction, direct negotiation or a combination of the two, will be approved by the meeting of creditors, on a proposal from the liquidator. The liquidator shall submit to the General Assembly of creditors and the appropriate sales route for choosing.

In order to evaluate the debtor's assets in the estate, the liquidator may be to hire an appraiser on behalf of the debtor, either with the consent of the creditors ' Committee, to use a valuer. Evaluators must be members of the National Association of assessors in Romania, and the assessment should be carried out in accordance with international standards.

The assets of the debtor will be assessed both bulk and individually. Strategic guidelines that need to be taken into account by a firm in the struggle with competition, is contained in a large variety of financing programmes for the purposes of: making investments for the benefit of capital under the function of maximizing profits, tangible, intangible, refurbishment, environmental protection, information, or conduct of financial investment.

Analysis of restrained assets of special importance for any trader, while ensuring that through a thorough knowledge of accounting, tax and legal aims to reach, namely maximizing the profits proposed.

Carrying out the liquidation of the assets of the debtor will be performed by the liquidator under the supervision of a judge-trustee in bankruptcy. To maximize the value of the property of the debtor, the liquidator will make all arrangements for exposure in the market in a form appropriate to their advertising costs being borne from the debtor's estate. Evaluation in the block or the assessment takes into account all of the debtor's assets or functional units of assessment. The functional unit ' means those goods of a debtor which together ensures a finished product, standalone, or allow an independent business. A functional unit is considered only if the insured has access to the public highway and to the use of utilities.

The liquidator will conclude contracts of sale and purchase; the amounts derived from the sale shall be deposited in the account referred to in art. 4 para. (2) and acknowledgements will be handed over to the trustee in bankruptcy judge.

If the sale of assets will be made by public auction, the report of the award signed by the liquidator of property constitute judicial title. When required by law for the transfer of ownership form authentic, contracts will be issued by the notary public on the basis of the minutes of the auction.

Buildings will be sold directly to the liquidator, after the proposal, approved by the general meeting of creditors. Proposal of the liquidator will need to identify the building, by the situation on the ground and by data from the register of real estate advertising, showing the tasks to which

it is grevat and supraofertare to indicate the step and the date by which, in the event of sale, oversupply are supported.

The liquidator shall convene a general meeting of the creditors, not later than 20 days from the date of notification of the proposal, the proposal of the special administrator, creditors with real guarantees on goods, holders of rights of retention of any kind and of the Committee of creditors, by vote of the general meeting of the creditors of the proposed sale.

After approval by the general meeting of creditors, the sale will be made, under penalty of invalidity, but after 30 days from the date the last postings made by the liquidator in newspaper ad on supraofertare. The liquidator shall submit to the Committee a report that creditors will include assessment of the goods and their method of use and whether the sale will be made individually or as a unit or a combination thereof, by public auction or negotiated or by both methods. Where it is proposed to block the sale by direct negotiation, the liquidator may be proposed, on the basis of the tenders received, the commencement of negotiations with one or more buyers locate with payment terms and minimum price start negotiation, which may not be lower than the price. The liquidator shall convene a general meeting of the creditors no later than 20 days from the date of the meeting of the Committee of creditors, the creditors informing them of the possibility to study the report and of the minutes of the meeting of the creditors Committee on the report.

creditors, including guaranteed all, increases in capital, interest and penalties of any kind, as well as the expenses for claims arising prior to the initiation of the proceeding.

Where the amounts derived from the sale of these goods would be insufficient for the payment in full of such receivables secured, lenders will have, for difference, claims chirografare that will come in competition with those contained in the corresponding category, according to their nature, referred to in art. 123, and will be subject to the provisions of art. 41. If, after payment of the amounts referred to in paragraph 1. (1) would result in a difference in addition, it will be submitted to the liquidator, on behalf of the estate of the debtor.

Guaranteed debt with a creditor shall be entitled to participate in any distribution made before the sale amount of the asset subject to guarantee. The sums received in this way deals will be deducted from the creditor would be entitled to receive the following from the price obtained by the sale of the property subject to the security, if it is necessary to prevent such a creditor to receive more than you would have received if his property subject to the warranty would have been sold prior to distribution.

Every 3 months, calculated from the date of commencement of the liquidation and contained in a program to administer the liquidation to be done within 30 days after the appointment, the liquidator shall submit to the Committee a report to creditors in respect of funds obtained from the proceeds of the liquidation and claims and plan for distribution among creditors. The report will include the payment of remuneration and other expenses provided for in art. 123 section 1 of Law 85/2006. Distribution of amounts made in the realisation of the funds obtained from the sale of assets of the debtor, the creditor of the encumbered in favour of mortgages, gajuri, or other collateral pledging or retention rights of any kind, will be distributed in the following order: 1. taxes, postage and any other expenses relating to the sale of assets, including those necessary for the conservation and management of such goods, as well as the payment of the remuneration of persons engaged pursuant to articles. 10, art. 19 para. (2) article. 23 and 24 of the law 85/2006;

-claims of creditors warrant born during insolvency proceedings after confirmation of plan of reorganization, as part of this plan. These claims include the capital, interest, increases and penalties of any kind;

Use of the movable property seized

Recovery of seized movable if, within 15 days from the seizure were not paid the amount due, all accessories and costs of enforcement, the bailiff shall ascertain the recovery of seized assets by sale at public auction-,-direct sale or by other means permitted by law.

However, the sale will be made as soon as the goods have been seized, if they are subjected to involuntary, land degradation, interference or depreciation or whether their retention would disproportionately large expenses prilejui in relation to their value.

Bailiff, with the consent of the creditor, the debtor may încuviinţeze them to make himself the recovery of seized assets. In this case, the debtor is obliged to notify in writing to the executor of the tenders received, indicating, where appropriate, the name and address of the prospective purchaser, and the period within which the latter undertakes to keep the price proposed.

The bailiff may also undertake, with the agreement of both sides, the recovery of goods pursued by selling direct to the buyer that provides at least the price established according to art. 747. the term C.p.c for direct sale will be determined by agreement of the parties. The debtor and the creditor will be informed about the date, time and place of sale, as well as about the bid submitted by the potential buyer.

In the absence of the parties or if the direct sale or settlement is not achieved, the bailiff shall ascertain the sale by public auction of seized assets.

Sale at public auction in connection with the application of seizure, the bailiff shall be required to identify and evaluate assets seized, except in cases where this is not possible. The goods are to be valued at their market value, according to the market price of the locality in question. At the request of the parties concerned or where not possible to evaluate himself, the bailiff will appoint an expert to fix the price for the sale of seized assets.

Executor shall have the wizard set the price, through a written report which will be handed over at least 5 days before the day fixed for the sale.

The price will start at these auctions will be referred to in art. 758. (6) and (7);

 -place and date of the display, in the case of notices of sale;

- signature and stamp of the bailiff, in the case of notices of sale.

Publications and notices of sale will include: a) the name and location of the execution;

- the file number of enforcement;

- name of bailiff);

- name, surname and domicile or, where appropriate, the name and location of the debtor and the creditor;

- date, time and place of the auction;

- indication and summary description of goods to be sold at public auction, with the likeness of each price of the start of the auction, which is the price set out in the minutes of seizure or, where appropriate, as set out by the survey; in the case of securities nenegociabile, indicate the location and which can be purchased at the expense of the applicant, the specifications referred to in art. 746. (4);

- indication, if appropriate, that the goods are sold the rights of prior use, subsequent inclusion of any mortgages and that, if the creditors do not trackbacks would be covered in the first auction, it will be necessary, on the same day, a new auction for the sale of goods free of those rights. The bailiff shall draw up notices of sale, they will appear with at least 5 days before the holding of the auction at the auction, the bailiff of the Town Hall of the place of sale of the goods and of the Court of execution, as well as in other public places, where their heads are required to create the conditions needed to display publications sales, without imposing fees or contraprestaţii. Also, the bailiff will draw up and selling publications which they will bring to the attention of the public through one of the local newspapers or, failing that, of the national movement, through newspapers, magazines or other existing publications intended for sale of property of the kind offered for sale, as well as on open internet pages for the same purpose.

After the expiry of 15 days from notification of the financial condition of liquidation and distribution of the project or after the sentence on opposition remained irrevocable, accounts of liquidation and distribution shall be considered approved and liquidators are liberaţi.

joint stock companies winding-up, and limited stock liquidators in stock companies and joint-stock partnership shall be made by the General Assembly, which decides the validation, where the instrument of Constitution, unless otherwise stated. The General Assembly shall act by the majority laid down for amendment of the Constitution. Where the majority was not obtained, the appointment is made by the Court, at the request of any of the directors, members or associates of the Directorate, with the attendance of the society and those who have requested it. Against the sentence of the Court may declare the appeal only, within 15 days of its pronouncement. Liquidation of firms in partnerships, partnerships or limited liability companies, liquidators in partnerships, partnerships or limited liability will be carried by all associations, if in the contract of the company unless otherwise stated. If you will not be able to meet the unanimity of the votes cast, the liquidators will be made by the Court, at the request of any member or administrator, to listen to all the members and administrators. Against the sentence can be declared only by appeal or assign to administrators, within 15 days of its pronouncement.

After completing the liquidation company partnerships, partnerships or limited liability, the liquidators shall prepare the accounts and to propose the distribution of its assets between associates.

The accounts signed by the liquidators shall be submitted to be posted and published on the website of the Office of the trade register.

Administrators and members of the Directorate, the liquidators shall submit a report on the management for the past tense financial situation last approved up to the start of the liquidation. The liquidators have the right to approve the minutes and to make or support any dispute relating thereto.

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PARTICULARITIES OF FIXED ASSETS. ACCOUNTING AND FISCAL TREATMENT

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Introduction

The present work proposes to realize o complex research of the accounting and fiscal perspective of fixed assets. A special attention will be given to the opportunity and the efficiency of the investment as an instrument in the management decision for the development of a company.

The scientific novelty work is focused to the element of complexity and actuality of information, which, due to deep changes from the structure markets, of transformations alerts ale the process of productions based on the technical progress unknown in history, becomes vital as much in, practice the quotient and in theory. The novelty consist in comparative approach of the theoretical appearances concerning the immobilizations according to International Standards of Financial Report issued by IASB and OMFP nr. 1752/ 2005 for the approval of Accounting Rules according to Europe Directives.

The body of the work
The fundamental concepts concerning the material / immaterial assets. Viewpoints.

Different appearances of the assets immobilizations were treaties in the economic literature especially separate, on stage of active , or except alone viewpoints, as a rule either the bookkeeper, either juridical, either managerial, fact for which considered equip an which his work is one the all the appearances being in a the complete guides of the investor.

A correct characterization a phenomenon of investments upon on: The economic appearance, financier, bookkeeper and juridical.

From economic viewpoint, investment represents all the consumptions of which funds done currently in of a hopes economic future effects.

From financial viewpoint investment represents the creation of capital of production through the renunciation to the immediate consumption of money funds, capital achieved a flux of future receipts.

Below appearance bookkeeper, investments represents the transformation of money's availabilities in active physical submissive amortization, or in active financial. The expenditure in the case of investment, he represents the active transformation in active material an financial which increase the patrimony of business, be the word of an expenditure of which effect is stretched outside of the current exercise.

From juridical viewpoint, investment represents the creation of elements of which patrimony can constitute the objects of the ownership.

Considering investment as a phenomenon financial and monetary, it would be appreciated as these represents envolved on a long of a term capital of to his investor or given the accumulations of the populations in the aim obtaining of a the maximum gain with minimum in a riskness the after days.

As an agreement of a theories of the specialists, the elements components ale the concept of investments established by-path as the next:

-the concrete and material content of the effort of investments, I carry consider investments as a particularly structure of different funds as the nature and the volume, what I am brought in the realization of the project;

-the factor "The time", which show the fact as the any project of investments has a period of scroll, presented through stages and good moments described and on during which the indicators economically have the project have particular ways of evolutions;

-the concept of efficiencies, as per which, the investor accepts the utilization of present funds for an effective series(receipts) future, I carry in the total sum to is superior initial expenditures;

-the risk, carry results from the concrete way of achieve in the after days of the effects waited. Risk appears due to the fact as the these effects waited are maybe , but not certainties, the degree of risk be inverse proportionate the probability of achieve the waited effects.

In the literature the maul can be meet a series of approach of the concept of investments, such as in large sense and in limitary sense, or in economic sense, financier and the bookkeeper.

The concept of investments represented always a subject of chat, completions in on the average investigatory. The economist P. Caspar proposes a series of criteria appreciatory investments:

- for an expenditure an employee today, is expected to is obtained a result tomorrow.

-this expenditure conduces to a constituted the sinking-fund that is a capital of which effects are produced on an what period exceeds the of a landmarks exercise.

-the correspondence expenditures conduces to multiply the capacities of production or commercialization of the enterprise.

-Exist the evidence as the different expenditures employee increases the patrimonial undertook

And a supplementary condition applied to these expenditures were delimitate of the expenditures of operation:

-Place a break an in a report with the tendencies extrapolate from pasts.

All in sphere of the concepts concerning the answers of long-term capital existed the which specialists tried to accredited the term of" cvasi investments" as be certain which expenditures have the characters of investments but are taken all the some in the category current expenditures, because they have no frequent and the repeatability of investments the appearance.

Pierre Masse says as investments is" an expenditure dispute about future an uncertain" or, otherwise gave up to," the satisfaction quickly and sure, on the expense of the economies of which we dispose currently against of a future hopes of which support represents it just good invested"

The French economist F. Aftalion formulates the next definition:" The investments represent the renunciation to the monetary sources i current liquids against the of a hopes future funds, obviously else big.

P. Masse establishes the next four main elements for investment scilicet:

-Subject, represented of he who did investments - the person   physics or juridical;

-Object, represent the thing, undertake, the firm, the equipment etc., the way in which the investment is;

-Costs, carry is the supplementary effort, admonish, current spent for obtaining that concrete object;

-Effects in numbers, results through the realization of investments and which obtained in future and represents, in practice a hope more or less admonish.

Nicolae Feleaga in his book" The risks of bookkeeping to balance among milleniums" brings an important contribution and a binevenues to this research themes and does the specification as the nameable studies take the in the calculus the investments considerate measurable excluding investments material toes enterprises how are for instance: Investments in the strategic reflection, in formalization of his methods or the organizational investments.

The author says as analyses of immaterial don't is can confined to a distinction between immobilizations and expenditures. If undertake achieves the important expenditures this in area, means as they he expects to obtain a series of advantages in exchange. The author considers as the investment as the a papers of give in the immediate satisfaction of certain and against of a hopes of future benefits brought of good invested has a series of consequences how are:

-the investment is built from series of expenditures and future earnings of which ransom character is characterized of the notion of hope

-the investment is a defalcation from production in the sight of utilize them for building of a potential new susceptible to generate economic long-term advantages

- the investment is an arbitration , a problem of decident is not a realization of investment but choose from a portfolio of projects.

-the investment is a strategic decision , not being enforced of the current exploitation.

Taking in these sight these numerous characteristic immaterial expenditures can require the statute of investment. Most massive expenditures done of enterprises are in the areas: research development, the personal formation, reorganization of the production, information and commercial investments.

Yet, according as I show the author the inclusion of all immaterial expenditures in the category of the investments is, in the certain way, perniciously because the immaterial investments present a series of characteristics differed against one material: I am risky and their profitableness is uncertain, their effects don't the by-paths always perceptible, recognize their juridical and the patrimonial is limited many times of their virtual character.

In the researches done in this in area, the specialists adopts else many concepts: investments, funds, expenditures, or active.

The specialists considers as the mutations from the modern economy have a double consequence: On aside he causes a movement of the process of production from matter and energy towards information and knowledge and but then lead to an interconnection and a diversification without unprecedented these. Same in the same time the specialists considers as the blast of informal technologies, nationalization the economies, globalization markets led to an index of uncertainty of the phenomena much more than by now what does as the productive classic his models don't the maul gives results. New in stage these shall must set-up on the strength of the fashions of which his organization based on the development flexibility and the speed of reaction to changes in order to integrated in a economy based on cognition.

A report of OCDE specifies as" despite of conceptual difficulties the practical and in the definiteness immaterial and in the adoption as an account rule which permits their taking in a account manner the proper maul, the economic contribution of immaterial investments to the growth of the performance and competitiveness undertake does necessary the progressive these uses in accounting systems ".

Sequence in-sequence or OCDE considers as:" The notion of investments immaterial cover all long-term expenditures different than one proved by purchased corporal immobilizations, which the societies engages upon them to improve the results."

An study of OCDE divides the immaterial investments in three big components, investments in research, investments in produced the programs, and one of the third gift don't on last place, the publicity.

An another which tackled the in at large this category of were, Patrik Epingard in the work" L'investissement immateriel, coeur d'une economy fondee grey to savoir, Ed. CNRS, Paris", from which we quote:" To level economic, the notion of capacity becomes confusedly in numerous sectors of activity, so that nobody don't else knows which by-paths the frontiers of the investments: These limitation to the level corporal immobilizations don't focus the strategy of the enterprise, and the integration of all expenditures engaged in the sight obtain of economic future advantages in the sight obtain of future advantages is pre ambitious"

Epingard considered as in the place of the universal definitions or of a list which specify which the expenditure can be qualified as the investment is more important to be enumerated the specifications of immaterial investments as being in their views to:

-Massif in amonte of the process of respective production equal-phase in of research, develop into the case of his technologies of equal-phase in of the expansion of the market in the case of

commercial investments of irreversible active specific difficult rule of marketed, their value be as a rule connected with the organizations which in by-paths incorporate

The controversial problems of the appearances of evaluation and recognize of corporal and still more selected immobilizations immaterial.

Objective the financial compliant situations of general frame for the elaboration and the presentation of financial situations elaborated of IASB is delivered information about the financial sprocket, the performances and the modifications of financial sprocket ale of the entity, carry the useful of a by-paths large spheres of users in the taking of economic decisions.

The fate financial bookkeeping is connected with the elaboration, the presentation and the publication of balance-sheet in accordance to foresee of a frame conceptual bookkeeper.

The determination of the base of measure, used for the ascertainment different patrimonial elements in situations represented, one of the problems most difficult of bookkeeping. Recognize of a active or a debt were a long weather the preserve of expert bookkeeper. The examples most typical the one by-paths according to the expenditures investigatory, to brands, to the commercial background

In the practice and in the theory of accounting were accredited on many bases of measure. In as part as general for creating and the presentation of financial sheets issued of IASB these am: The historic cost, the current cost, the value net of realization, the value updated.

Historian: The assets are counted to the sum in coin or equivalent of specie paid in the moment their his purchase to the value justly the sum paid in the moment of purchasing.

Current: The assets are counted to the sum in coin or equivalent of which specie burn must paid if one same active his burn be buy in currently.

Realizable: The assets are counted to sum in coin or equivalences of which species can be obtained currently through the natural selling of his actives.

The updated value: the assets are counted to the updated value of the future incomes which were generate in the natural scroll activity.

Problem consist in the choice the fit maul among these in contextually satisfy the requirements of the users of accounting information on aside and an observance a principles and an accounting foundations but then.

Producers and the users of financiers sheets appreciated as , in the measure and the presentation of accounting information, most utilized is cost the historian, although presents and one thin points. This is of habits used another bases of evaluation. More, tendency is of is passed to the utilization of current cost as a response to the incapacity of the model of the bookkeeper based on the historic cost solved the incident to effective problems of modification prices the unmonetary assets.

He is obvious as the determination clear value of realization is released of an uncertainty an estimation nice and an erect incites the how much good time sold really on sale caning generate the different estimations from the assessors.

And another strong which they experimented the bookkeeping in actual value have given up gradually hereto base of evaluation, so with the decrease of inflation, he produced and " the end of the current cost".

If we accept as a cost is an effort agreed for obtaining income and if we placed in the optics of independent exercises, the acquire of a active fixed is an which transaction has consequences about the more exercises. Otherwise said, you be the word about an effort agreed about the more exercises. Following same the optics independence of exercises, each exercise shall it be it granted the afferent these incomes are due to absorbs the part from the efforts agreed achieved a results..

Only that but then the historic cost is again rough criticism when he is word of the depreciations of active incite for subjective estimated how much and for dependent estimations of the intentions of different size of interests ale the users of the information.

In current period the accounting practices appeal to a new guys of models of which evaluation win against historic costs the modern and just value to an another valuable respective concept: The updated his value the value of utility.

The actuarial brought we come in a row devotees modernization of the bases of evaluation. The context normalization the bookkeeper which in appeared these new expressions ale evaluation is one of the active depreciation.

At the present day an all elder brand name number deal in an globalization economy characterized through nationalization markets and the fluxes of capitals and seem as, for the present, don't he arrived at an agreement in the utilization of a bases of his evaluation, what drives, still once, to the conclusion as the for a distance these they shall coexist and are shall improved an in concordantly with changes from economy and requirement enforced the system informational the bookkeeper.

Another problem is a concept of capital and maintain the capital: The concept of financial his physical capital.

As per the concept of financial capital, this is synonymous with active clear his with the own capitals ale entity. The profit is obtained just if the financial monetary value of assets clear to exhausted the period is elder than the financial active clear value in the beginning the period, after the exclusion of any distributions to owners and any other contributions from the owners of the temporally period Maintain the financial capital can be evaluated incite the in monetary nominal units, quotients and in units of power of constant purchase.

As per the concept of physical capital, the capital represents the capacity of production entity counted, for instance, in units of production on day. The profit is obtained just when the physical productive capacity entity last the period exceeds the physical productive capacity from begin with the period, after he excluded any deliver to owners and any contributions from the owners of the temporally period .

The concept of maintain the physical capital require the adoption of current cost as the base of evaluation. The concept of maintain the financial capital don't enforces all the some the of a certain use bases of main evaluation difference between two concepts according to maintain the capital is reduced across the treatment of the effects of the modification prices of assets and the debts of the entity.

The International and continental normalization in according to the concept of immobilization assets.

The international harmonization represents a process institutional, which has as the aims, the assurance the convergence the accounting norms and the practices national assured of the pertinences in comparisons between financiers sheets of the enterprises from strong different, comparability of accounting information be a conditions necessary for a maul hello allocate a funds on world plan, definition taken over from Ion Ionascu, "Epistemology bookkeeping" , Ed. Economic, Bucuresti, 1997

The daily international harmonization would be considerate a simple consequence of globalization, she participate invisible, but persuasive, to sustain the report of power. The accounting norms the neutral totals, am incident to the big interests on international sale. Through they use concepts, ideation, ways of thoughts, of communication, of act from in last row, enforces behaviors. The accounting harmonization is requested in first site of the financial international community, represented of investors, but and of the organisms of regulate the financial market.

The accounting harmonization has three degrees of differentiations:

1) International Normalization - the use of the same norms in same geo politic space

(2) the harmonization the appearance - authorized the many maul practices and treatments, but compel to the settlement of equivalent in the documents of the synthesis of accounting;

3) Harmonization of Legislation – national court of settlement build, modify or adopt the settlements visas, the accommodation and approach the international accounting practices.

The accounting normalization is a social process wherewith is negotiated an equilibrium between very diverse interests and the necessity of uniformity presupposes formalization and the objective materialization, of the concepts, of the methods, of the rules and the procedures concerning the production and the utilization of the accounting information.

Departing from objective my work presented all the appearances note to the corporal assets try to delimit the efforts of nameable organisms of international normalization the active tangible category.

The tangible assets were definite in contextually standard IAS1" Presentation of financier sheets" as active non current(non assets) presented asunder in balance-sheet in the active category .

The normalization of the treatment of the bookkeeper referring to the immobilizations were written for first in detail of the international bookkeeper, through standard IAS 38 in 1998, which in established criteria of recognitions, the bases of evaluation and requests of report this ale categories of immobilizations.

The definition of the concept of assets according to International Standards of Financial Report

Definition of the concept of assets according to International Standards of Financial Report is an active, in the vision International Standards of accounting, represents" a resource controlled of enterprise as the result of a past events and from whereat is waited for generated the economic future benefits for enterprise."

His benefits the economic future advantages represent" potential contributed in direct his indirect way to the flux of specie and equivalent ale of the specie to enterprise.

This potentially can be, fitted the paragraph 53 of general Framework of elaboration and present financial sheets:

-a potential of production, carry does the part from the activities of exploitation ale the enterprise.

- a method of conversion in his equivalent treasury of treasury;

-a capacity of reduce the output of liquidity, for instance an alternative process of production a new - technology - what cause cost of productions.

-the possibility assured protection his average or the satisfaction of legal rules etc.

The economic future benefits incorporate active in can enter into the entity in the many maul ways, for instance:-Asunder or in company with another active for services or the production of good fated sale of to entity; -With another active; -For justify debts; -Shareholders of the entity;

Many active, for instance, the corporal immobilizations, have a physical form. With all these, form physics elemental for of a active existence of example, patents and copyrights.

Many active, for instance, the book debts and real property the associate by-path with legal laws, inclusively with ownerships. The ownership elemental for the determination be of a active of example, a realty in on the basis of an of a contract of leasing.

The previous version IAS38 don't specify " the features of identification", but sustained as the an intangible immobilization can be different clearly of the commercial background if active is separable, but the fact as the this is separable don't the east prerequisite for condition his identification. Standard 38 in the current version show as an immobilization carries out criteria of identification from the of a definition intangible immobilizations when:

-is shared, that is he can be separate his broken apart form the entity and sold, dumped, proprietary, rented or changed, is individual, he is in company with a contact, his active afferent debt;

 -From the contractual his laws from another secure laws of law, all the same if those laws are transferable his separable of his entity of another laws and obligations.

Definition of the concept of assets in according to OMF 1752/2005.
 The assets fixed are active generated of benefits and possessed on an elder period of a year. The corporal immobilizations represent which were:

 a) possessed of an entity were an used-up in production of good , making services, were rental the other parts or were used in administrative aims; And

 b) am used-up on of during a long periods the big maul of an active years

An fixed asset is active an identifiable, unmonetarry, without material supports and prisoner for utilization in the process of his production supply of good and services, were rental the other parts or for administrative . An intangible assets must recognized in balance-sheets if estimated as the you generate the economic benefits for entity and the active cost can be estimated in credible way.

 The financial immobilizations containing the shares in possession to the entities affiliated, the loans granted the entities affiliated, the interests of participation, the loans granted the entities of which the companionship is bind by virtue the interests of another participation , the investments as the another immobilizations loans.

In the accounts of receivable presenting loans granted with the sums granted other parts on the basis of contracts for which the entity perceives the interests, fitted the law.

 To another loans granted contained guarantees, the warehouses and the sum deposited of entity to others.

 The which entities have in the account of fixed receivable afferent receivable of the contracts of leasing financiers, as well as another fixed receivable with elder terms of a year, you present in balance-sheet, to financial immobilizations, merely the part with elder term of 12 months, differences were presented to receivable accounts.

Conclusions:
The theme is great due to the main aim touched all the appearances concerning the immobilizations and require a labor supported of documentary, of research recent researches and updated settlements, in the sight objective suggested realization.

 The development researches on the theme corporal immobilizations has the utility as much for investors and owners of fixed assets, quotients and for the fiscal and the juridical authorities and for the large audience.

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ACCOUNTING INFORMATION – A BASIS FOR ACHIEVING THE DECISION FOR THE REALIZATION OF PUBLIC INVESTMENT PROJECT

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Accounting information plays a key role in the foundation process of public sector decisions. Financing budget deficits, treasury risk identification (availability risk), formation of tax claims, foundation of financial sustainability for public investment projects are just some examples of using accounting information in decision-making process of credit accountant.

How can we use and process accounting information in the foundation of public investment projects? We will try to answer this question in the content of this paper. The revenues and expenses, as accounting information, are necessary for determining the actual financial net value and/or the actual economic net value. These indicators have decisive information power in accepting and / or rejecting public investment projects. In the current economic context, the importance of investments is major for at least three reasons: the first one is a highly circulated reason in the last 20 years: the increase of technology, the alignment of the technology used in the alignment of competitors from the European market and even worldwide; the second reason is linked to the support of economic growth in crisis conditions through a policy of major investments especially in the infrastructure sector; the third reason, which derives from the second one, is that of post-accession grant funds available for investment both in private and public sectors. The importance given to public investments is also revealed by the authorities' approach to establishing key areas of interventions under grant programs (with programs designed to both public and private environment) designed exclusively to carry out public investment programs (for example the POS Transport).

In this context, the present research is intended to be a documentary of the role that accounting information plays in decision-making process that precedes the development of an investment, especially as most major investments are made in the public domain.

Keywords: public investments, accounting information, cost-benefit analysis.

H83 - Public Administration; Public Sector Accounting and Audits
H54 - Infrastructures; Other Public Investment and Capital Stock

Accounting can be viewed as a source of information for different users. Specialty literature identifies and groups these "consumers" of accounting information in two major categories: the internal users and the external users. In the internal users category, most authors include, together with managers and decision-maker managers, the employees. This category uses both information from the current financial accounting, from financial statements and also from the management accounting (internal management), the latter providing information exclusively for internal users. The external users category is larger: it includes investors, financiers, creditors, commercial partners (suppliers and customers), social partners (the unions), the public power and the financial analysts, the judiciary system and also the public.

Regarding the accounting information users involved in the decision-making process regardingthe realization of an investment, they can be found both in the category of internal users (namely managers, board members) and external users, on positions such as investors, donors and creditors.

In order to be used by these categories of users, accounting information must be understandable, relevant, reliable, comparable, consistent and objective, forming the internal sources of information. These are:

-Financial accounting planning documents (budgets);

-Financial accounting tracking documents (stock records, reports);

-Financial accounting reporting documents (the balance sheet and its annexes, activity reports, evaluation reports);

Based on the information gathered from the sources above it can be drawn a series of financial indicators. These, from their type of expression, can be natural indicators, conventional natural indicators, indicators of value, labor indicators, or, seen in terms of their economic content, they can be structure indicators or efficiency indicators. Whatever indicator system used in the decision-making process should have the following quality attributes:

-coverage (it sufficiently covers the program in it's main, general and specific aspects);

-balance (includes indicators from each area of interest);

-simplicity (lesson criteria take into account the capacity of responsibility, understanding and accumulation of information by the users);

-relevance (the indicator system develops in all directions of action);

Focusing particularly on public investments, it is not without importance to mention the reform process that public accounting undergone in the last decade. Today, public accounting is a commitment one, defined by IPSAS as being the method in which transactions and other events are recognized when they occur and not when cash or its equivalent is received or paid (as the case of flow accounting) and events are recorded in accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are the assets, liabilities, equity, revenues and expenses.

Accounting Law no. 81/1991, Article 2, paragraph 2 names public accounting components as follows:

-accounting of revenues and expenditures, reflecting the collection of revenue and the payment expenditure related to budget;

-Treasury accounts;

-General ledger based on the principle of finding the rights and obligations, reflecting the financial and economic development, and the surplus or deficit heritage;

Public institutions accounting provides for information to credit accountants regarding budgets of income and expenses, the assets under management and for the preparing of annual general account of state budget implementation, the annual execution account of the social security budget, the special funds and the annual accounts of implementation of local budgets.

Even if the first component of public accounting refers to evidence of revenue flows and payments, interpreted by some authors as being a return flow accounting, it is complemented by the general accounting component, which is based on accrual accounting.

Accrual accounting presents several advantages, allowing users to assess responsibility for all the resources controlled and used by the entity, to evaluate performance, financial position and cash flows of the entity and making decisions about providing resources or starting a business that the entity may have.

Substantiate a decision on setting up a project investment is based on extensive and thorough analysis of profitability and financial sustainability of that investment. Through this analysis – the cost-benefit analysis - is aimed to answer the following questions:

Is that projectworth to be financed through investments?

Under what circumstances is that projectworth to be financed?

If, in the private sector, the problem of running an investment is not always put in such an analytical manner, in the public investments sector, or in a sector involving public funds, no investment can start without having as basics the cost-benefit analysis showing that the net benefits of the project for the society are positive and the project benefits exceed its costs, resulting in an advantage for the society, such as encouraging economic growth, boost employment, improving environmental conditions and so on.

The opportunity of making an investment is, therefore, analyzed in socio-economic terms through the Economic Analysis of the Cost - Benefit Analysis that is a positive value of the actual net economic value of the investment.

According to the National Guideline for the Cost - Benefit Analysis of projects financed from structural funds, the stages for the realization of the Cost – Benefit Analysis are:

-Investment identification and defining objectives;

-Analysis of options;

-Financial analysis;

-Economic analysis;

-Sensitivity analysis;

-Risk analysis;

-Result presentation;

The financial analysis is used to calculate the profitability indicators using projected cash flows of the investment project. There are two indicators used in the financial analysis, namely: the Financial Present Net Value (FPNV) and the Financial Internal Rate of Return (FIRR), used at the level of investments costs efficiency level (VNAF/C, RIRF/C) and at the level of return on national capital (VNAF/K, RIRF/K).

Financial analysis deals with the investment exclusively in terms of the economic operator that realizes it, aiming the verification and guarantee of cash flows generated by the project, namely the financial sustainability, and determining the financial return on investment with th help of the indicators listed above.

The economic analysis is carried out at a different level; it assesses the impact of the project on the region or country's economy. The information provided by the accounting system, respectively the recordings on inputs and outputs, reflects only the transaction price of certain goods and services, the price practiced on a certain market, and doesn't always reflect their social value, social opportunity cost. Such distortions may be found on monopoly or oligopoly markets, may be caused by trade barriers acting on prices, markets with regulated prices. There are also situations where no information is available on certain categories of costs and / or benefits related to the project, such as effects on the environment or general health conditions that cannot be easily monetized, but due to their significant impact, they need to be included in the evaluation. In order to calculate the indicator's value from the economic analysis (the Economic Net Present Value - ENPV and the Economic Internal Rate of Return - EIRR) it is necessary to transform the market prices (accounted) in shadow-prices, the non-tradable and monetization effects and the involvement of additional indirect effects, if they are significant.

The period for which a cost – benefit analysis forecast is spanning varies from project to project, or better said from one investment domain to another. For example, investments aimed at areas such as water and environment, railways have the highest recommended timeframe for undergoing the Cost - Benefit analysis, a timeframe of 30 years, while investments aimed at areas such as energy, telecommunications, industry, have the recommended time range of25 to 10 years.

When the benefits of an investment project cannot be quantified in monetary units, using a non-monetary quantification system of benefits in relation to the determined investment cost per product unit, it is used a different valuation technique: the Cost – Effectiveness Analysis.

The performance indicators of an investment project that are calculated within the financial analysis are based on net cash flows. These should not be mistaken with cash flows from accounting conventions, particularly those used in financial reports of economic entities.

The methodology used for achieving the Cost - Benefit Analysis in estimating cash flows, require a few assumptions, namely:

- are taken into account only incoming and outgoing cash, the depreciation, the reserves while other accounting elements, which do not correspond to real flows, are ignored;

- the project's cash flow statement is based on an incremental approach, respectively the difference between costs and benefits of the scenario with project (the alternative to do something) and of the scenario without project;

- annual cash flows for all the years under review will be aggregated, making it necessary to adopt an appropriate financial discount rate in order to determine the present value of future cash flows;

Financial analysiswill be carried out throughaseries ofinterconnected and subsequentcalculations, based ontotal investment costs, later estimating the operation and maintenancecostson one hand, and the incomefollowing the implementation ofinvestment project, on the other. Allthese estimateswillbe comparedwith another setofestimateswhich is based onthe assumption that theeconomicentity's operationswill continueunder the original conditions, withoutthe accomplishment of the investment.

The guidelinefor the cost - benefit analysisof investment projects, publishedin 2008by the General Directorateof European Commission's Regional Policy, showsthe categories ofinputs and outputsthat must bequantifiedand consideredseparately foreach categoryof indicatorswithina Cost–Benefit Analysis, within achart form,as follows:

	VNAF (C)	Sustainability	VNAF (K)
Total investment costs			
Land	-	-	
Buildings	-	-	
Equipment	-	-	
Sudden maintenance	-	-	
License	-	-	
Patent	-	-	
Other pre-production expenditures	-	-	
Variations of circulating capital	-(+)	-(+)	
Residual value	+		+
Total operating costs			
Raw materials	-	-	-
Wages	-	-	-
Electrical power	-	-	-
Maintenance	-	-	-
Administrative costs	-	-	-
Other cash outflows			
Interests		-	-
Loan repayments		-	-
Taxes		-	-
Total operating imcomes			
X Product	+	+	+
Y Product	+	+	+
Finance sources			
EU Assistance		+	
National public contribution		+	-
National private capital		+	-
Loans		+	
Other resources (operating subsidies)		+	

Source: Guidetocost - benefit analysisof investment projects, DGRegional Policy EC
Note: Signs"-" and"+" indicates the nature ofcash flow. For example, national public contributionsaretakeninto accountasinput when theproject's sustainability is checkedand is considered an outputwhen the profitabilityof national capital is estimated(K).

Most of the timesan investment exceeds a financial year, so there must be made an estimation of the investmentcosts, more specifically of thepaymentorsettlementof the charges.Total investment costscanbe grouped intothree main categories, namely:

-expenditure onfixed assets;

-start-up expenditure;

-changes inworking capital;

Most ofthepaymentsrelatedto an investmentare most oftenrepresented by cash outflowsarising fromthe acquisitionof **fixed assets**. The sourceof information regardingtheestimated valueofassets to be acquiredin aninvestment objectiveis represented by the feasibility study. The payments taken into consideredfor the acquisitionof fixed assetsare the incremental ones, establishedas the differencebetweenthe investment with scenario and the investment withoutscenario. This categoryincludesalso the residual value, which doesn't represent a cashoutflow, buta cash inflow supposed tobedoneat the end of the analysis. Thisis actuallythe net present valueofassetsat the end oflastyear of theanalysis period. Because of the factthat these flowsdo not occurduring the last stage ofinvestment, they are not includedinthe discounted investment cost(DIC), but in theupdated netincome(UNI). Residual value canbecalculatedin threeways:

- taking into account the residual market value of fixed assets, if sold at the end of the considered time horizon and with the liabilities standing net;

 - by calculating the residual value of all assets and liabilities, based on standard formulas for economic depreciation of capital (other than the depreciation for determining the profit tax);

 - by calculating the updated net value of cash flows for the remaining life of the project.

The size ofresidual valueisinfluenced bythe timeframe setfor theprojectionsofthecost - benefit analysis. Timeframeshall notexceed theusefuleconomiclifeof the investment, but also it shallnotbe significantlyreduced compared toit. The residual valueis minimizedwhenchoosingthe optimalanalysishorizon.

Start-up expenditure includeallcosts, at the level of payments, relatedto theinvestment objective, madeoutsidethe periodof realization of the investmentitself, and which cannotbeconsideredthemselves as investments.This includes the costs of variousstudies, including the feasibility study, costsofresearch - developmentexpenses,consulting expenses, training the staff that willserve theinvestment, thecost ofownsourcesoffinancing, etc.Evenif thebenchmarktreatmentdoesn't always allow the capitalization of thesecosts, they should be takeninto account within thecost - benefit analysison the groundsthat, withoutsuchinvestment, these costswould not have existed.

Changing inworkingcapitalissignificant generallyforproductiveinvestments. This changing in working capital isconsidered at thenet capital, determinedas the differencebetweencurrent assetsandcurrent liabilitiesrelativetothe investment'soperation. The size ofthis variationin workingcapitalisdetermined by thedemand fortrade creditfrom the customers,of the timing andsize of the creditprovider(short-term, suppliers ofcurrent activity)and of the correct estimation ofavailability needs, so that the financial sustainability of the investment projectis notjeopardized. Thus,inthiseconomic categoryare included thereceivables, the inventoryof each stage ofproduction,andcash andothershort-term liquidities. It is noted that, by its nature, working capitalisa fund thatshould be consideredinthecost - benefit analysisas a flowonly asitvaries fromone period to another.

Operating costsincludeallcurrentpaymentsresulting from operatingthe current investment. Thesearestaff costs, including the related social cost,expenditures forraw materials, utilitiesconsumption, generalexpensesarisingineachaccountingcycle. From the category of accountingexpensesrecordedcurrently, the depreciation expenditures, provisioning expendituresand other reserves expensesare not takeninto count, precisely becausethesedo not involvecash flowsand becausethe potential risks totheaccounting practicerequirethe provisioning to be taken into accountwhen achieving the cost - benefit analysis.

The revenues generated by the currentexploitation of the investmentaredetermined onthe basis of expectedpriceand quantityoftradedproduct orpossible service. Transfersandsubsidies are usuallynotconsideredincomesintheCost - Benefit Analysis, nor is the value added taxor otherindirecttaxesthat the operatorperceives from thefinal consumer, in order to

subsequentlypaytothe tax administration.There are, however, situations where it is recommendedtoconsider theflowofindirect taxesfor the financial sustainability analysisof the project.Regarding the consideration ofsubsidiesandtransfers as being part of the incomecategory, ifthesesubsidiesortransfersaredirectly linked to the exploiting activity of the investment, and they don't have a sporadic nature, they should be takeninto account.These situationsare the mostnumerouswhenit comes topublic investments, investmentsperformed in health infrastructure, social infrastructure, education infrastructure and so on, precisely becausetheactivity that uses theinfrastructureinvolvedisfinanced precisely through thesemechanisms.

Other specific situations related topublicinvestmentsare those wherethe ownership ofinfrastructureon whichinvestments are madebelongs to anotherentitythat the one who will operatetheinfrastructure. Such situationsare the ones related towater andsewersystems, centralizedheating and railway transport; in such caseswhere, the ownership of infrastructure belongs to the state or to the territorialadministrative units, while their exploitation iscarried out by different economic agents.

Due to the fact that thecost - benefit analysisis performedfor the owner of the investment, it wouldbe useful toperforma **strengthened cost - benefit analysis**forboth sides.

Financial sustainabilityof the investmentimplies the existence of apositive cumulativecashflowfor eachyear ofthe time horizon forwhichprojectionsare made. When we refer topublicinvestments, where,in the decision-making process, the politicalfactor is also involved, the financial sustainability ofan investment projectcan also besupportedbypublicfundsallocation policyin various formsbyoperatingactivitiesof the undergone infrastructure.

Asa conclusionregarding the use ofaccounting informationas a basis of the decision-making processfor the acceptance or rejectionofpublic investment projects, we must admit that thedecisionfactorhas also a politicalcomponent that mayuse some legalleverage in order to influence the outcomeanalyzes,andthus theinvestment decision.

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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

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 supplimentary qualification	**50.9**	**40.7**
I considered it offered me more employment posibilities 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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THE IMPACT OF GREAT DEPRESSION ON THE AMERICAN ACCOUNTING PRACTICE

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This article aims to prove that the events surrounding the Great Depression of the late 1920s and early 1930s, marks a maturity point in American Accounting thought and practice. In order to achieve such objective we have undergone a qualitative research, using as method of research the content analysis of the books and articles regarding the American Accounting history and the Great Crash. We can conclude that there is evidence that the crisis had a profound effect on the subsequent evolution of the American Accounting practice.
Keywords: Great Depression, American Accounting, Federal Securities Acts, American Accounting Association
JEL Classification: M41 – Accounting

1. INTRODUCTION

Before World War I, the Federal Reserve Board had been influential in the original efforts to develop accounting and auditing standards. From the appearance of "Approved Methods for the Preparation of Balance Sheet Statements" in 1918 until the aftermath of the stock market crash more than a decade later, the board did little about financial reporting standards. And other regulatory agencies also cease to ask for independent audits as a form of corporate control.

The social demand generated in the progressive era for corporate accountability vis-à-vis greater publicity had sustained Certified Public Accountants (CPA) in their original claim to professional status. During the 1920s that claim was significantly weakened by public indifference and a reaffirmation of the traditional American Creed. Economic theories, which focused on competition as the most effective means of promoting social welfare, suited officials in Washington well, for then they had no responsibility.

Since the public sector generated few demands for audited financial reports, accountants promoted other services that they could provide the businessman. Budgeting, implementation of standard cost systems, and other management accounting techniques were extremely important in gaining acceptance for public accountants during the 1920s. (George N., 1975)

2. LITERATURE REVIEW

Stephen Gilman evaluated accounting theory in the post World War I period and found it inexplicable that income determination had not become the focal point of financial reporting. He concluded that the maturity of large corporations, the income tax laws, and rapid advances in cost accounting ought to have led to the primacy of the income statement. That this was not the case, Gilman believed to be one of the paradoxes of accounting. But, if one examines other environmental factors in the 1920s, the continued emphasis on the balance sheet is understandable.

There are references that to the post World War I period providing the "hard historical evidence" that deviations from historical cost-based, conservative accounting led to the crash of 1929. Many accountants empathized with George O. May's statement that: "in the 1920's accountants fell from grace and took to adjusting capital values on the books…to an extent never before attempted…In extenuation they might plead unsound laws, unpractical economies and a widespread if unfounded belief in the new order of things combined to recommend such a course, but…the wiser course is to admit the error and not to be misled again." (May, 1936)

Littleton analyzed the evolution of accounting theory, writing that "accounting is relative and progressive" and concluding that, "as older methods become less effective under altered conditions, earlier ideas become irrelevant in the face of new problems"(Littleton, 1933). He suggested change mandated acceptance of the "historical cost allocation model'" which became the dominant theory of accounting in the late 1930s.

But it is unfortunate that in justifying the new model, Littleton implied that previous accounting valuation theorists had not been aware of the ramifications of separation of ownership and management. Therefore, previous literature was no longer relevant. This implication seemed not only to justify disregarding questions raised in the 1920s but also to assert that once the corporate entity was accepted, theorists had no choice but to accept the historical cost allocation model.

Until the 1933 and 1934 federal securities acts, public demands for audit decreased, and the profession's obligation to third parties was obscured. The direction and growth of accounting practice was in the area of credit reports to bankers, as advisors to businessmen, and as tax experts. The New York Stock Exchange consistently refused to acknowledge the need for independent audits of listed companies before 1929. Only after the crash did accountants receive the full support of the exchange.

Perhaps a strong, united profession could have generated demands for protection of investors and developed standards to insure that all practitioners were aware of their responsibilities as professionals. But amid a wave of speculative fever unparalleled in American history which created a need for strong control and leadership in accountancy, the profession was bitterly divided. The lack of a unified, authoritative institution through which accountant could exercise strong leadership in the financial community persisted until 1936.

The academic organization was restructured in 1935, and the name was changed to the American Accounting Association (AAA). Academics issued a direct challenge to practitioners with the new stated objectives of the group. In March 1936, publication of a "Statement of Objective" served notice that academicians sought to take the lead in the development of accounting theory.

Practitioners did not empathize with the AAA's attempt "to develop accounting principles and standards, public and private accountants and governmental bodies." Practitioners had long assumed this to be their function and were reluctant to cede this privilege to group, whether within (academics) or outside of (the SEC) accounting.

With the publication "A Tentative Statement of Accounting Principles," also in 1936, the AAA left little doubt that they had adopted a new strategy. But the institute was not prepared to abandon the matter of developing of accounting principles to academicians, for clearly there was much at stake in the matter. Prior to 1936 there were no standardized accounting curricula and very little uniformity of course coverage among schools. Research, despite the excellent efforts of certain individual academicians, continued to lag behind other disciplines in terms of normative theory.

3. THE DEPRESSION YEARS

It is a formidable task to assess the impact of the stock market crash in 1929 – historical evidence suggests that contemporary observers did not foresee the lasting impact that the event would have. Yet it seems clear that the crash had a profound effect on the subsequent evolution of accounting practice. Politicians could no longer argue that Americans would prosper under a business system managed – or unmanaged – as it had been in the 1920s. But reaction was slow, and political leaders neither blamed accountants for the debacle of the 1920s nor looked to the profession for protection in the 1930s.

In the 1929 the American Institute of Accountants, with the support of the Federal Reserve Board, issued the Verification of Financial Statements. This pamphlet is fondly remembered as the "auditor's bible" by some older accountants. Although it was an attempt by the institute to

provide guidelines to the profession, practitioners made clear that they were not attempting to receive the concept of uniform accounting.

Many accountants seemed to believe that the issuance of the document "Uniform Accounting" had created an illusion that there were accepted accounting and auditing procedures in widespread use which led to complacency on the part of both the public and the profession. An editorial in the Journal of Accountancy condemned any suggestion "for uniform systems of accounting and auditing for all sorts of business conditions" as extremely dangerous because that implied to many investors a degree of assurance that could not be given by auditors faced with the uncertainty that existed in the business sector.

At the 1930 annual meeting of the American Institute of Accountants, J. M. B. Hoxsey opened the door for cooperation between the New York Stock Exchange and Certified Public Accountants. May, who had served as advisor to the exchange, became chairman of the Special Committee on Cooperation with the New York Stock Exchange. The committee presented its first draft of accepted accounting principles in 1933 and submitted six recommendations to the institute and exchange for approval the following year.

The exchange agreed to five of six recommendations. They rejected the requirement that "all listed companies…disclose the accounting methods employed" (AIA Minutes 1932: 62f). Cooperation resulted in the publication of Audits of Corporate Accounts, which listed five basic principles that dealt with the most overt abuses of the 1920s:

1. no unrealized profit;
2. no charges of expenses to surplus to relieve the income account;
3. earned surplus prior to an acquisition is not earned surplus of the parent;
4. dividends on treasury stock are not income;
5. notes and accounts receivable due from officers or employees must be shown separately. (AIA, 1934: 14).

A sixth principle – (6) donated capital does not result in earned surplus – was added at the annual meeting of the Institute in 1934 (AIA, 1934). These basic views indicate that accountants had recognized the validity of the argument that the inability, or perhaps unwillingness, of the profession to properly aggregate capital and income had been one of the major reasons for unsatisfactory reporting in the previous decade.

Despite the many theories about the nature of capital and income, there was general agreement among accounting practitioners that dividends should be paid from earned surplus. But there was no generally accepted procedural approach to this problem. Eric Kohler became a leading spokesman for the "revenue-expense," income orientation, which came to dominate accounting theory in the 1930s. One of the more interesting assertions made by historical cost-oriented accountants was that bankers had influenced accounting standards and had oriented accountants toward liquidation values.

Faced with a direct challenge from academics with the American Accounting Association's publication of "A Tentative Statement of Accounting Principles" (1936) and the specter of federal intervention with the establishment of the SEC, practitioners united.

In 1936 the American Institute of Accountants embarked on a new research program. Accountants were successful in their efforts to keep the standard-setting process in the private sector and in retaining their right to set those standards despite demands from some that the federal government assume absolute control over the financial reporting process. For example, William Schulter's proposal, contained in his Economic Cycles and Crises (1993), called the entire federal control of accounting.

Schluter advocated an institute of accountancy and pricing on valuation that would require al business enterprises to keep accounts according to standards set by the federal government. Although Schluter would permit some latitude, standardized systems would be adapted to the

needs of different industries. He believed that such rules would permit the "elimination of the present day system of certifying individual public accountants" and allow the government to do this important work. His proposed national institute of accountancy would be analogous with respect to accountancy to the Supreme Court of the United States.

He posited three divisions within the government to handle accounting data: first, there would be a division of accounting theory, methods, and procedure, empowered to develop accounting theory and principles: second, a division of reports for uniform classification and compilation of data; and, third, a division of examination and audit, whose duties would be similar to those now performed by public accounting firms. Given such proposals, the SEC, with its emphasis on disclosure, was not as onerous to the profession as has sometimes been suggested.

4. THE FEDERAL SECURITIES ACTS

The 1933 and 1934 federal securities acts marked the beginning of the development of a "social consciousness" with respect to business and financial reporting in the US (Greer 1964). Although that statement may eventually be proved to be historically true, since this legislation did acknowledge the importance of financial information for economic and social control, its immediate impact upon the accounting profession seemed to narrow somewhat the traditional concepts of the independent public accountant's responsibilities.

Despite the fact that the image of the profession was enhanced by the call for independent audits, these acts were not regarded as salutary for the profession. Many CPAs were frightened, not as some have suggested purely by the increased legal liability, but also by the extravagant claims being made by some reformers about the efficacy and reliability of accounting information.

Perhaps Clem Collins, AIA president, best summed up the prevailing sentiment within the profession when he wrote: "It is altogether possible that accountancy has been oversold. That is, a general belief has apparently developed that accounting procedures are infallible.

Medical science may have its defects, the principles of engineering may fail because of unforeseeable conditions, justice may miscarry because of malevolent human ingenuity, and even our spiritual destination might be uncertain as a result of the diversity of human understanding and belief, BUT, in the minds of many, accountancy seems to stand as the one science against which the machinations of the human mind shall not prevail." (Collins 1939)

By 1933, in fact, many felt that the terms "accountant" and "auditor" were synonymous. Walter Staub attempted to clarify the picture, explaining that auditing "has been sometimes described as the analytical phase of the accountant's work and accounting per se as a synthetic phase."

5. CONCLUSION

The purpose of this study was achieved so we can conclude that that the events surrounding the great depression of the late 1920s and early 1930s, marks a maturity point in American accounting thought and practice.

Most accountants believed that any theory must be pragmatic (useful, Practical, leading to desirable social consequences) and adaptive (to meet the changing demands made upon the profession). During the 1920s there is little evidence that any user group would have supported efforts to report only income from operations. To do so would have limited, or at least dampened, the wave of optimism which swept the country.

The desire for certainty seems to have been one of the characteristics of the "depression mentality." Accountants could not give legislators all the assurance they demanded. Over the years, it had become apparent to most practitioners that there were no simple rules in accounting.

What might conceivably be viewed by others as a simple question (Does an asset exist?) was not elementary for the CPA who believed that managerial intent was an important consideration in asset recognition. Assessment of managerial intent was not an objective matter, according to practitioners. And professional judgment continued to be a most important attribute of the CPA.

Social role of accountants came to be seen as minimization of taxes. Although some reformers questioned Mellon's synergistic approach, which assumed that the wealth of the rich would eventually filter down to the poor, social thought appeared to support Mellon. (Andrew M., 1924)

During the early 1930s there was an effort to divorce accounting from economic theory on "practical" grounds. Topics such as the accountant's function in a regulated society, the need for multiple valuations, and the problems of articulation introduced in the 1920s were subsequently ignored as the work of "valuation theorists."

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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, form 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 then 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
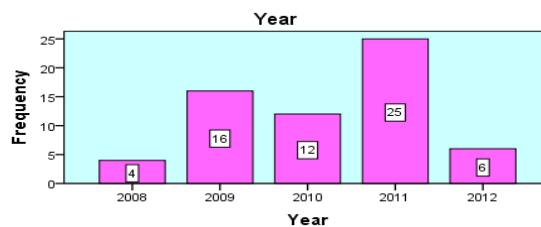
Table 1. Publications with "accounting" and "crisis" included in the title, abstract or in the body of the paper by database

Database	No. of articles
Emerald	9
ScienceDirect	18
Springerlink	5
SSRN	31

Total	63

As shown in Figure 2, we found 49 Journals that published articles related to the interplay between accounting and the global financial crisis. From these ones, 2 seemed to play a key role in the accounting academic research publications: Accounting, Organizations and Society (6 articles) and Journal of Accounting and Economics (5 articles). The diversity of academic journals that published articles related to our field of expertise suggest that academic community is engaged in the development of the accounting regulations during periods of financial crisis.

Figure 2. "Accounting" and "crisis" related articles appearing in academics journals
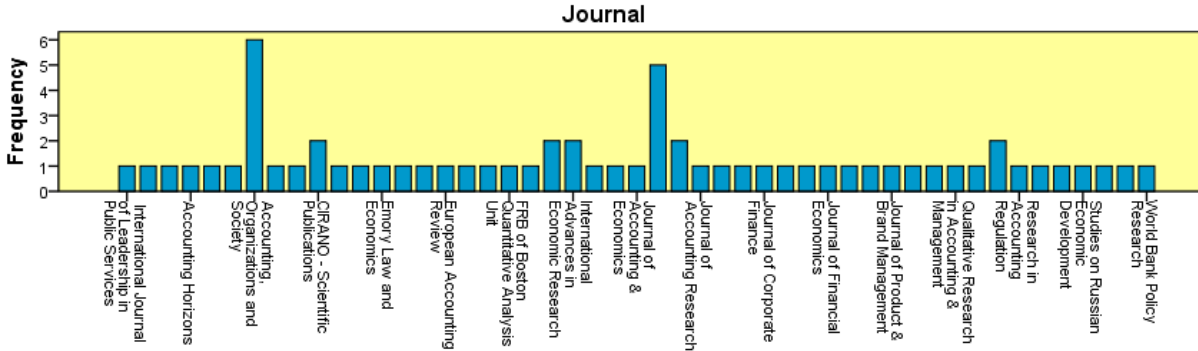
As emphasized in Figure 3 the majority of authors that published articles, regarding to the interplay between accounting and the financial crisis, are the Americans (34 articles), followed by the Europeans (17 articles). Also Figure 3 shows that qualitative research (39 articles) has prevailed over the quantitative one (24 articles).

Figure 3. Paper analysis according to author's provenience and research type

Bar Chart
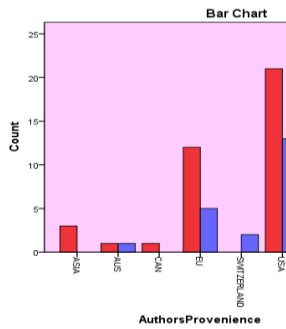
As it can be seen in topic that was most financial crisis has academic community, is Value Accounting Accounting regulations.

Table 2. Paper analysis 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**

Table 2 the research debated since the arisen, on the accounting Mark-to-market or Fair (FVA), followed by the

according to the research

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 various[93]. 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 space[94], 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.

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[93] For a detailed discussion regarding the history of the concept of TFV see Chastney (1975).

[94] 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.cafr.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 if 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 Row N %	Agreement 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 mislead 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 where 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 relay 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. - *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.*
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.*	

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 where 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%	7	22 (30% in company 1 and

		investment in each company		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 largely 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 mislead 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 threat 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

ROLE OF BEST PRACTICES IN ENTREPRENORIAL INITIATION OF STUDENTS ILUSTRATIVE CASE: WEST UNIVERSITY OF TIMISOARA

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Abstract:
In a competitive and dynamic international context, investment in education and training must take into account the new demands of knowledge based society. Education institution is the organization which, "teaches and produces knowledge" and the role and responsibilities of education are fundamental. Rethinking the way of doing business, reinventing our own business that allows the exploitation of opportunities and constraints of the economic environment can not be achieved without entrepreneurial education, without adaptive and responsive approach to changes in economic environment and beyond.
This paper aims to present the role and impact of good practice in creating a culture and entrepreneurial education in Romanian higher education system.
Research is a descriptive and analytical one, the conclusions drawn are important as they constitute a starting point in identifying and implementing solutions to reconfigure higher education system so as to meet the challenges of today's economic environment.
Personal contribution lies in identifying the multiple ways of expressing entrepreneurship and business culture embodied in innovative projects initiated and implemented in the Faculty of Economics and Business Administration from West University of Timisoara.
Keywords: Educational reform, entrepreneurial education, partnership between academic and business environments, policy of best practices.
JEL Codes: I23, A20, J23, J24.

1. Investment in education and training in a knowledge based society

In a competitive and dynamic international context, investment in education and training must take into consideration the new requirements of the knowledge based society.

In present, EU seems to present some disparities compared to USA, disparities like the inability to attract and retain talents in Europe.

The disparity in productiveness between EU and US continue to widen. To reverse this trend, there are additional investments needed, not only in research and development and IT, but also in the education and training European system.

Challenges of higher education in the economy based on knowledge

The unequal economic development with asymmetric consequences in world academic view had led to a social mobility, marked by variation and diversity, disparities between educational systems and for all these reasons the world *academic medium is challenged not only the answer the change but to initiate one of the changes*. Building an efficient system of higher education and universities of international level require a paradigm shift: *from uniformity and dispersion to differentiation and concentration.*

In the current era of globalization, redefining the university education is defined by new trends: internationalization, transnational education trough mobility, lifelong learning and distance e-learning system, qualifications and international ranking systems, research- innovation-development, association between university- industry and the private sector, new approaches in management and academic freedom, brain drain, global flows of talent and many others. These

requirements represent a continue adjustment to different contexts of society that haven`t been transformed without conflicts and oppositions. Each of these challenges lead to redefining how the University of the 21th century could serve the individual and the society. Regardless of the paradigms adopted (research, academic entrepreneurship, Open University, etc.) in present times universities have to redefine their mission so they will fulfill more roles with less resources. Moreover, specialists consider universities as real research and innovation incubators and training and development providers that offer skills and competences necessary for a bigger number of professions that require knowledge and complementary abilities.

The accreditation of the qualifications, quality assurance, public- private partnership, cross-border movement of students and curricula, multiculturalism and homogenization, recompose the university mission in the society based on knowledge.

The globalization process will focus on skills of graduates in the super-tech professions that require knowledge of foreign languages and also sensitivity to different cultures, which will enhance the internationalization.

In terms of diversity and flexibility of higher education level there are a number of priorities that assess with a direct impact on education quality such as: a larger number of public and private education providers, an increased international mobility (brain drain, brain gain, and brain train), an increased number of cross- border higher education, collaboration, communication between academic environment and business environment, an increased role of internships, etc.

2. Partnership between university environment and economic environment, a necessity

The collocation society based on knowledge, is bringing into discussion the objectives and the content of educational system, the mode in which the educated acquire knowledge, abilities and competences that help them face new challenges related to research, innovation, knowledge evaluation with success, especially in the new economical, social, political and cultural context.

Education institution becomes an organization that "teaches" and "produces knowledge" and the role and the responsibilities of education are fundamental. Nowadays, in Romania the educational programs have big quality issues and are not relevant for knowledge economy. The reinventing of the education system based on entrepreneurial fundaments it`s a must.

The biggest challenge is addressed to the reforms responsible in education and training, and to the experts and consists in exploring all the building and development possibilities of different types of public- private partnerships having the purpose to mobilize supplementary financial and human resources.

The triptych: academic institutions- business environment- governmental environment represents an exigency of the actual education reform that has as benefits economic growth on few bearings: at a corporation level, local, regional, national and international level.

In theory, the importance of the relationship between universities and entrepreneurial environment is emphasizes by a number of studies in this domain which sustain that "it is necessary for universities to collaborate with the regional or local business environment for developing new and innovative businesses.

Also, in a study conducted in 2005, by the National Alliance of Student Organizations in Romania, that had in view the role of universities to provide students a professional training appropriate for the demand on the labor market, is sustained that universities must become open systems, capable of achieving a high level of integration in academic, administrative, political and non-profit environments, and meet the challenges of a society based on knowledge.

It becomes a necessity in this situation that before creating and providing services by universities, to be completely and correctly known the requirements and needs of the economic environment, and to correlate these needs with the programs offered to students.

It is needed to build and implement flexible curricula centered on competences, skills and abilities that are necessary in an economy based on knowledge.

3. Example of best practices in entrepreneurial initiation of the students. Illustrative case study: Carma- FEAA, UVT Timisoara

Offering an important role to the entrepreneurship and business culture, promotion of innovative projects in educational field, the capacity of financing the acquisition of new technologies, higher level of professional training for an increased efficiency of emergent technologies, training and life learning programs are in the center of attention of the Faculty of Economics and Business Administration (FEAA) one of the faculties of West University from Timisoara.

Here, entrepreneurial education had found multiple expressing modalities, starting from adopting new attitudes beside knowledge, development, life until participating to different programs and initiative in solving real problems in a complex and dynamic economic context.

Problematical learning, learning by collaboration, simulation, role games, case studies, business plans and portfolio individual or team created, educational software usage by simulating a business can approach the process of teaching- learning- evaluation with the economic reality these are the ways trough which out students develop their capacity of rational approach of economic and social problems.

FEAA mission is to reach excellence in it`s activity, to obtain high performance, a strong motivation for success, responsibility and didactic creativity encouragement, commitment and implication in local, regional, national and international projects. FEAA is willing to take the role of entrepreneurial progressive institution for accomplishing it`s mission in an economy that has to create welfare and jobs.

As a natural consequence of this fact, is has been built in 2011 The Center for Entrepreneurship and Relations with Business Environment- CARMA- with it`s purpose to:

Develop and attract entrepreneurial talent which had become an important source of economic growth because this can simulate the innovative environment and can lead to development of innovative companies with a strong growth in the region;

Increase entrepreneurial competences among young generation by offering educational resources that have an inspirational impact over students and which allows these persons to cross the entire cycle of a successful business initiation;

Improve the profile of the graduates of West University of Timisoara, regarding applied skills, acquired during studies through practice stages and internships in partner companies;

Organize university courses for improvements of the employees of partner companies and attending management simulation;

Organize events for the development of opportunities of the companies in the local business environment (Business Arena, Business Wings, Best Business Plan, etc)

The attending of business personalities from the social- economic environment as practice experts in the educational programs;

Building an educational program common with business administration "Elite Business Administration" dedicated to employees from managerial medium from partner companies and the top students;

Internationalization of the educational programs of UVT in English or French trough diplomatic centers;

Creating subjects of research in entrepreneurship for PhD programs, and also implementing the result of the research in entrepreneurship and innovation in social- economic environment.

As an example we can mention a few activities developed between 2011 and 2012, activities of the Center but also of the faculty that represents best practice that contribute to building and developing competences and professional and personal skills of our students, for an increased percentage of graduates that find a job in a very short time from graduation.

The project: Young, successful Entrepreneurs, project co financed from European Social Fund trough Operational Program of Human Resources Development 2007- 2013, Invest in people!

This project is willing to: increase the entrepreneurial potential of student and graduates, entrepreneurial culture development, competitiveness improvements, potential entrepreneurs adaptability, increase the abilities of focus group to design and implement business ideas.

The persons that benefit of this project: 800 basic courses recipients, 320 advanced courses recipients, 40 business plans financed by the project. The project has as partners: MECTS, FEAA-UVT, JCI Romania- Young Entrepreneurs Federation, EXTREME TRAINING Company and UNSR- National Union of Romanian Students.

The conference: Discover the champion in you, an event that wanted to create a motivation for success, will to perform no matter in what field.

This project wanted to prove a simple fact: ideas gather people. Ideas are resources that can change everything, that make the difference. Enjoying a large number of attendants, over 180 students, at the event as speakers there were invited personalities from business and academic environment. From the themes we can mention: challenges in elite academy, the fulfillment of aspirations- personal development techniques, the manager- leader- entrepreneur, be pro- active!, how to discover the job that I like, from a survivor to a champion, , how do employers think.

Partners of this event: *FEAA, UVT, CARMA, Lideea company, John Maxwell team Romania, HR Dimension Bucharest.*

The international program in human resources- Bringing Cultures Together- an international program between Holland and Romania, in partnership with CHE from EDE Holland.

Starting with the idea of building an approach between these two different cultures: Holland culture (organizational culture) and Romanian culture (organizational culture), students involved in this project will be aware of the cultural differences and will have to accept, respect and approach them in an appropriate way. The project Bringing cultures together had developed in real time a transfer of know how regarding innovative practices in professional education.

This project has the following objectives: professional development of students regarding human resources management, to compare practices of human resources management from Romania and Holland, to offer Romanian students the opportunity to experience a multicultural environment.

As results of this project, we mention:

1. During these year of project 2004- 2011, over 140 Romanian and Dutch students had beneficiated of valuable opportunities of building career in a multicultural environment, both sites experienced the cultural differences in workshops, mix research teams, visits at companies, debates, through all these they had the possibility to acknowledge and compare practical aspects of human resources management applied in Dutch and Romanian companies.

2. Exchange of useful ideas, information and solutions in HRM;

3. Creating and developing professional relationships between teachers and project coordinators;

4. Building the cooperation platform between University of CHE from Ede, Holland and West University of Timisoara;

5. The attendants of every edition had received a diploma, since 2008 this diploma was officially certified by those two partner universities;

6. There is a website of the project: http://topshare.che.nl/timisoara2011 that offers an efficient dissemination of the results and information related to the project, starting with the 2008 edition;

7. Over these years, for an easier interaction between students and the reality of Romanian economic environment there are a few companies that got involved in the project: Alcatel, Azur, Profi Foods, Lideea, Coca- Cola, Flextronic, Bega Group, Eta2U, Lead Human Resources, Hella Electronics , Cores , ConDoor East , ADR- Regional Developement Agency, IT Incubator, Grafo Print, that offered studets the ocasion to debate, participate to lectures, debates and workshops as: Compensation& Benefits, Appraisal systems, Labour law for European migrants, Recruitment&Selection, Dismissal, Leadership & Coaching, Schooling &Training, Absenteism, sustained by HR specialists or HR departments representative, from the companies partners of the project.

From the basic arguments of the partner companies, we can mention: Positioning the company as a company interested in education and building future specialist in HR; Acces of inovative ideas, generated by multicultural environment, for solutioning real situations in HR; Acces to a database of young students with multicultural work experience.

The project LEARNING & ACTING TOGETHER, a videoconference that gathered 3 Universities, 2 from Romania and 1 from Moldovia Republic: West University of Timisoara, Faculty of Economic and Business Administration, ASE Bucharest, Faculty of Management and ASE Mondova- Faculty of Business and Administration, Training Centre and Business Advisory. This event gathered students that presented valuable projects of research and proved the attendants (professors from academic environment, business personalities and students) that there are values in young people that worth beeing involved in the research process because they bring inovative ideas and significantly contribute to professional and scientifical training and growing prosperity for knowledge creation.

These are just a few examples from the numerous programs developend at the faculty and university level.

4. Instead of conclusions

Rethinking the mode of doing business, reinventing our own business that allows opportunities fructification and operating constraints of the economic environment can not be achieved without entrepreneuship education, adaptive and reactive approach to the changes of the economic environment.

In a methaforic way, the purpose of education, of entrepreneurial education particulary is to build „an edifice" as solid and extended as possible, where initiatives can be identified and implemented, initiatives that sustain the obtaining and growth of organization performances.

In this context, a contemporan society challenge is the reinventing of school, formal education, with the nonformal and informal version.

The Faculty of Economics and Business Administration of the West University of Timisoara and the Entrepreneurship Center and business environment relationships had understood that investment in research and entrepreneurial education, the partnership between academic and economic environment represents the recepy for academic and professional performance at individual and organization level. In this matter, the raport ARACIS from 2011 assigns: „At the West University of Timisoara have been identified a series of best practices that can be extended to other universities or faculties in the country". Here we can meet: „Developement of structurate partnerships, compelling formalized with the economic and social environment, that contribute to the aplicativ level of teaching process growth, to a good organization of specialized practic stage, to update the curiculum content, based on the current and future requirements of economy, science and culture, to increase the percentage of graduates who find a job in a short time after graduation, in the professional profile that were prepaired in college".

Having an opening to implementation of educational programs adapted to the business environment, suntaining and developing colaborative projects between universities, public institutions, business organizations, promoting an entrepreneurial education and an colaborative business culture, FEAA of UVT manages to take with succes the role of evolving entrepreneurial institution for achiving it`s mission in an economy that needs to generate wealth and create jobs.

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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, the 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-cheque.

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 to 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 Fîrşirotu (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 Ţuclea (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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A MODEL ECUATION 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, Qa= quality action, Qd= quality decision, P_{q}-quality perception, P_a,-action perception, P_p- precision perception, T-technology, M-man, manufacture power, A-affect variable..

$$\text{EKP} = f(Q_p,\ Qa,\ Qd,\ P_q, P_a, P_d,\ T,\ M, A\ ) \qquad [1]$$

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.
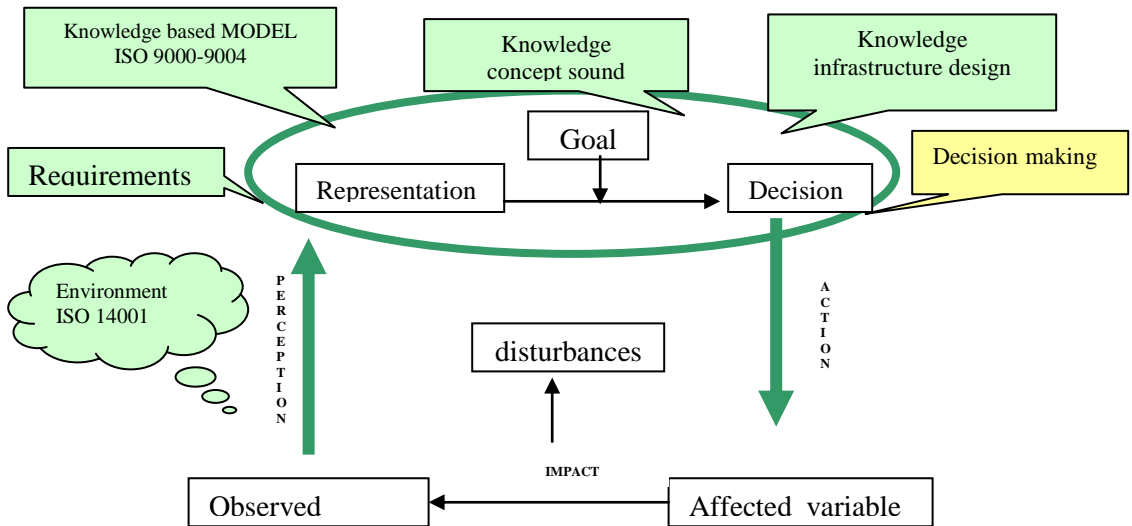
Fig.1. Modelling of Knowledge Product Process

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)].
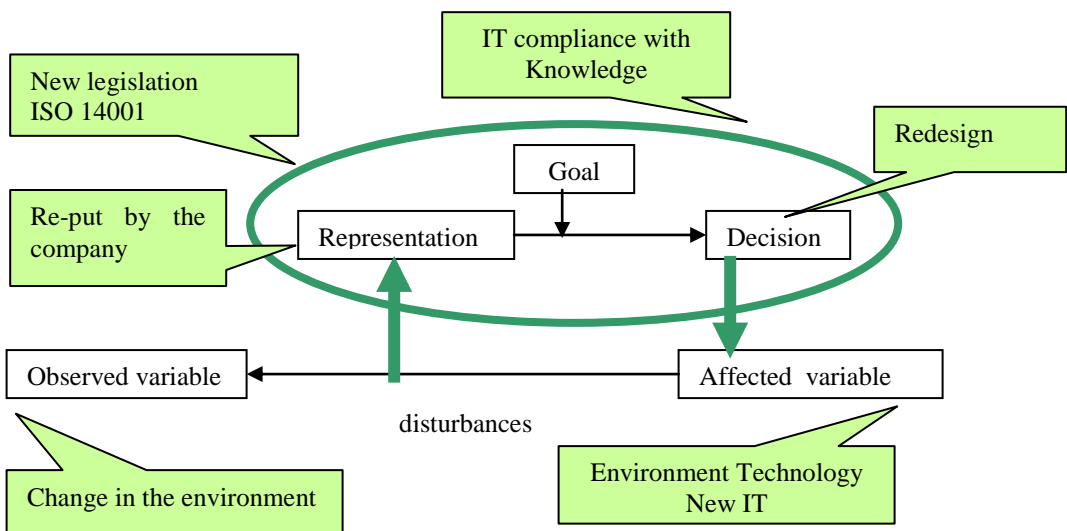
Fig.2. A Model concept for Product Improvement

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 [Allemby (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.
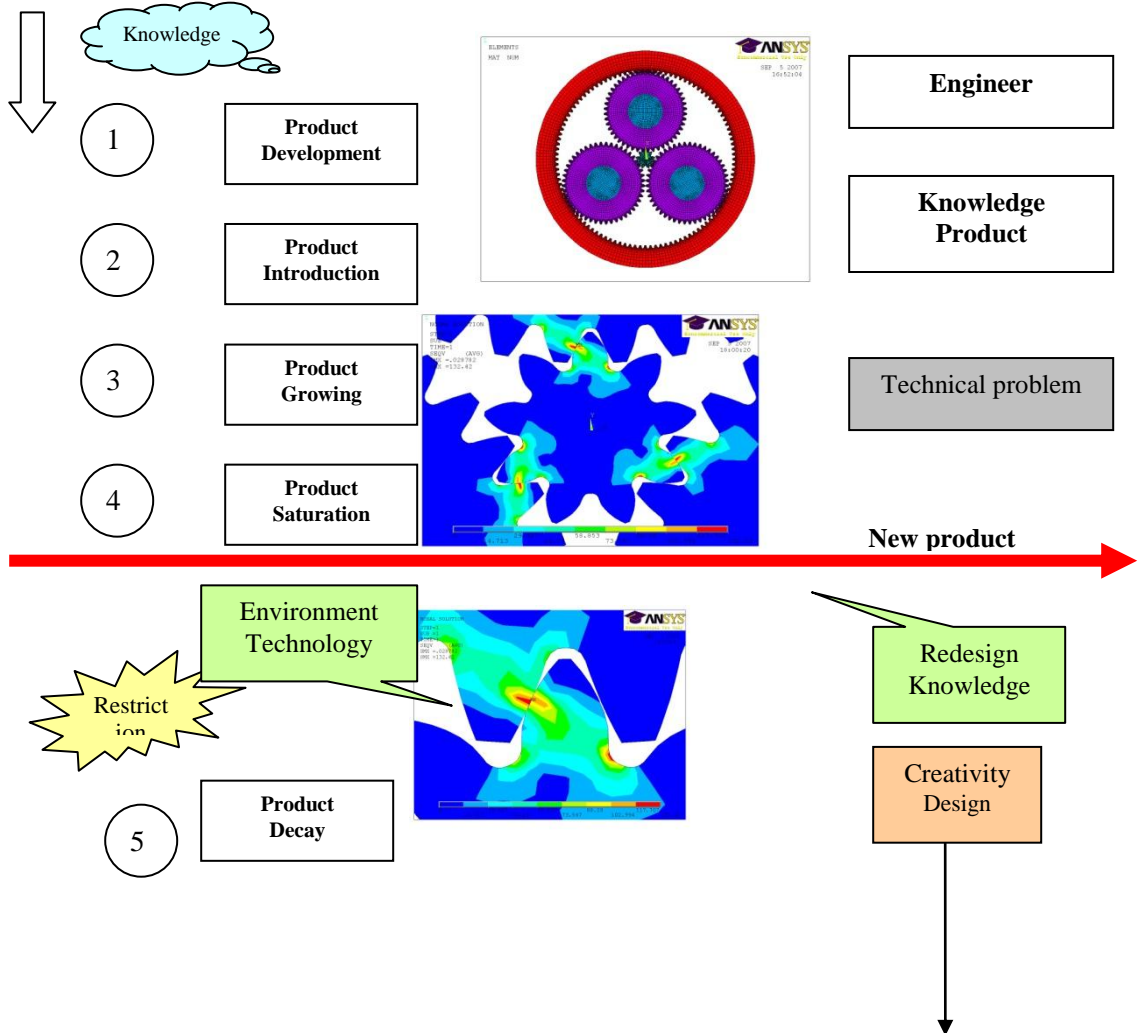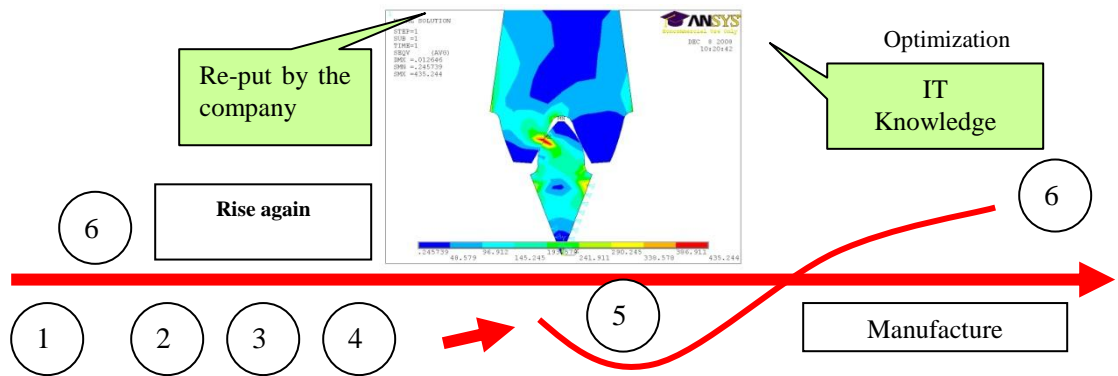
Fig.3. Life Cycle Product Model from theoretical trend -sales - manufacturing design

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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THE EFFECTS OF NEW TECHNOLOGY ON PRODUCT KNOWLEDGE MANAGEMENT

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In order to manage the market competition, rapid changes in technology, accelerating industry clock speed, increasing number of product variants, shrinking product lifecycles, limited supply, and price pressures, technology companies need to put more emphasis on managing product launches successfully and timely. Therefore, the focus of this study is to examine product of an manufacturer that operates in high volume and high clock speed industry. Furthermore, special attention is paid to how the company could learn from previous product launches and utilize this information internally when preparing for upcoming product ramp-ups.
Keywords:life cycle product, knowledge product, quality, technological innovation, change management,
JEL : M11, O33

Introduction

In his article Levitt [1965] describes the importance of the concept of product lifecycle and how it should be used as a competitive power.

A key factor in his article is the proactive way of anticipating future stages. Early planning, looking ahead, advance thinking, sample planning and acting are the topics that are discussed widely in his text.

Early planning is defined as the promotion of more frequent usage, developing varied usage, finding new users and uses.

By looking ahead the company can become a of competitive and market events and then make noticeable improvements to the short term tactics of the product. When these considerations have been made the company has to also be aware what the impact of one decision has in the following phase [Simula 2008].

All the effects cannot of course be forecasted and therefore, the company has to act on the basis of conclusions at its disposal the goal for a product for certain time intervals and therefore, provides the product should go time-in-market, can usually be define as introduction, growth, maturity and decline, four stages have been introduced in multiple sources, the strategic decisions that have to be made in different stages of a product profitable and successful.

Method of research

The article include a theoretical part based on existing research literature on product processes and product launches. That is followed by an empirical study of a case company.

The theoretical section covers topics such as new product development, productizing process, product lifecycle management, lessons-to-learn culture and best practices.

The empirical part of the study is performed as a descriptive case study. The study is descriptive, since it illustrates and describes the topic of management in its real-life context.

Study case:

A guide to understanding advances and production.

By identifying the dependencies between challenges created by external factors and the corresponding internal factors to solve the challenges companies can effectively maintain the inflow of profits. [Putkiranta 2007] (see table 1).

Table 1. Challenges from external factors and corresponding alterable internal factors

External factors	Challenges	Internal factors
Markets	Warehousing	Sales
Competition	Customer care	Marketing
Demand	Processes' collaboration	Manufacturing
Supply	Manufacturing capability	Product portfolio
Partners	Delivery	Human Resources
Technology	Forecasting	Supply Chain
Economy		Management

Demand factors such as delivery time, delivery flexibility, demand forecasts and customer specific product requirements are the main creators of challenges from the downstream.

In the upstream challenges originate from material delivery times, availability forecasts and delivery time accuracies. Also several of other external factors such as strikes and competitor pricing develop situations which are challenging for companies [Putkiranta 2010].

Due to short product lifecycles characteristic of the market, companies have little time to analyze and learn from their previous successes and failures in product launches.

The effect of new technology on product development it's examined following the ramp of PLC cycle for a product (see figure 1)
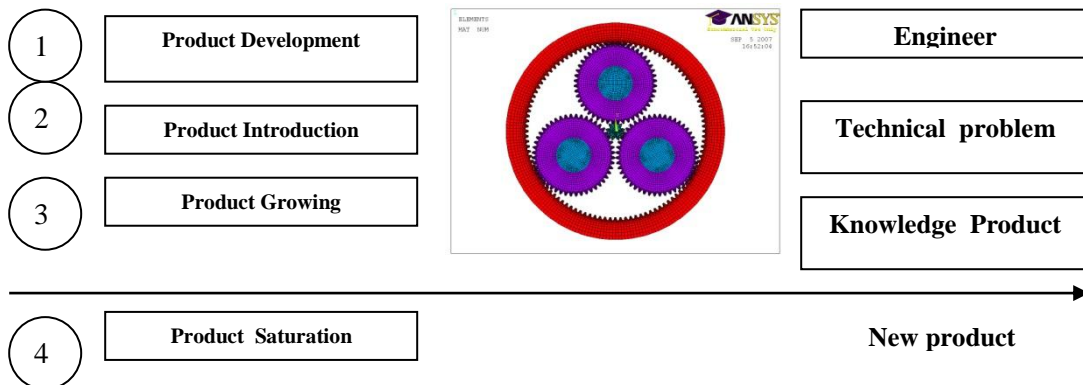
Fig.1. The PLC cycle for a product

Therefore, the purpose of this study is to identify how past experiences in product ramp-ups can be best utilized in a fast clock speed industry.

Objects of study

The objectives of the study are the following [Moyer 2009]:

- To identify challenges in product ramp-up planning and management
- To recognize the ways of improving performance through learning
- To create a tool for describing and analyzing past product ramp-ups and storing gathered information.

Are improvements in technology responsible for the development of new products?

Are these technological advances responsible for successful new products?

Often those who write about future developments in industry and in lifestyles base their predictions on their expectations, often correct, of the advance of technology.

Customer needs and wants drive the development of successful products and the role technology plays is the opposite [Larson 2011].

The lack of the required technology holds back the development of products that, if possible and practicable, could be successfully introduced.

What drove the sale of our products (industrial automation devices and systems) was the needs and desires of the individuals working for our customers (manufacturing companies).

What held us back was the inability, usually due to technological limitations, to produce the desired product at a reasonable cost. [Barbuta-Misu 2010].

As technology improved, the limitations were lifted and new products were brought to the marketplace. [Korhonen 2008].

Results

The study also exhibited that the new product technology has effect on how the ramp up behaves. In products with new technology, issues with upstream, software and demand seem to appear. The products with technology that has been used before have complications with modifications that seem to pop-up in the later phases of product development. [Yin 2003].

The problems with demand, software and upstream in **new technology** appear as slow building order book, delays and supply shortages or quality issues (see table 2).

Table 2. Implication and solutions in new technology

New Technology			
Issue	**Upstream**	**Software**	**Demands**
Implication	Supply Mechanical quality Consumer quality	Over optimization Tight schedule	Slow slowly demands Sales adjustment
Solutions	Supply driven action	Realistic approach	Highlight the situation

In upstream problems like supply of mechanics and covers, the solution would be to follow the guideline set by the global supply situation.

Gaining momentum in the project start by collaborating with surrounding elements the probability of succeeding later on is remarkably higher.

Problems with software leading to delays and too tight schedules are common, but the only way to avoid surprises is to have follow-ups to constantly paint the readiness of the platform.

The products with **"old" technology** seemed to have one repeating problem: different types of modifications (see table 3).

Table 3. Implication and solution in traditional device

Traditional device			
Issue	**Supply problems**	**Cover problems**	
Implication	Low product design	Production output	
Solutions	Supply driven action	Focus on down stream	Maximize output

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.

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. [Consoli 2011],

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.

In some cases the tooling in the production was changed or the diverse mix of sales package contents was not in control (see table 4).

Table 4. Implication and solution in using IC programs

Customers specification variants			
Issue	Sales push for high volumes	Inventory risk	
Implication	Volumes drop after channel fulfillment	Significant work in progress and investments	
Solutions	Close customer collaboration	Familiarize with customers strategies	Customers goggles

However, for much 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. [Levitt 1965].

The first common mistake is to assume that any reduction in sales signals the onset of the decline phase.

The area between stages 1 and 2 may at first appear to be decline, but in fact are part of the growth stage. Similarly, the area between points 3 and 4 may at first be read as a new growth phase; in fact it is little more than a temporary increase that has no real significance (Figure 2.).
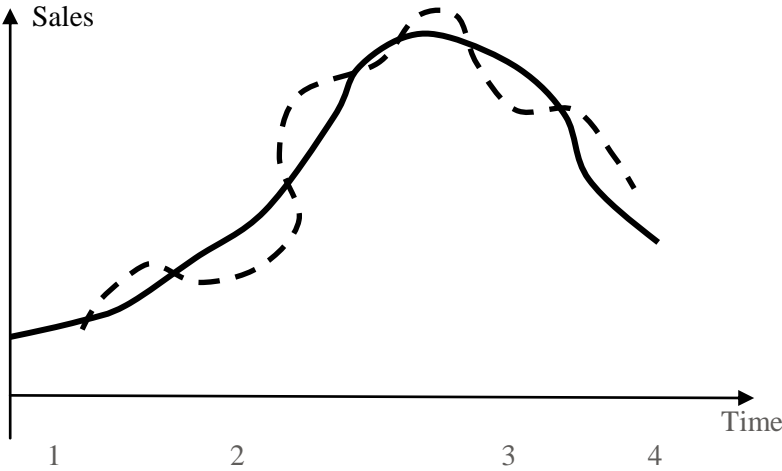

Fig. 2. Life Cycle Product Model theoretical trend vs sales (-----)

Conclusion

The purpose of this study was to establish a model PLC to support the daily tasks of a working community.

Due to the limited resources and experimental nature of the research quite a few possibilities were left for subsequent studies.

At least four types of topics could still be implemented in the case company to utilize the new technology power of learning in the case organization, namely the following:
1. Implementing the learning culture to support the whole lifecycle of a product
2. Integrating the tools described in this study
3. Making the tools and prevailing performance measures fully compatible
4. Establishing a similar learning culture at higher level to reduce the amount information sharing obstacles created by corporate silos

1.For the first topic the crucial part would be to find out if the learning culture was beneficial if it was used on the whole lifecycle of a product.

Would the possible output from the reporting input be greater and in that way be useful for the organization or would it be only additional workload for the employees?

2.The second topic would be based on the same topic as this research, but the scope would be to make the tools of the culture more user-friendly.

By combining the tools into one program the use would become easier. But again, it would need to be considered whether the output would be bigger than the input.

If the implementation required great amount of resources the project could be seen as a waste of money.

Though if it was enabled through witty solutions with basic programs, it would enhance and support the lessons-to-learn culture.

3.The third subsequent project goal would be to fuse the performance measures of the business unit to the learning tools and culture.

By combining the measures with learning reporting, the top management would also have a shortcut view on the plans on how the pitfalls from the past could be avoided.

4.The fourth research possibility would have the greatest magnitude.

Most of the functions at the case company have their own tools for lesson-to-learn reporting, but they all are completely separate.

By studying the ways of different corporate silos in learning common benchmarks could be found. In that way all the functions would use similar tools, which again would enable improved visibility when attacking common obstacles and challenges.

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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 rutine 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 a 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 predomominantly technical orienteted;
- 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 "*failling 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, acording 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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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 *practice*s (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
Made by the authors
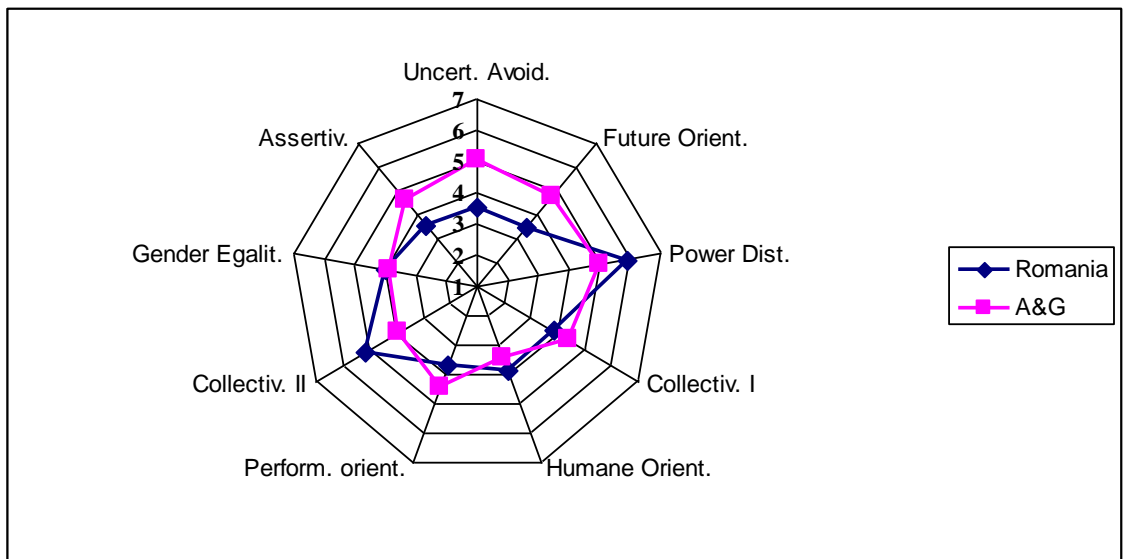
Figure 1. Differences in perception mean scores: Romanian vs. A&G students
Made by the authors

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
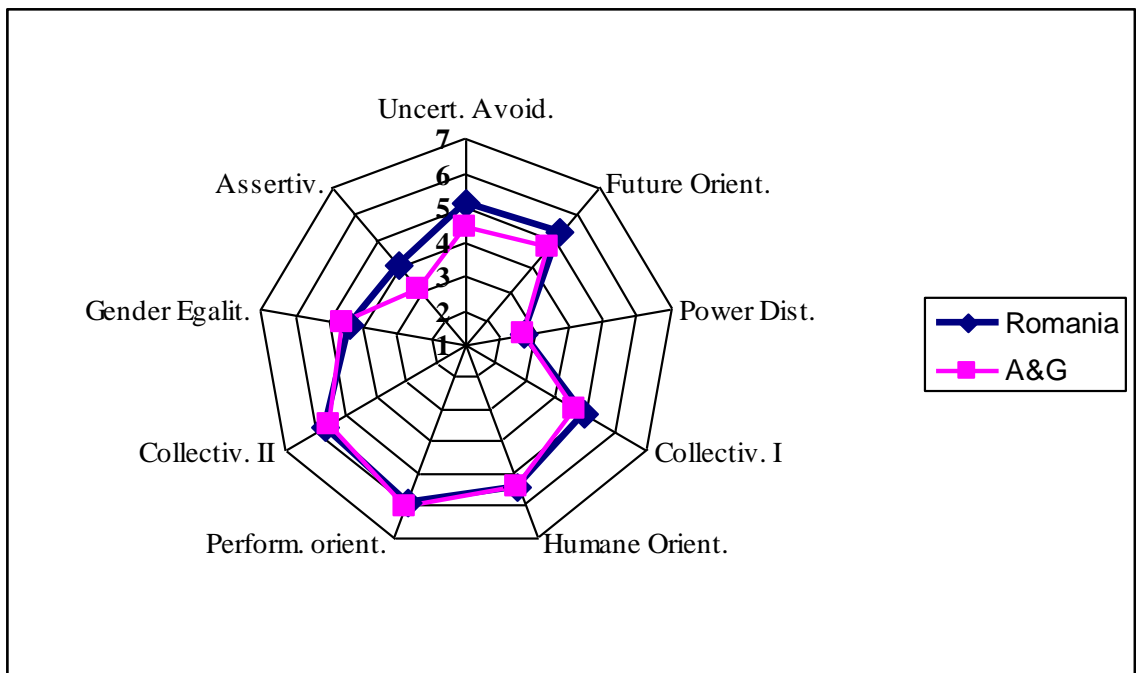
Figure 3 Differences in expectation mean scores: Romanian vs. A&G students
Made by the authors

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; 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 all, 2004; Chhokar et all, 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 all, 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 all, 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 all, 2004; Chhokar et all, 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 all, 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 and 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.
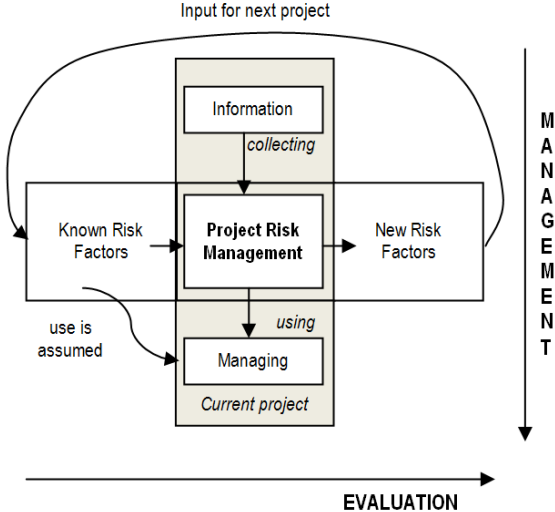
Fig. no 1. The two main approaches to project risk management combined
Source: Bakker et al., 2010a

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
Risk Management Planning (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
Risk Identification (Project Management Institute, 2008; Besner and Hobbs, 2006)	Naming and identifying risks by: filling out questionnaires, consulting experts, doing brainstorm sessions, conducting interviews, etc.
Risk Registration (Besner and Hobbs, 2006)	Recording and maintaining the list of risks in: a database, one or more documents, spreadsheets, etc.
Risk Analysis (Project Management Institute, 2008, Besner and Hobbs, 2006)	Analysing risks: by estimating probability and impact, using simulations like Monte Carlo, etc.
Risk Allocation (Besner and Hobbs, 2006)	Assigning a person to be responsible for taking care of each risk
Risk Reporting (Besner and Hobbs, 2006)	Delivering information about risks and the status of risks to stakeholders.
Risk Control (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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ABOUT EMOTIONAL INTELLIGENCE AND LEADERSHIP

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This article is, because of its topic of study, a part of management and includes details regarding the important role of emotional intelligence in management and leadership. The importance of this problem is related to the fact that, in Romanian management, this concept (being of a psycho-management nature), is poorly understood. Emotional intelligence is still a highly publicized concept in the West, subject to many controversies between recognized experts in various fields: organizational management, leadership, psychology, sociology. The target of the article is to highlight the fact that there are few management or recruitment consulting firms in Romania that support emotional intelligence development programs, and fewer are the organizations that realize the impact it has in running a business. Since 1995, from the first publication of Daniel Goleman's book, "Emotional intelligence", EQ has become one of the most debated concepts in U.S management. The content of the article calls for a new business climate, ensuring professional excellence. We want this to be "a guide" in cultivating emotional intelligence in individuals, groups and organizations, through leadership, trying to validate the scientific aspect. Because we live in a time when future projects depend increasingly more on self-control and on the art with which we know to maintain interpersonal relationships, such guidelines are necessary to prevent future challenges. The contribution of the authors brings to the forefront the debate about management, behavior management, the concept of emotional intelligence and the importance of understanding, knowing its substance, and the manner in which the management process has to be adopted in order to achieve positive results in an organization, as a system. Businessmen with a preemptive mind will encourage and support such an education in business, not only to improve the quality of management in their organization but also for the vitality of the economy. Thus, the benefits will increase, not only for a new generation of managers, but also for our families and communities, and for society as a whole.
Keywords: emotional intelligence, management, leadership, ethics, organization.
JEL codes: A14, M12, M53.

The concept of "emotional intelligence" was first used in classical academic formula, in a doctoral thesis in the U.S., in 1985, by Wayne Leon Payne, Ph.D. at the Union Institute in Cincinnati. He believes emotional intelligence to be a skill that involves a creative relationship with the states of fear, pain and desire. This doctoral dissertation did not revolutionize the world, but it introduced a new concept that, more than fifteen years later, changed the theories about leadership, about the role of the manager or how it interacts with those he leads. The concept of "emotional intelligence" is published for the first time in the works of John D. Mayer and Peter Salovey (1990, 1993). They are considered the "parents of the new intelligence", the emotional one. Little publicized, the subject of their works is only taken into account in the medical world. In 1995, the article "What's your EQ?" signed by Daniel Goleman appears in "Time". Emotional intelligence becomes known after the publication, in 1995, of the best-selling book "Emotional Intelligence: Why it can matter more than IQ", a book that remained a top seller for about a year

and a half. Although this first book has more to do with education, with how people evolve over time, it has attracted the attention of many businessmen. Thus, the theory launched a few years ago, begins to change a practice of over 30 years in the working environment of large companies. Currently, EQ is synonymous with the concept of emotional intelligence. The measuring of emotional intelligence, using a scale of values, does not have as practical an importance as we might imagine. More important is a profile to help its development. This method was developed by professor Reuven Bar-On and tested on more than 100,000 people worldwide. This test method was also used and still is used by the U.S. AIR FORCE recruiting service. Since it was used, reductions in spending on recruitment and selection of nearly $ 3 million per year were accounted for. Staff fluctuations fell by more than 70%. In 1998, Daniel Goleman realizes the importance of emotional intelligence for business and publishes another book: "Working With Emotional Intelligence", which reached the bestseller's list in three weeks after release. The topic becomes particularly interesting, especially since it suggests a different way to appreciate the qualities of people. In 2000, together with Caruso, John D. Mayer and Peter Salovey, American psychologists and teachers of educational psychology at Yale University, who published the following books on emotional intelligence, probably give the most complete definition, at least until today. Emotional intelligence is "the ability to perceive and express emotions, to assimilate emotion in thought, to understand and judge with the help of emotions and to regulate own emotions and others'.

After this theory appeared, many businessmen understood that the success of a person at the work place depends largely on emotional intelligence. Besides intellect, an employee needs other qualities as well: perseverance, self control, motivation, interpersonal skills, etc., meaning an increased emotional competence.

Among the pioneers who were involved in the research and application of emotional intelligence, we can mention: American Express Financial Advisors, Johnson & Johnson, HayGroup, U.S. Air Force, L'Oreal, Xerox, AT & T, Colgate Palmolive, Marriott Corporation.

Why is emotional intelligence so important for business? Because it plays a significant role among all the factors that influence the effectiveness of a person or the organization it is a part of: relationship with the boss, uncertainty, uncertainty, decision making, motivation and job satisfaction, maintaining talented people in the organization and their verification, teamwork, quality of work etc.

There is a continuous need to have a clear picture of the phenomena involved in professional activities. To understand how an organization works, it is important to understand how leadership works. What are the characteristics of leaders, what are the factors that influence efficiency in leadership, how can performance be evaluated?

In the quality of being a good user of "emotional intelligence" enters the understanding that it is not and should not be intended as a substitute for skills, knowledge or abilities acquired over time. Emotional intelligence increases the chances of success of the manager but does not guarantee his performance in the absence of knowledge.

The most significant resource in business is leadership. But every leader is above all, a human being, as are his/her subordinates. In the position of leader, the importance of EQ tends to be positioned around 85%, and IQ at 15%. The ability of a leader to manage emotions in his processes and actions with people significantly affects the performance of an organization. It is important that he is be able to transmit positive emotions, enthusiasm and energy in all circumstances. 98% of "top performers" have a high emotional intelligence quotient.

Although in universities and many other programs, we assimilate information and get the know-how, in fact we need wisdom too. One of the ways that lead to wisdom and balance is "coaching", as a practice for emotional intelligence. Essential component of leadership, EQ is an attitude, a way of life.

Leadership has to be lived, it's a state of mind, and the development of leadership comes from the inner desire to capitalize on the employees' actions in a human way. A modern leader creates, within the organization, a place where people thrive, so that they can contribute more to the common task they have to achieve.

There are two ways to effectively develop leadership skills:

- A lot of practice;
- Development of emotional intelligence.

Emotional intelligence is in high demand in managers in general. It is a complex requirement but, in order to be successful, they must have self-awareness, be able to adjust their attitude, be highly motivated, be able to motivate others, have empathy skills and also a wide range of social and technical skills. In the image below we can see the sudden drop for the titles of director and subordinates thereof, which reveals an incredible gap in terms of emotional intelligence among the hierarchical managers of an organization. This study, conducted in 2005 by Simon & Schuster (acknowledged today as well), shows that the EQ is lower for those in top positions than for those in the levels two-three of management.
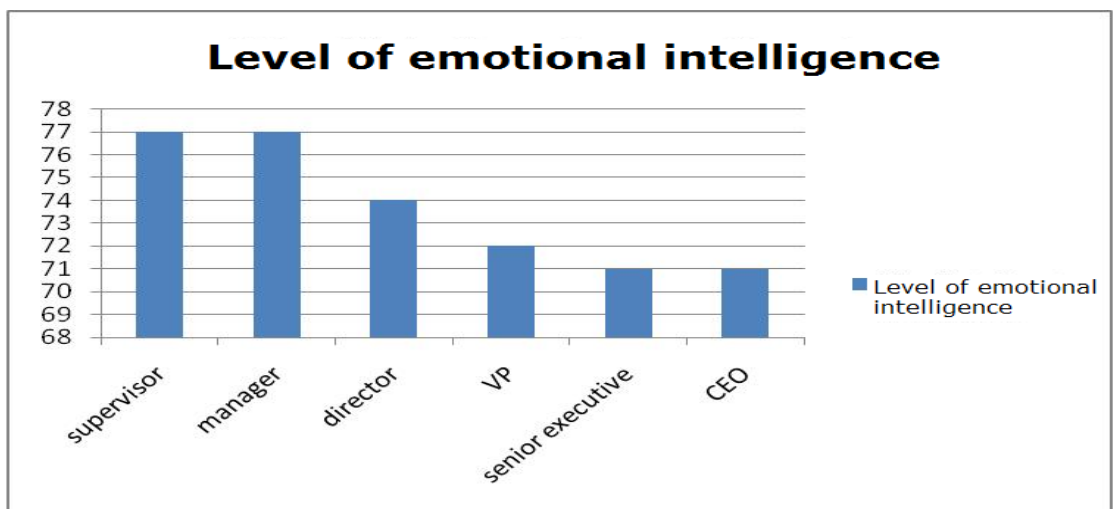
Image no. 1. The level of emotional intelligence on levels of management "(7)"

To support this, one can check by following any man or group of people who have to perform a not so simple task and that may exceed their possibilities. It's good to especially observe when things start to go bad, at the very beginning. One will soon see signs that betray agitation, irritability, frustration, snappy lines. This is followed by the launch of apologies, withdrawal and blaming. The scene is full of emotions and it's not long until someone loses control and leaves, thus ending the process.

The same study indicates that positions once thought to focus a small amount of emotional intelligence have showed the exact opposite (in sales, finance, IT). The positions with the highest levels of EQ are occupied by those in the customer service sector, business development, and the lowest levels are for positions such as engineering and those unemployed (Image no. 2.).
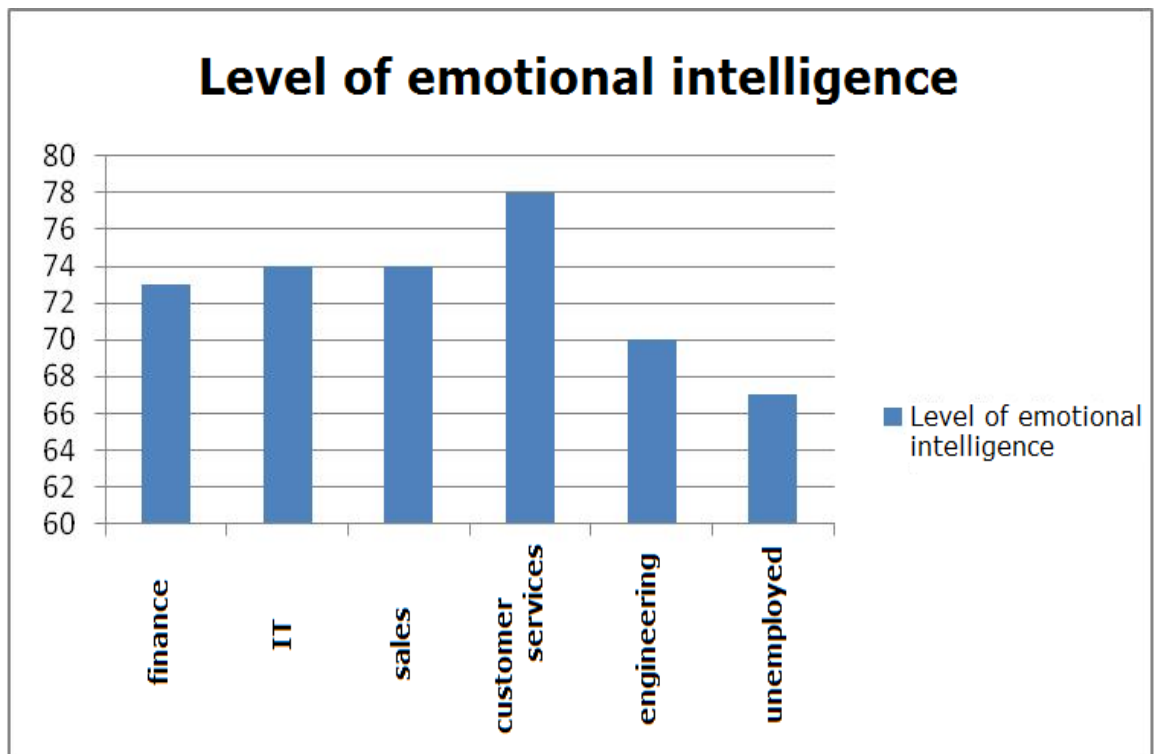
Image no. 2. The level of emotional intelligence in some fields of activity "(7)"

Emotional intelligence substantially contributes to leadership. Undoubtedly, there is a link between who we are as a person and who we are as a leader. If we do not understand this, developing leadership skills will become an almost impossible task.

Training leadership skills and developing emotional intelligence take place together and involve understanding our own emotional side, harmonizing with the emotional needs of others and using that knowledge to motivate them, not only to increase their effectiveness at work, but in order to develop their potential.

Good leaders always have high levels of EQ. They might not always have many people following them; they are found at all levels of the organization and in all areas of life. Their behavior, almost certainly, will include many of the following characteristics:
- Complies with high ethical standards;
- Have strong sense of integrity;
- Always learning, immediately recognize if they don't know or understand something;
- Have a protective attitude;
- Have a presence that stands out;
- Have good decision-making capacity;
- Are confident, deeply aware of their own qualities and defects;
- Know when it is time to lead and when to comply.

Looking around us for leadership behaviors, we will inevitably find some "bad leaders". They might have excellent qualifications, experience and managerial skills, but they are likely to have a low EQ. They tend to impose themselves by fear, lack integrity, ethical standards and any sense of concern for others. Often, they use intimidation tactics, preferring that their subordinates stagnate in their development, rather than motivating them and helping them grow "(7)".

When leaders apply dissonant styles, the culture that is created is inevitably toxic. How is it to work in such an organization where there is no emotional intelligence? The negative style of the leader generates a series of extremely destructive cultural norms, visible in the results.

Revealing the truth and organizational reality is a fundamental task of the leader. However, too many leaders forget to seek the truth, becoming disconnected from reality and contact with others. Such leaders seem to not have time for important conversations and are unable to build those types of collegial and counseling relationships, leading to deeper dialogue about what works and what doesn't. They do not have enough authentic contact with people in the organization, so that they understand what is going on, living in a kind of atmosphere that doesn't contain information about the basic emotional reality of everyday life.

Leaders who use dominating, rigid styles in fact hinder people from telling the truth. They are naive or refuse to accept the reality of their organization. Although they might believe that things within the organization are good, they actually create a culture where nobody dares to tell them anything that might disturb them, especially bad news. This kind of silence may have a very high price.

Change begins when leaders equipped with EQ actively investigate emotional reality and the cultural norms underlying the daily activities and behaviors of the group. To create results, leaders must pay attention to latent dimensions: human emotions, flow of the emotional reality in the organization and the culture that encompasses all.

Emotional intelligence in the professional space is vital for the success of any organization. Developing a new style of leadership often means a fundamental change in the relation with others. But the paradox of trying to introduce new knowledge in an organization translates, at best, into a difficult task and not into one that can be achieved in a training room. Unfortunately, those who put the most effort into developing educational and leadership skills at executive level do not end up where they want, and not only because of the manner in which they undertake these, but also because of the things they don't do. Even the best development processes will not help the organization change if they focus only on the person and don't consider the strength of emotional reality and culture.

The real difference is that, while the components of individual skills of EQ can be applied directly to the teams' environment, organizations are more complex and thus the objective is broader: encouraging emotional intelligence leadership, extensively and intensively, on every level, and systematically creating the norms and culture to foster confidence and transparency, integrity, empathy and solid relationships. This kind of transformation begins with leaders who accept the truth, who can reveal the emotional reality of the organization and who can attract others into a compelling vision of a common future.

When a company develops this emotionally intelligent leadership at all levels and when the leaders face the reality that may arise – often, this happens - "a company is transformed."

In conclusion, the increasing attention that is given to this concept, internationally and recently in Romania, should raise an exclamation point regarding what was considered to be "intelligent", the support of emotional intelligence development programs representing genuine instruments of publicity and awareness of its impact on daily life and in the success of any business. For too long, managers have seen emotions in the working environment as "a noise", "polluting" the judicious operation of the organization. Now, organizations everywhere need to understand the benefits of leadership based on emotional intelligence, training managers and leaders who can generate that emotional resonance that allows people to develop.

Businessmen with a preemptive mind will encourage and support such an education in business, not only to improve the quality of management in their organization but also for the vitality of the economy. Thus, the benefits will increase, not only for a new generation of managers, but also for our families and communities, and for society as a whole.

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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 Vredenburgh (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 Vredenburgh (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 şi 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).
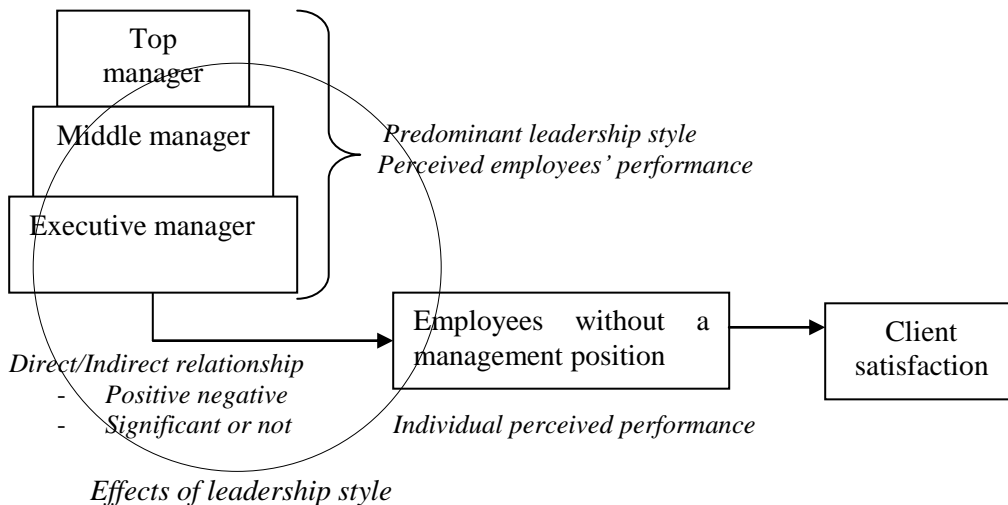
Fig. no. 1. Hotel context of the relationship study (made by author)

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.
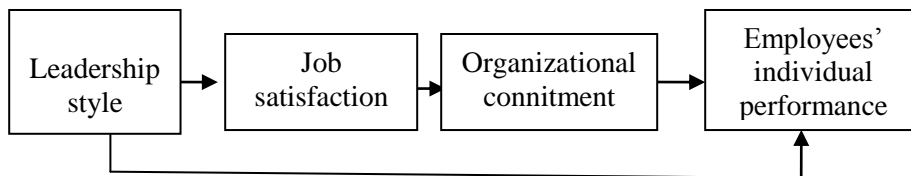
Fig. no. 2 Integrated conceptual model of scientific research
(made by author)

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 where choosen 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 be 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 negatives opinios. 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 use 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 satisfactions 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 suggests 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 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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GYROSCOPIC MANAGEMENT AND GENERATION Y

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Abstract
In the professional field of business and management there is still little research done on the possibility if the Generation Y members (born between 1980 and 2000), which are the managers off the future, need a different approach in education and training to be prepared for the future. The authors will explain how a new didactical approach in business and management called "Gyroscopic Management" can prepare these new managers to be of added value for the business. This specific approach was the start in 2007 of a specific (international) HRQM Bachelor study programme at Arnhem Business School, HAN University in the Netherlands. During this study programme, students are confronting this specific training and didactical approach with characteristics as self-reliance, self-study, and Socratic dialogue, ethical and "gyroscopic" management. The programme has a clear vision and mission and didactical approach that triggers the above-mentioned elements. The approach focuses on the need for development of specific competencies like "Intercultural adaptability", "International business awareness" and "Social entrepreneurship" as added to the existing competencies needed for a Bachelor level in business and management education. As researchers, lecturers and trainers, the authors used and researched this approach during many lectures, seminars, trainings and workshops in the last years at Universities in Romania and The Netherlands. The authors present the characteristics of the members of the new Y generation and relate them to main elements of gyroscopic management as practice and the results of this practice for students. For this, the authors did a so-called "Grounded action research", from 2009 until 2012, among students of business and management studies. Further, the research was supported by focus groups over the same period. The authors have the opinion that this research is important because the new generation of managers seems to need different didactical approaches in education and training that fit better to their characteristics. The authors believe that this research can bring therefore added value to the field of management in the future
Keywords
Generation Y, Intercultural Adaptability, International Business Awareness, Social Entrepreneurship, Gyroscopic Management.

I. Introduction

The idea for this study is a logical continuation of the work experiences of the authors and relates strongly with current functions as researchers and (senior) lecturers at Arnhem Business School (ABS), HAN University, in the Netherlands. Together with colleagues, one of the authors developed, and practises a new approach in teaching and training in higher education in the Netherlands, based on "Gyroscopic Management". The authors consider this approach as adding to the needed management style for the future generation of managers. The vision behind this belief lies in the value of Human Resource and Quality Management (HRQM) for organizations. A more in detail described explanation for this can be found in earlier publication of the authors in 2011 and 2012. (See list publications. A short overview for the reader is in the next part.

1.2 The state of art of education and training in management and the need for new competencies

Nowadays most of the studies in management, in higher education in Europe still have, in our opinion and experiences, a strong focus on training participants in being the "controller of policies" and rarely on becoming a "partner" in business for management. Managers have to prove now and in the future that they are of added value for organizations. The new generation of managers will have to be, "partners" and "players" in organizations, helping organizations to reach their goals. Besides that, they have to align themselves as a response to a process of cross-functioning globalization.

1.3 A new generation of managers

Recent research shows that the field of management is facing the coming years the entrance of a new generation of managers. Quinn, S. (2010) gave in 2010 an overview, which the authors adapted to 2012:

Cohort name: (with also used names)	Birth year	Age in 2012
Veterans (Traditionals)	Born before 1945	67 and above
Boomers (Baby boomers)	Born 1946 – 1964	48 – 66
Generation X (Baby busters)	Born 1965 – 1976	36 – 47
Generation Y (NetGen, Millenials, Facebook gen	Born 1977 – 1997	15 – 35
9/11 (GenNext, Gen Z)	Born after 1998	14 and under

Figure 1. The generations (Quinn, S, 2010) (adapted by the authors to 2012)

Figure 1 shows that generation Y will be entering the business. Because the literature in this new field is very new and divers, the authors did extended literature research and formulated on the base of different authors (see list of publications) some common characteristics for this generation. As authors, we are fully aware that we generalize in this. However, we also believe that this gives insight in important elements for this study for our target group.

1.4 The generation Y

These "new" managers are just entering the organizations or preparing that and are also called "Millennials" or "Facebook-generation". Organizations already focus on them because they cannot ignore the needs, desires, and attitudes of this new generation. The members of this generation have the following common generalized characteristics: Tech-savvy, family based, achievement-oriented, team-oriented and attention-searching. They are seeking for different and creative challenges, personal growth, meaningful careers and are in need for supervisors, coaches, and mentors. They want to approach problems in new and innovative ways. Moreover, they want to be more "players". This is a much-overlooked value and to make better use of this, the authors believe that trainers and educators need to become more innovative themselves. One of the most important characteristic of the Generation Y members seems to be that they are more "out-of-the-box" thinkers. (Kovary & Buahene: 2011). The gyroscopic management approach adapts towards the preparation and education for that new group of managers and can support educators and trainers. However, the majority of educators and trainers are of other generations and adapting to this new approach has already proven to be a very big challenge.

II. Preliminary research
2.1 The study programme HRQM

Some of the answers for this needed change of roles for managers are, according to the authors, already given practised in the international study programme "HRQM" at ABS in The Netherlands. Added to the Dutch Bachelor Study (BBA) programme in Business and management Studies (BMS), this programme is in English and has a strong focus on additional and   important   competencies   like: "International   Business   Awareness",   "Intercultural

Adaptability" and (social) "entrepreneurship". These competencies already have proven to be needed extra competencies for the "new generation of managers" to become 'players" and entrepreneurs in business.

2.2 A change in didactical approach

The program also had a change in the didactical approach, which was based on an experiment, some years ago at Arnhem Business School (ABS) in which separated disciplines like HRM, Quality Management, Communication, and Business Ethics were integrated in one common lecture. This was done to get a new integrated perspective, in combination with a 'systems-thinking' style. In short, it means that the authors, in their gyroscopic approach, in which the authors took the metaphor of a turning "gyroscope" (see earlier publications), as trainers or lecturers; do not pretend to be able to give the answers to any management oriented problem, because this would "stop" the turning gyroscope. This "not answering approach", creates the opportunity for the participants to constantly, find a new balance themselves. It is obvious that this does not always take place in a secure environment. In preparing participants for their professional career, this creates, on purpose, situations and atmospheres that reflect this professional field. This does not feel like a secure environment, especially from the point of view of participants. To re-create this business environment we do things the participant does not expect and we get their "gyroscopes" to start. This change can be as mentioned by Johansen (2004) *"an exhilarating experience".* In an applied research, the authors have looked at the actions and results that the approach brings to participants, educated and trained with this "gyroscopic management' approach. We will explain this research in short in the following part.

III. Research
3.1 Motivation and scientific context

The motivation for the choice of a special applied research method, called "Grounded Action", started with the general interest in the following field: *"Students at business schools that are achieving the change in their role from being a "student" to being a "professional" in business."* The authors believe that during this change the business roles as mentioned in the first part (policy controller, partner and player) are developing and that there is no clear way to understand what goes on in the students during this change. The approach and research of this field of interest was done in an inductive way, using own experiences, and practice in education in The Netherlands and Romania and making use of the research method called "Grounded Action" (Simmons & Gregory, 2003). This inductive research method, suits the content and context of "gyroscopic management" in a perfect way. Based on Glaser's opinion that *"All is data" (Glaser: 1967),* the core variables of "Gyroscopic management" were gathered and grounded during several years and presented in an explanatory theory that is formulated in the following way: *"The actual change of role from being a "student" toward being a "professional" consists of five stages. These are: listening, awareness, accepting, adapting, and advancing"* This led to the next step in which this theory was translated into a so-called "operational theory", which, according to Simmons & Gregory (2003), is needed for a "Grounded Action" methodology. In this part, the authors explain and describe in which way the stages, given in the explanatory theory can occur or take place in practise. The whole research included inductive sampling of data in the form of reflections, interviews, and observations, video and audio taping, memoing, evaluations, and field notes in a large database. The database consists of around 1000 written (and digitalized) evaluation forms, reading of more than 1500 written reflections, transcribed interviews, research papers and material from focus groups and more than 200 hours of taped audio and video material. Because the authors are aware that they have a very subjective and direct participation in this research, they also made use of focus groups as a program evaluation method. They used for this the criteria as given by Morgan & Krueger (1993) and the aim was to

evaluate and "test" the subjective view of the authors of the explanatory theory and conceptual framework. The groups tested and evaluated both in inductive and deductive ways the explanatory theory with the given data, the operational theory and the target groups. All focus groups did their research in 2011 and 2012 and came with results in separate research papers.

IV. Conclusions

4.1 The added value of Gyroscopic Management for the field of management

It is not the intention of the authors to define in this paper, in detail all competencies that the new generation of managers need for the future. The aim is more to focus on the attitude and different competencies that there are between the "executive" professional and the "improvising" professional. This difference is explained as follow: "The need for control from the "executive" professional is a stumbling block to creatively solving problems. There is not much willingness to listen and to explore new or unexpected outcomes." (Sabouring & Pratt, 2007)

These authors mention the need for more "Improvising" professionals and many of the missing competencies in trainings and lectures are, according to literature of several authors (see list of publication), related to the parts like: listening, awareness, accepting, narrating, and adapting. The authors believe that gyroscopic management covers all these elements and supports participants in becoming more "improvising" professionals, which the authors define as "players

4.2 The relation between the "new" generation of managers and gyroscopic management

The results of the literature study and research show that the stages of gyroscopic management are individual different and haves no real order or structure in the five stages. There are connections between the stages, but it is not always clear which specific following stage or occurrence the participant will enter. Participants make own choices and many of them experience derailing parts in the stages, bringing them back to other levels or stages. The authors do not aim to find a specific and clear structure to implement as the "right way" to train and lecture the new generation Y managers. There is more a focus on recognizing and admitting that it is the "power" and purpose of a constant turning "gyroscope" to find balance, by unbalancing. Schofield & Honeré (2010) wrote an article about their research on the learning characteristics of generation Y, the following: *"Generation Y may be missing out on exploring more deeply, enquiry and reflection. They struggle more than previous generations with 'difficult workplace conversations' and they need more support in becoming self-aware."* (Schofield & Honeré: 2010). The new managers in the generation Y want independence to decide on their own. They do not need authority, existing models or theories to approach problems and situation. They want supervising and coaching, but not by experts that tell them "how" to do it or that explains them "what" to do. They need feedback that stimulates them to come with own different and innovative ideas. Besides that, they want to be self-managers. In the approach of gyroscopic management, this is asking the "why!"

4.3 Preliminary outcomes of the research

The literature research and studies and the action based Grounded Action research done in Romania and The Netherlands shows some interesting outcomes as given by the participants themselves:
- "It is different and unexpected"
- "It uses the present situation and makes it real"
- "It is fun because there are many games involved"
- "It is very interactive"
- "It makes clear that making mistakes is part of learning and can be fun"
- "It is about "playing to play" instead of "playing to win""
- "It uses interactive methods like role-playing and improvising acting"

-"It is not based on theory, but it is still clearly related with it"
-"There is no clear structure for training; mostly there is only a "theme"."
-"The relation between the use of games becomes clear during and after the courses"
These remarks are individual reflections of participants during and after the trainings with the use of gyroscopic management. The authors come to the following preliminary conclusions.

-Participants experience the approach as, not pushing but more "pulling" giving full responsibility for the learning to the participants themselves.

-Participants recognize and are aware that they show the five stages as given in the explanatory theory, listening, awareness, accepting, adapting, and advancing

-During the action-based research, participants showed the occurrences as mentioned in first three stages of the operational theory: listening, awareness and accepting stage.

-In their reflections, participants show already the stages of accepting and adapting after some training. (On average after 5-10).

-The content of the training and the working of the gyroscopic approach are a lot depending on the approach of the trainer.

These preliminary conclusions show that "gyroscopic management" is a different approach towards the 'new' generation of managers for the future. The authors do not have the pretention to say this is "right" way to approach them. It only show a different way and the authors believe that this approach can be of added value for the professional field of business and management in the future.

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SOME ISSUES OF THE AIRPORT MANAGEMENT

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Abstract
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 manager [95] 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 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

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[95] ***Airport director.*** The airport director is responsible for the overall day-today 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.
• 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

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 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

Hyper standards	Terms of the SC	Elements of the SC
Morality	Protection	*Lifetime employment*
		Employability
Equity		*No link between the performance and the reward*
		Unemployment in employment
Justice	Valuation of the others	Remuneration according to the performance and to the educational level
Good will		Consultation concerning the decisions taken by the company
Fair deal		Creation of a friendlier atmosphere at work
	Self valuation	*Employability*
		"Fight" to move forward in the career because " I deserve it "
	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"
		Depreciation / valuation of the work
	Dialogue	*Consultation concerning the values of the company*
		More equalitarian hierarchical relation / very hierarchical relation
	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.*" (Niţă 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 word 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 word 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 o 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, manages 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 ones 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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THE SOCIAL ENTERPRISE IN ROMANIA. AN EUROPEAN PERSPECTIVE ON THEIR CURRENT SITUATION

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The current paper is aimed at identifying the social enterprises according to EMES criteria by investigating the social economy actors in Romania. As an emerging field of study, social entrepreneurship and social enterprise have captured the attention of both practitioners from Europe and North America, and in recent years on other continents. In Romania, very little research has been conducted into the field, mostly as part of academic research papers from doctoral study students or masters, both from Romania and abroad. In Europe, several studies have been conducted among member state of the European Union, to bring to light this new emerging field.. Investigations in regard to social entrepreneurship in Europe have revealed the existence of this field among social economy actors, in the form of social enterprise, namely work integration social enterprises and social cooperatives. So far, Romania has not been included in them This papers tries to fill the gap of knowledge on this phenomena, by exploring, from a European perspective, the actors of social entrepreneurship in Romania. The methodology used was an analysis of secondary data in the form of legal documents (laws), reports of the social economy sector and scholarly articles related to social entrepreneurship in Romania. The assessment instrument is the EMES set of economic and social criteria that the social enterprises need to meet. Also, parallels have been made with the entities of the same nature in the European Union. The paper concludes on the state of social enterprise in Romania, with an underline on what its and implications for their further study. As main finding, two types of organizations fit best with the EMES criteria, authorized protected units and companies set up by associations and foundations. Also, further developments are expected as Romania is preparing for a law defining the social enterprise and social economy. The main implications of this research is drawing the lines, in the current state of the social economy who are the actors that can best fit with the concept of social enterprise in Romania. Our main contribution to the study of social entrepreneurship is to investigate what European scholars have done with most of the existing member state countries. Using the EMES criteria in the social economy sector in Romania has yet to have been done till this point.
Keywords: social enterprise, EMES criteria, Romania, social economy
JEL M10 – General, L31 - Nonprofit Institutions; NGOs

1. Introducing the social enterprise in Europe.

Social entrepreneurship is a topic of growing interest for scholars in many fields, including management, sociology, psychology or economics. As a growing field of study, the literature on

the topic is very fragmented and widely dispersed and represents "a multitude of challenges and research opportunities" (Desa, 2007:20). Social entrepreneurship literature abounds in research paradigms, showing an increasing interest in its emerging nature. From this wealth of perspectives, the current paper explores social entrepreneurship as a "product" of the third sector, in the shape of a social enterprise. This view, also popular on the American continent, is the most widely spread on the European land. .The concept of social entrepreneurship in the social economy in Europe, has been so far associated with the existence of the *social enterprise*. The term *social enterprise* "is American in origin and distinguishes from non profits by having moved away from reliance on more traditional forms of income, such as grants, towards a more entrepreneurial and business-like approach to raising revenue. " (Arpinte, 2010:154). At the European level, two definitions for social enterprises are widely recognized. The first was developed by the British government, in 2002, in the paper entitles *Social Enterprise: A Strategy for Success* as "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners"(DTI 2002). The second belongs to EMES (European Research Network) in 2006, which considers social enterprise as "organisations with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits. They place a high value on their independence and on economic risk-taking related to ongoing socio-economic activity"(EMES - European Research Network 2012). Unlike the UK definition, the EMES definition takes into account various national traditions and sensitivities present in the European Union, as it is the result of an extensive dialogue among scholars from different disciplines and countries of the continent.

In Europe, the concept of social enterprise has become known starting the 1990's, when a new type of (social) cooperative organizations have been approved by law by the Italian government.

These "social enterprises" or "social cooperatives" have had over time additions with models in countries like Great Britain, France and Belgium. Conceptually, the social enterprise can be seen as a bridge between two spheres of thought in the not for profit (social economy) literature: the cooperative and traditional associative forms or general interest organizations (associations, foundations) (Defourny and Nyssens, 2006). These two areas of the social economy, by themselves don't share anything else but the fact they start of as actors of the social economy. The cooperatives, along with mutual societies offer their output on the market for sale, whereas associations and foundation, have very little economic orientation and depend almost entirely on outside financing. Just like in the case of the social enterprise in North America, this gap between being totally non economical and being only economical oriented is being blurred more and more. As the Foundation for the Development of the Civil Society presents it, the concept of social enterprise represents an extension of the concept of social economy, adding to the basic elements that define the social economy (social mission, democratic control, limited profit distribution) three new elements: entrepreneurial orientation in providing social services, aiming for a wider spectrum of beneficiaries and growth of the quality of the democratic control. (Fundația Pentru Dezvoltarea Societății Civile 2011). In order words, being a non profit organization aiming for the good of the community and people is not enough. The organization needs to survive and provide for all the stakeholders involved. The debate is still opened whether there is a need for a new term to define what has been there already for a long while.

2. The social enterprise in Romania
2.1. Earlier attempts to make social enterprises visible
Social enterprises in Europe have been so far clearly defined as originating and developing in what is known as social economy (Defourny, 2001). As a member of the European Union since 2007, Romania has taken up fully the challenge of developing its social economy, while

embracing the largely accepted views regarding this on the continent. Next to the term of social economy, which is new for Romania (known to the general public after the EU accession), the sector itself is younger than some of the existing members of the European Union. With a history of civil society oppression and communist totalitarian regime, Romania has a "young" social economy sector (in the real meaning of the word). Although some of the traditional forms of social economy were present during this regime (cooperatives, mutual societies associations), they were state governed and controlled. Only starting with 1990, after the revolution, the real third sector has begun to develop. Romania recognized by law and encourages all the basic forms of social economy: associations, foundation, cooperatives, mutual societies and recently, social enterprises. Along with Romanian's accession to the European Union and the emergence of the concept of social economy in our country, a series of steps to identify both the social economy actors (according to the European view) and the social enterprises have been noted. Although not legally defined and visible, social enterprises in Romania, have the benefit of taking various shapes among the organizations of the social economy.

Recent steps to create a social economy law in Romania, currently in public debate, include new legal categories assimilated to the social enterprise: the social cooperative and the enterprise of social integration. Until the initiative is finalized, social enterprises are partially defined in legislation but are not officially recognized along with the other organizational forms of the social economy. Both international and national literature focused on social entrepreneurship as social enterprises in Romania is constituted by both academic views and those of practitioners. Although the number of studies is still low, the study of literature and secondary and tertiary sources have revealed a few delineations of social enterprises in the Romanian geographical space.

Table 1. The results of the studies on social enterprises in Romania

Name of study / Institution	Criterion for identifying social enterprises	Type of organization identified with social enterprise	Number of organizations identified
SELUSI , 2011 *Survey of Social Enterprises in Europe*	Organizations with a social, economic purpose and entrepreneurial approach	Organizations with operational models for income generation	74 organizations
GEM, 2010 *Global Entrepreneurship Monitor*	Persons or organizations involved in entrepreneurial activities with a social mission	Organizations with strong social / environment missions and income generation strategy	2,5 % of the population
NessT 2007/2010	A business, profit or nonprofit, created to address critical social issues in a financially sustainable manner	Financially sustainable business	10 organizations
European Commission, 2007 *'Study on Practices and Policies in the Social Enterprise Sector in Europe'*	Entrepreneurial spirit, social mission and non distribution of profit	Cooperatives for the disabled, Authorized protected units.	41 organizations

Source: Own processing, 2012

The studies presented above have used primarily the criteria of social mission, economic purpose and entrepreneurial approach as criteria for identifying the social enterprises in our country. One important point related to these studies is the difficulty of access to information related to social enterprises. This is mostly due to the lack of clear cut definition in the Romanian law of entities that can be considered social enterprise as well as a law for the social economy.

2.2. The social enterprises in Romania – using EMES criteria

As mentioned above, the approach to identify social enterprises in this research are the EMES criteria. The identification of social enterprises was done theoretically by the author, following the economic and social criteria of the EMES academic view, in light of legal regulations.

The types of organizations analyzed in terms of the EMES criteria are the organizations considered in the study of the Ministry of Labor, Family and Social Care (2010) as specific forms of the social economy: associations, foundations, cooperatives, mutual societies and mutual benefit societies. From the category of general forms relevant to the social economy, authorized protected units were also considered. The reason for choosing UPAs is the overlap with the concept of social enterprise both in the legal proposal of the social economy of Romania and with the existing forms of social enterprises in different European countries (Great Britain, Italy, the Netherlands, Spain). An analysis of the legal regulations of the social economy actors in Romania and considering the EMES criteria therein revealed the possibility of the presence of the social enterprise status under any of the forms of social economy in EMES's ideal conditions, provided that forms such as cooperatives, CARs, mutual or protected units are organized as associations and foundations. The closest forms of organization to the theoretical concept of EMES are UPA and companies set up by associations and foundations. For a more clear understanding of this analysis, the breakdown for each of the EMES criteria is presented further. The explanations for each criteria are also provided as accepted by the EMES network and published in (Defourny, 2001).

Table 2. Analysis of the EMES criteria within social economy organizations in Romania

EMES criteria		UPA	Companies by NPO's
ECONOMIC			
E1	Continued activity of production of goods and / or services	Yes	Yes
E2	High degree of autonomy	Yes	Yes
E3	A significant level of economic risk	Yes	Yes
E4	A minimum number of employees	Yes	Yes
SOCIAL			
S1	An explicit goal dedicated to the community	Partially applies (not stipulated by law, applied through the scope of the organization)	Partially applies (not stipulated by law, depends on the organization)
S2	An initiative launched by a group of citizens	Partially applies (if the organization has more than one founding members)	Partially applies (if it is considered a form of association as a citizens' initiative)
S3	Decision-making power not based on the principle of capital ownership	Partially applies (not made compulsory by law)	Partially applies (not made compulsory by law)
S4	Participatory nature involving various parties affected by the activity	Yes (beneficiaries are involved in the production of goods in some cases)	Partially applies (not made compulsory by law)
S5	Limited distribution of profit	Yes (profit has to be reinvested in the organization)	Yes (profit has to be reinvested in the organization)

Source: Own processing, based on legal regulations. 2012

One conclusion of this analysis is that at least two of the actors of the social economy in Romania come very close to the EMES "ideal type" of social enterprise. The lack of legal regulation

specific to social enterprise has not prevented social economy actors in Romania to become more entrepreneurial. Recent efforts made by the Romanian government to encourage transparency and support in the social economy sector has led to the creation of a Social Economy law. Although still under debate, the law gives attention to the social enterprises and the definition considered is "Social enterprises are private legal entities carrying out economic activity, as well as nongovernmental organizations or other association forms stipulated by law that meet simultaneously, according to the documents on the basis of which they operate, the principles laid down in Art. 3, as well as conditions regarding governance, profit distribution and employee structure (at least 40% vulnerable group). What is also relevant for this law is that the concept of UPA is replaced by social enterprises. It is still not clear what the outcome of this law will be for these organizations in regard to the segment of work integration for people with disabilities. The law does however encourages all the application of all the EMES criteria for the social enterprise. As a sector still maturing after decades of absence during the communist era, there are still doubts about the credibility and reliability of these organizations. One idea is that companies set up by associations and foundations were chosen for the purpose of tax evasion, and with a declared social purpose, they lack their pursuit. Other examples, like football clubs, which are founded as associations and then with a company attached, have large revenue and profits and have a questionable social aim. In regard to UPA, phantom protected unites have been discovered, that is, companies which have presented themselves to the state agencies as employing persons with disabilities, and in reality have served their founders for tax relief.

2.3.Social enterprises in Romania - what do they do

After identifying the social enterprises based on the legal aspects that define the actors of the social economy, a further inquiry was considered to discover what is the nature and contribution of these organizations to the social economy and not only. The benefits that hybrid organizations of the third sector bring for the community and society that they exist in needs only reminders, and not justifications. The entrepreneurial nature of their structure create basis for economic added value and social problem alleviation. In Romania, the UPA and commercial companies set up by associations and foundations represent a small section of the social economy sector in the country. A recent study of the social economy sector in Romania (F.D.S.C., 2011) showed that indicated the existence of approximately 70,000 registered organizations, of which 25,744 were identified as organizations active in INS statistics. These organizations have had a combined income of 6 billion RON in the year 2009, and over 163,000 employees, hence 3.3% of the total employed population (FDSC, 2011).

A recent list of existing UPA (authorized protected united) reveled a number of 476 such organizations in 2011. An important elements of novelty is that a limited number of these organization have a pure legal structure as UPA, as the majority constitutes small and medium , limited liability companies. As legally created entities, organizations that include disadvantaged groups on the labor market, have fiscal relieve, as long as the profit gets reinvested for the most part (75 %) back in the company. UPA organizations can be found in almost all the areas o the economy, the most prominent ones being manufacturing, trade and professional services. The manufacturing sector includes carton, crafts, textiles, fields that allow easier access for people with handicap to work. Out of the 2700 associations and foundations which produced income in Romania in 2009, according to listafirme.ro, a database updated with official information from Ministry of Finance, only 727 associations and foundations were founders of a commercial company. The companies set up by associations and foundations include companies supporting activities of professional associations, religious charities, forest exploitation. The main fields of activity include wholesale and trade, manufacturing, agriculture and professional scientific services. Is it important to notice that both types of social enterprises tend to activate in the same fields.

2.4.Social enterprise in Romania and social enterprises in Europe

An important milestone in the study of social enterprises in Europe is represented by the work of Defourny and Nyssens, over the past decade, the authors draw attention to the fact that social enterprises across Europe adopt legal forms that have existed for a long time: associations, co-operatives or companies limited by share or guaranty. In countries where selling goods and services have a larger degree of freedom is allowed for associations, this form was often considered. In countries which don't offer this freedom, social enterprises take the form of either co-operatives or traditional business forms. In Romania, the law allows associations and foundations to conduct economic activities, up to 50 % of their total income, as well as set up companies, with the restriction that most of the profit has to return to the association or foundation. The authors also underline that one of the most dominant forms of social enterprises in Europe are *work integration social enterprises (WISE).* Fact is that for some disadvantaged groups on the labor market, such social economy organizations can increase the employability of, and provide employment for the labor force (Bibu, Lisetchi and Năstase, 2012). More specifically, the work integration social enterprises address the problems related to longterm unemployment and occupational inactivity of disadvantaged people in the labour market. According to Davister et al. (2004) there are four main groups of WISE organizations: enterprises offering occupational integration supported by permanent subsidies, WISE that provide permanent, self-subsidized employment, third group includes (re) socialising people through productive activities and the last group includes WISE offering transitional employment of traineeship. For a detailed description please visit (Davister, Defourny and Grégoire 2004). Among these four groups, the WISE groups which resembles the most the UPA – authorized protected units is the first group - enterprises offering occupational integration supported by permanent subsidies. These WISE organizations provide open-ended work contacts for handicapped people. They satisfy the gap between the capabilities and productivity required by the labour market and the special needs that these disadvantaged groups require. Many times these WISE organizations are known as sheltered employment. Although the UPA in Romania exist where there is at least 30 % of paid employees belonging to handicapped people, their main aim is to provide this group with a working place and means to self sustain.

3. Conclusions and limitations

Romania has the traditional forms of social economy, out of which two suit the best the EMES criteria for social enterprises, UPA and companies set up by associations and foundations. The number of these organizations that could be named social enterprises is very small compared to the overall sector of social economy, showing a less orientation for entreprenurial ventures in this sector. As limitations of this study the databases used may suffer from lack of full data. Another limitation is the fact that the analysis focus on the legal regulations regarding the social economy organizations in Romania. The main implications of this research is drawing the lines, in the current state of the social economy which are the actors that can best fit with the concept of social enterprise in Romania and facilitate further inquiries can be made into studying the managerial and economical implications of this emerging field – social entrepreneurship.

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SOCIAL RESPONSIBILITY - A NEW PERSPECTIVE FOR THE MANAGEMENT OF PUBLIC ORGANIZATIONS IN ROMANIA

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This paper presents the theme of social responsibility as a strategic tool to manage modern public organizations in Romania. The literature gives a high interest in corporate social responsibility, but the approaches to implementing social responsibility in public organizations is still at an early stage. The research purpose is to highlight the perception of the concept by officials from 15 public organizations in Dolj County. The study reveals the limitations that hinder the development of social policy and implementation of appropriate solutions of social responsibility in the public organizations, in order to achieve sustainability.
Keywords: Public Organizations, Social Responsibility of Organizations, Sustainable Development
JEL codes: M14, H0, R1

I. INTRODUCTION

This paper presents an analysis of the perception of social responsibility (SR) by the Romanian public organizations in Dolj County. The topic is of high interest because social responsibility is a modern tool to implement sustainable management organizations. Starting from the difficulty of defining the notion of social responsibility of organizations and other relevant studies, the paper mainly aims to analyze the perception that employees of 15 public organizations of Dolj County have of social responsibility.

The research objective is to analyze the degree of awareness of the concept of social responsibility and the limits that prevent the implementation of new social policy in the public organizations. The study analyzes a series of proposed solutions to increase public involvement of social responsibility, according to the perception of public employees in Dolj County.

II. DEBATE ON SOCIAL RESPONSIBILITY ORGANIZATIONS

Social responsibility of organizations is a relatively new concept that has encountered numerous controversies due to differences of interpretation discussed in the literature. To remove ambiguities in the definition of social responsibility, in November 2010 was issued a new international standard ISO 26000: Guidance on Social Responsibility, by which CSR is defined as a means of achieving sustainable development through seven lines of best -practices: accountability, transparency, ethical behavior, respect for stakeholder interests, respect for the law, respect for international norms of behavior and respect for human rights.

Nationally, the way of SR understanding and organizational involvement was rudimentary. The first organizations that addressed social responsibility strategy in Romania were the ones with foreign heritage, by adopting policies promoted by the group (Popa, 2011).

Social responsibility is understood by the Romanian organizations as ways of strategic actions of community involvement, philanthropy, employee volunteering, setting up foundations and collaboration with various stakeholders to practice good actions, based on a code of ethics and Pressures of international organizations on the implementation of social responsibility in organizations have favorable effects on society and on building long-term sustainability for organizations. In Romania, the state support has been limited until recent years. There is no

corresponding legislation requiring organizations to be transparent regarding disclosure or conduct audits of social responsibility, as it is processed in other countries (Burlea Şchiopoiu et all., 2008).

In recent years, the Romanian Government, through the National Strategy for Promotion of Social Responsibility (2001-2016), aims at encouraging the implementation of social responsibility in organizations in Romania, based on directives promoted in Europe and internationally. The Ministry of Economy, Trade and Business Environment makes the first steps at national level in terms of increasing transparency and attracting funds for the promotion of social responsibility.

III. CASE STUDY: THE **SOCIAL RESPONSIBILITY** OF THE **PUBLIC ORGANIZATIONS IN DOLJ COUNTY**

Research Methodology

In order to create the database needed for the study was used a quantitative research method. Data were obtained by distributing questionnaires in public organizations of Dolj County. The sample set is diverse and includes 15 of the most representative public organizations of the Dolj County, Romania. In the research participated individuals in positions of leadership and subordinate employees. We believe that information from the survey are relevant and true as they respect the confidentiality and anonymity guidelines.

Depending on the number of total employees were accounted 4 categories of public bodies: up to 10 employees, 10 to 50 employees, between 50 and 250 employees and over 250 employees. It was intended that the number of respondents for each public body is proportional to the total number of employees in the organization. The total number of respondents who answered the questionnaires is 139.

Areas of activity are varied. The figure below highlightes the areas of activity of public organizations included in the survey.
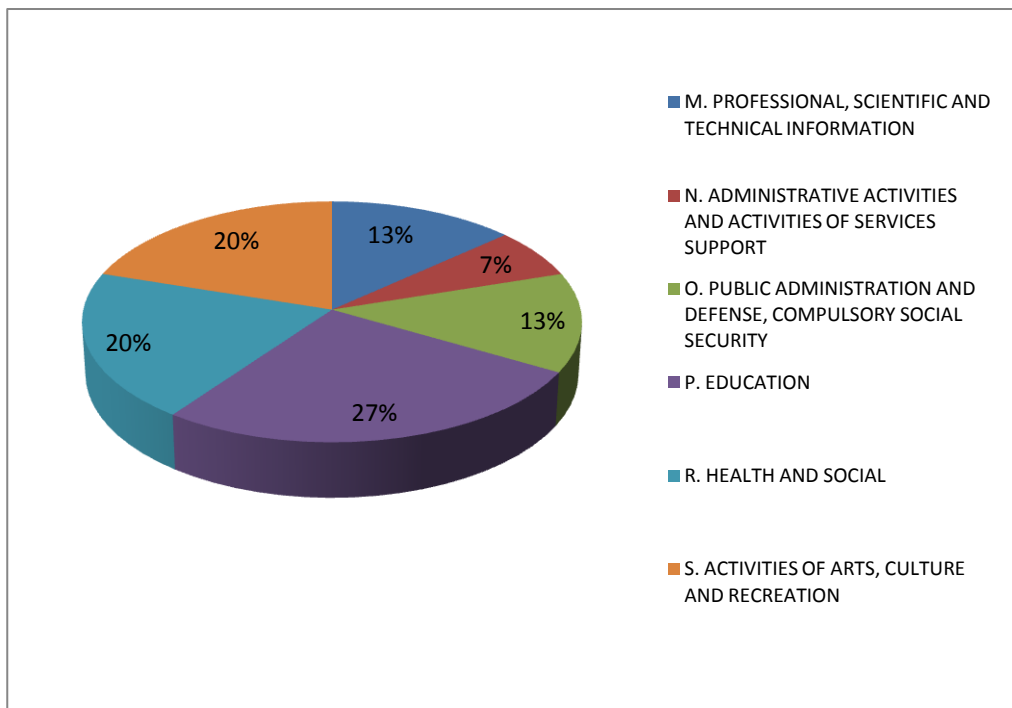
Fig. nr. 1.- Fields of activity of the public organizations of Dolj County used in the sample

Processing and analysis was performed using SPSS Statistics 17.0.

The questionnaire is structured in three parts: the first part contains information that show the degree of involvement of public organizations in social responsible social actions, the second part provides information about the perception of public organizations on RS, the limits restricting the sustainable development of organizations and the solutions that the public organizations consider appropriate in order to build a more responsible management. The third part provides general information on the questionnaire respondents and on the analyzed organizations. In this paper we present only the results of the second part.

IV. THE RESULTS OF THE RESEARCH

The research shows the perception of social responsibility by the interviewed employees. To define the organization's social responsibility there have been used six statements outlining specific areas of organizational responsible behavior.

Statement 1. *SR is the voluntary actions of organizations regarding the use of natural resources and the protection of the environment in order not to affect the future generations*

Statement 2. SR *is the voluntary way of organizations to contribute to a better society and a cleaner environment*

Statement 3. *SR is the good communication and networking with stakeholders (employees, suppliers, customers, community partner organizations, NGOs, State etc.)*

Statement 4. *SR is a work of charity, donation, sponsorship*

Statement 5. *SR requires the implementation of a code of ethics and conduct*

Statement 6. *SR requires social projects in order to improve and promote the image of the company*

Based on the information obtained from the research we conclude that the representative share of 19.13%, defining social responsibility suggests the need for a code of ethics and good conduct in order to build a good cooperation in the organizational activity. 18.46% of respondents saw SR as a means to help improve the environment and to involve in the community through various social projects. 18.37% of respondents believe that social responsibility must also be defined in terms of stakeholder theory, so that organizational management should ensure good relationships with partner organizations and employees. 18.31% of employees consider the organization's social responsibility as a means of promotion and marketing and 17.18% define social responsibility in terms of sustainable development of the organization. Only 8.55% of respondents believe that social responsibility can be defined by a policy of philanthropy and charity.
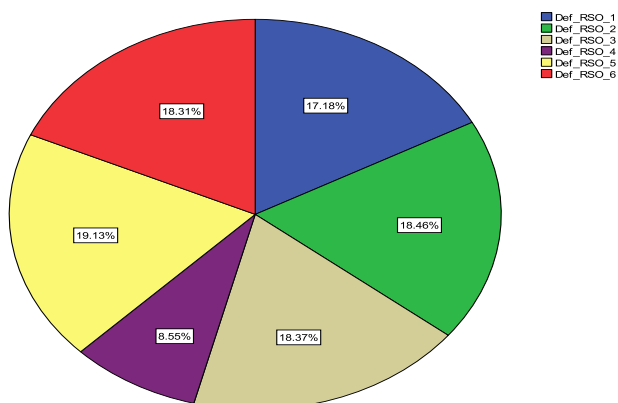
Fig. nr. 2– The perception of the public organizations employees in Dolj County regarding the definition of social responsibility

The lack of implementation of SR policies in public organizations is based on a number of barriers that have to be identified and removed in order to have a responsible and sustainable management. The study shows that the main limit to implement a policy of social responsibility is the lack of financial resources, as perceived by a percentage of 36.14% of respondents. 21.29% suggest that the lack of authority for decision within the organization prevents them to be involved in social action or to pursue best practices in the workplace. 14.86% of employees suggests that the emergence of economic crisis negatively affected the political involvement of social responsibility. Lack of information on how to implement, to define and to obtain the benefits of social responsibility is another limit in the development of responsible behavior of organizations (13.65%). Only 2.01% of respondents believe that social practices are not needed by the organization they belong.
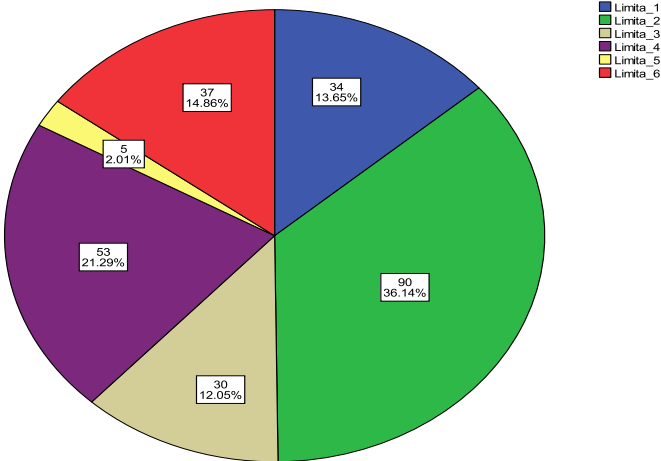
Fig. nr. 3– The perception of the public organizations employees in Dolj County regarding the barriers in adoption of a SR policy

The study shows that understanding of the role of social responsibility for public organizations grew, but the lack of funds for socially responsible actions inhibits the development of the organizations.

The main solutions for implementing new SR policies and management strategies revealed by the study are the the establishment of additional funds for social responsibility projects (33.47%) and gain of financial or other support from state bodies (33.06%). Employees of public organizations show interest in the ethical motivation of top managers in the adoption of best practices in the organization (14.92%). Further information or participation in sponsored conferences on social responsibility have a less favorable impact for the development of new social projects (12.1% and 6.45%).
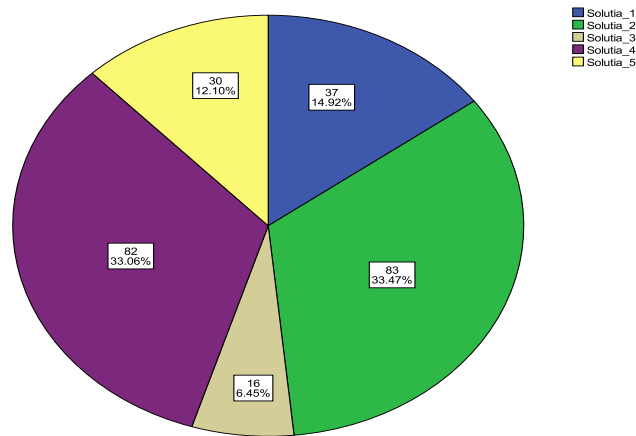
Fig. nr. 4– The perception of public organizations employees regarding the required solutions to implement social responsibility

We conclude that increased funding for training and employee involvement, involvement in the community through various projects, or financial support and information from the state can help develop a responsible and sustainable organizational environment, which is the foundation of a healthy society.

The main limitation of the carried out research is the small number of public organisations that was review. Although results cannot be generalized to national or regional level, we consider that the study may be an early important step of an extensive research.

IV. CONCLUSIONS

So far, the implications of social responsibility in the public organizations are still at an early stage or lightly considered. It is necessary to analyze the influence of social responsibility and the management of public organizations, not just at a corporate level. The paper makes an important contribution in the sphere of analysis and implementation of social responsibility in the Romanian public organizations.

The study results provide useful information for the national or international authorized bodies, which can act to develop responsible behavior in public organizations. Solving financial difficulties faced by organizations in Romania could be the main tool for sustainable development and build a responsible social behavior.

Removing barriers described above and adopting new management strategies of social responsibility build a new perspective for the management of the Romanian public organizations.

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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		
The decision process	Limited at the operational decisions or at tactical decisions	Implication in the strategical decisions
The contribution to the organizational profit	Costs reduction through negotiation of better prices and discounts	Main tool for improving profitability of the organizations
The organizational structure	Accent on centralization	Accent on descentraliza-tion in order to be closer to the possible problems
The purchasing department status	At the lower levels	At the highest levels, demonstrating profesionalism
I I At the suppliers level		
Relationships with suppliers	The suppliers are considered as an enemy which has to be caught	The suppliers are considered as partners
Negotiations with suppliers	Win or lose	Win-win
Suppliers' porfolio	Big, based on the asumption that more suppliers can assure better the resources needed by the organization	Small and based on an efficient logistic
Suppliers' location	Localy or national	Globally
I I I Operational factors		
Strategy	Departmental plan	Business plan
Decision	Fragmented decisions	Decisions based on total cost

		analysis
Systems	Simple IT system	Advanced and integrated IT system
Employees	Without special education	Higher commercial and technical education

Made by the author

3. The strategic role of purchasing management in the knowledge based society

Plăiaş (2006) considers that an eficient 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 reprezents an important percentage from the total turover. In the romanian economy, the purchasing volume reprezents aproximately 62% from the total turover, 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 reprezent the curent performances of the organization. What you see between brakets are the new performances that rezults from a reduction with 7% (0,25 milion) 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 icreasing 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 pottential suppliers and also from other purchasers can be useful and valuable for the other departments from the organization.
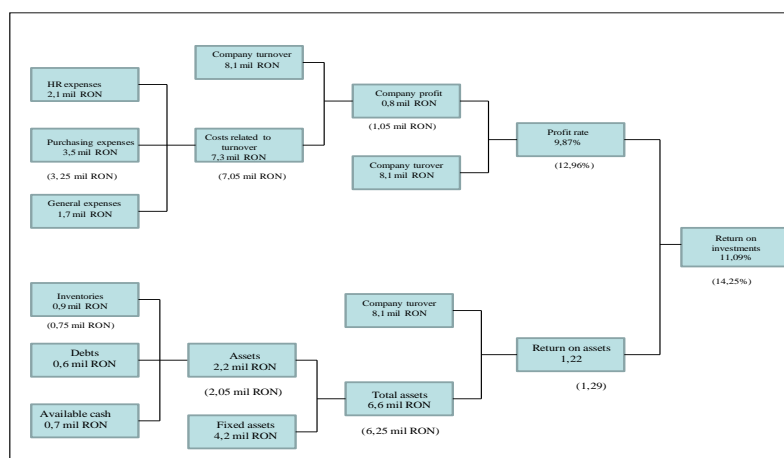
Figure 1: The relations betwwen the purchasings costs and the rentability of investments
Source: Plăiaş, I., Marketing of aquisitions,Risoprint, Cluj Napoca, 2006, p.38

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 etiqual 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.
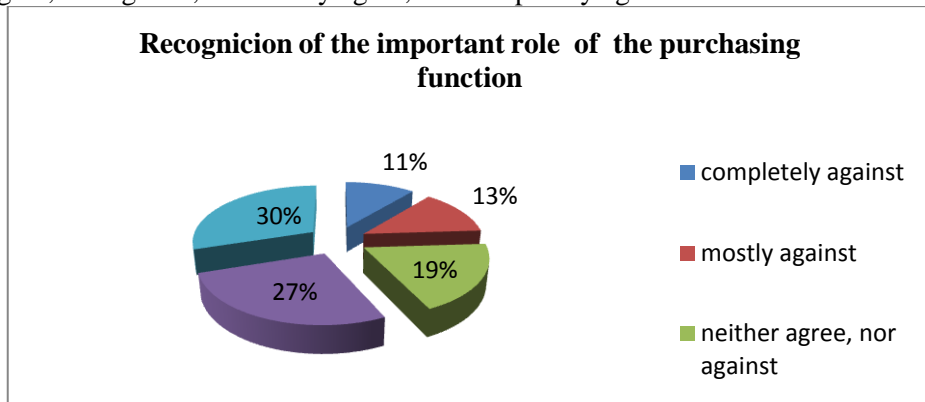
Figure 2: Recognition of the important role of the purchasing function in the organization
Made by the author

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.
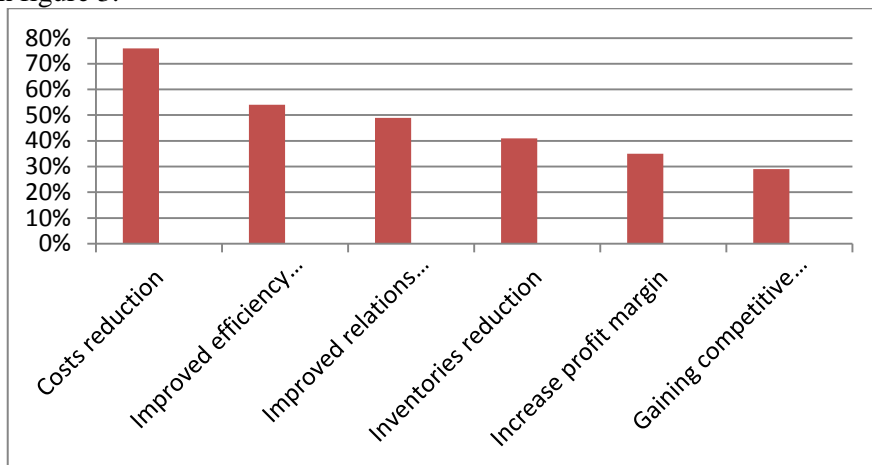
Figure 3: The main value added provided by purchasing
Made by the author

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 potentia*l 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 indentify 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.

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CHOOSING THE RIGHT FORM OF LICENSING A BUSINESS IN ROMANIA

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Choosing the most appropriate form of licensing a business is an important decision not easy to be made by an entrepreneur and it should be taken only after he has the required skills and abilities to do so. The business idea should harmonize with the business environment and its future trends, with the existing opportunities and the future products or services that the company will provide and not least the entrepreneur has to make sure that he has sufficient resources to get started.
We consider that every business has a number of features that make certain forms of licensing to be more suitable than others.
This paper aims to present a multitude of items to be reviewed by an entrepreneur at the start-up in order to choose the most appropriate licensing type for his business.
Given that our country's law allows entrepreneurs to license their businesses in several forms, the decision to choose between many existing possibilities is a very important one for the future good of the business.
Currently in our country there are two major laws governing the licensing of a business. The first one is the republished and subsequently amended Company Law number 31/1990 and the second, the Government Emergency Ordinance number 44/2008 regarding the economic activities of the Sole traders, Individual enterprises and Family enterprises.
The Company Law number 31/1990 allows companies to choose between one of the five types of business entities that can operate in Romania: General partnership (in Romanian SNC), Limited partnership (in Romanian SCS), Limited partnerships by shares (in Romanian SCA), Joint stock company (in Romanian S.A.) and Limited liability company (in Romanian S.R.L.).
GEO number 44/2008 on economic activities of the Sole traders, Individual enterprises and Family enterprises regulates the licensing and the activity of a Sole traders, Individual enterprises and Family enterprises.
Key words: business licensing, types of business entities, Sole traders, Individual enterprises, Family enterprises
JEL Classification: M10,M19

Introduction

Certainly, not every person has the necessary skills and abilities to license and develop a business. Once a potential entrepreneur succeeds to auto evaluate himself and concludes that he holds a minimum of necessary knowledge for starting a business, that he has certain qualities that recommend this approach, that he is an ambitious person with a very good health condition that allows him in the near future to initiate and develop a business, the next step has to be taken. This future entrepreneur must find an answer to the question: "which business type would be the best for me?" In order to answer this question correctly, the entrepreneur should start from his own knowledge, skills, abilities, but also has to take in consideration the business environment's characteristics, trends and peculiarities that may occur, the aim for business analysis being to identify the business's opportunities, specific for a certain area and period.
Only after getting to know the idea of a business, the entrepreneur should focus on another question: "Which is the best licensing type for my business?"
As stated above, the legislation in our country allows various forms of business licensing. These authorization forms are largely presented in two main acts: the republished and subsequently

amended Company Law number 31/1990 and the Government Emergency Ordinance number 44/2008 regarding the economic activities of the Sole traders, Individual enterprises and Family enterprises.

The Company Law number 31/1990 allows companies to choose between one of the five types of business entities that can operate in Romania: General partnership (in Romanian SNC), Limited partnership (in Romanian SCS), Limited partnerships by shares (in Romanian SCA), Joint stock company (in Romanian S.A.) and Limited liability company (in Romanian S.R.L.).

GEO number 44/2008 on economic activities of the Sole traders, Individual enterprises and Family enterprises regulates the licensing and the activity of Sole traders, Individual enterprises and Family enterprises.

The selection of an appropriate type of business entity according to the business features

Each stage that the future entrepreneur hast to follow is extremely important and has an essential contribution to the future business success.

In this paper we propose to present and make an analysis of the key elements that future entrepreneurs must think of and that need to be correlated with the business particularities for finally choosing the most appropriate form of licensing the business.

We believe that the best decision on a business authorization form may be taken by the entrepreneur after analyzing its business following features:

      -the activity that will be organized;
      -the size of business and its future development opportunities;
      -the future number of business partners;
      -the involvement and responsibility level assumed by business partners;
      -the available capital correlated with the needed one;
      -the future tax liabilities;
      -the specific characteristics of each legal form stipulated by the law.

1. The activity that will be organized

Not every activity can be organized in a legal form. The two major laws governing the licensing of a business provide full information for the entrepreneurs regarding the activities that can form the business domain for a business entity or Sole traders, Individual enterprises and Family enterprises.

2. The size of business and its future development opportunities

According to the estimates on the size of business, on its future development opportunities, entrepreneurs can choose a simple form of licensing (GEO 44/2008 on economic activities of the Sole traders, Individual enterprises and Family enterprises) when the business is small and has no future development possibilities. In this case, the licensing as a Sole trader is recommended for those that are working alone and are unable to hire more staff. An Individual enterprise offers the opportunity to work with staff, while a Family enterprise operates only with family members. In order to establish a big business, with future development opportunities, it is better to opt for one of the types stated by the republished Company Law 31/1990.

3. The future number of business partners

Depending on the number of business partners, entrepreneurs may opt for different types of businesses. If the business will have a single partner then the only legal form that can be used is the Limited liability company. If however the number of partners or shareholders willing to join in order to form a business is more than 50, then they cannot authorize as a Limited company. Generally, an entrepreneur decides to license as a business entity when he has at least one associate.

4. The involvement and responsibility level assumed by business partners

There are significant differences between the presented types of business entities that can operate in our country in terms of degree of involvement and responsibility assumed by the partners. Thus, in a Limited liability company each partner has a limited liability correlated with his contribution to the capital. Not the same thing happens with the administrator.

The administrator's liability can be grouped into three categories:
- Ordinary liability to the company and associates;
- An outstanding liability to third parties;
- Aggravated liability in case of bankruptcy of the company.

For a General partnership (SNC) the social obligations are guaranteed with the social patrimony and unlimited joint liability of all partners. Within Limited partnership (SCS) and Limited partnership by shares (SCA) the limited partners respond with all their wealth while the general partners respond according to their contribution to the share capital (SCS) or they pay shares (SCA).

5. The available capital correlated with the needed one

Currently the limit provided by law for share capital is relatively low. We refer to the 200 RON, the minimum for Limited liability companies. Certainly for starting a business, much larger resources are needed, depending on what the new business is intended to achieve. There are different possibilities for authorization of economic activities stipulated in the GEO 44/2008 on economic activities of the Sole traders, Individual enterprises and Family enterprises where share capital is not required. The Company Law 31/1990 also offers the possibility of an authorization without capital in the case of the General partnership (SNC). For this type of business the law does not require and does not set a minimum capital. Partners are free to determine, after their own interests, the value of the social capital. General partnership, Limited partnership and Limited liability companies are obliged to pay fully the share capital, on its constitution date.

The highest minimum capital required by law is to establish a Joint stock company (S.A.) or a Limited partnership by shares (S.C.A) than cannot be less than 90.000 RON. The Government may change the minimum capital at most once every two years , taking into account the exchange rate so that the amount in RON be equivalent of 25.000 EUR. At the constitution the share capital, paid by each shareholder cannot be less than 30% of the subscribed one, unless the law provides otherwise. The remaining capital will be paid within 12 months from registration.

6. The future tax liabilities

A very important element in choosing a legal form of licensing relates to the future tax liabilities that the entrepreneur should pay.

As shown in the Tax Code Law, Law number 571/2003 updated by the GEO 125/2011 and valid in 2012, the tax system for business entities are different than the tax systems for Sole traders, Individual enterprises and Family enterprises. Thus, companies can be taxed at profit tax or income tax on small enterprises if they meet certain conditions prescribed by law.

Profit tax is the amount of 16% and applies to taxable gross profit. Gross profit is determined as the difference between the total taxable income and the total expenses contributed to the income adding deductible expenses.

Micro income tax is the amount of 3% and applies to gross income of a business entity that is called microenterprise. To do this, that business shall cumulative meet on the 31th December of the previous fiscal year, the following conditions:
- To have other revenues than those referred to in art. 112 ^ 2. (6);
- To have from 1 up to 9 employees;
- To have achieved revenues that did not exceed the equivalent of 100.000 EUR;

- Its capital to be held by persons other than the state and local authorities.

According to art. 112 ^ 2. (6), from the Tax Code Law, cannot choose to pay income tax on micro, Romanian legal entities which:

"a) are engaged in banking activities;

  b) are engaged in the insurance and reinsurance, capital market areas, except for legal persons conducting brokerage activities in these areas;

  c) are engaged in activities in the field of gambling, and management consulting;

  d) have the share capital held by a legal shareholder or associated person with over 250 employees."

Depending on the estimated revenue and expenditure on the share of gross profit in the turnover and on the fact that the business entity qualifies to pay income tax for micro, entrepreneurs can opt for a taxation system or another. For example, if the gross profit share in total business turnover is low, the profit tax system is recommended. In this category we include businesses in the wholesale trade or retail.

If a business has a high percentage of gross profit in total turnover and it is not a business in the management consulting area, the income tax for micro is recommended. For example, for a real estate agency this tax system is more advantageous than the profit tax one. Under no circumstances businesses that have low return rates should choose this type of system.

For the three forms of licensing governed by GEO 44/2008 is likely to pay tax on income from independent activities but is determined differently than the one for micro.

For Sole traders, Individual enterprises and Family enterprises the tax on income from independent activities does not reflect the correct method of calculating the payable tax. In fact, income tax is determined as a profit tax. The tax rate is the same, 16% and the base to which this percentage is applied is determined as the difference between total revenues (collected) and total expenditures for these revenues, adding additional deductible expenses.

Sole traders, Individual enterprises and Family enterprises have also the possibility to choose between two tax systems: tax on income from independent activities in real system, determined on the information from the simple base accounting and annual net income tax based on income norms.

General directions of territorial public finance shall:

- Set the roster, for which net income is determined based on income norms;

- Set the level of income standards;

- Public annually, during the fourth quarter of the preceding year to be applied.

Income norms for each employed person that generates commercial revenue cannot be less than the minimum gross salary at the time of its determination, multiplied by 12. Taxpayers engaged in activities for which the net income is determined based on income norms are not required to organize and conduct simple bookkeeping task.

The future entrepreneur is the one deciding between the two tax systems, the one based on income norms or the real system one.

Future tax liabilities may also refer to the option of paying or not the VAT (value added tax). For a turnover that exceeds 65.000 EURO, taxpayers are required to pay VAT. Up to this limit it is possible to be non-taxable. Considering that the VAT rate is currently very high (24%), the decision to opt for non-taxable business is extremely important for future entrepreneurs. Small businesses are selling their products directly to the consumer so it is advisable to not register as a VAT payer, if they are not exceeding the 65.000 EUR limit. This recommendation is also valid for businesses that do not require large initial investment in machinery and equipment.

If the products or services of a business are primarily addressed to other businesses, it is advisable to register as a VAT payer by choice, right from the start up. If in order to get started the business needs major investments in acquisitions (tools, machinery, furniture and so on) the entrepreneur should register for VAT by choice, even if the turnover is less than 65.000 EUR.

This will allow the VAT deduction from the purchase prices of the investments that are made. For example, for a real estate agency, that does not require large investments and provides its services mainly to consumers, the VAT registration is not recommended until the 65.000 EUR turnover is reached.

If the entrepreneur desires to establish a production unit for textile, where investments are needed in order to build space for its arrangement, for the purchase of machinery, sewing machines, cutting, ironing and so on, and the products are sold to other companies that are paying VAT, we recommend registering for VAT from the start up.

7. The specific characteristics of each legal form stipulated by the law, other than those outlined above.

Conclusions

The decision to choose a particular type of business licensing can be based on other issues such as the authorization costs of the business, the complexity and difficulty of the licensing, the business administration costs, business funding opportunities, development opportunities etc.

Comparing companies that may be authorized in accordance with Law 31/1990 and Sole traders, Individual enterprises and Family enterprises, authorization forms regulated by GEO 44/2008, we can identify several advantages and disadvantages.

The advantages of licensing under a certain type of company governed by Law 31/1990 are:
- Greater opportunities for business development;
- Greater opportunities for business financing. Projects providing guarantee for SMEs to have better access to credit;
- Higher tax breaks. Most government programs that support entrepreneurship and increase the number of SMEs concern companies. The introduction of micro income tax in 2001 is only applicable to companies that meet certain conditions;
- There is no limit for the number of employees, unlike in the case of Sole traders, where the entrepreneur is the only one allowed to work, or in the case of Family enterprises where only family members are allowed to work.

The disadvantages are:
 - The authorization procedure takes longer and it's more complicated;
- License fees are higher;
- The accounting system is more complicated - double entry bookkeeping for businesses and the simple bookkeeping for Sole traders, Individual enterprises and Family enterprises or even lack of any records, when opting for annual income tax based on income norms;
- Higher costs for the bookkeeping. For signing the annual financial statements, balance sheet and profit and loss account, a company must pay a qualified person - chartered accountant, an auditor or an accountant who is a member of CECCAR (Body of Accountants and Licensed Accountants of Romania). For a single entry accounting, and for preparing the "Register of receipts and payments" and other specific documents needed, the contractor can hire anybody, without high qualification. Total costs can be even eliminated when Sole traders, Individual enterprises and Family enterprises choose for the annual income tax based on income norms.

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*** *Rules for applying the tax code*
*** *The Accounting Law 82/1991, updated*
*** *The Law number 26/1990 regarding Trade Register, updated*
*** *The Law number 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 Romanian 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.
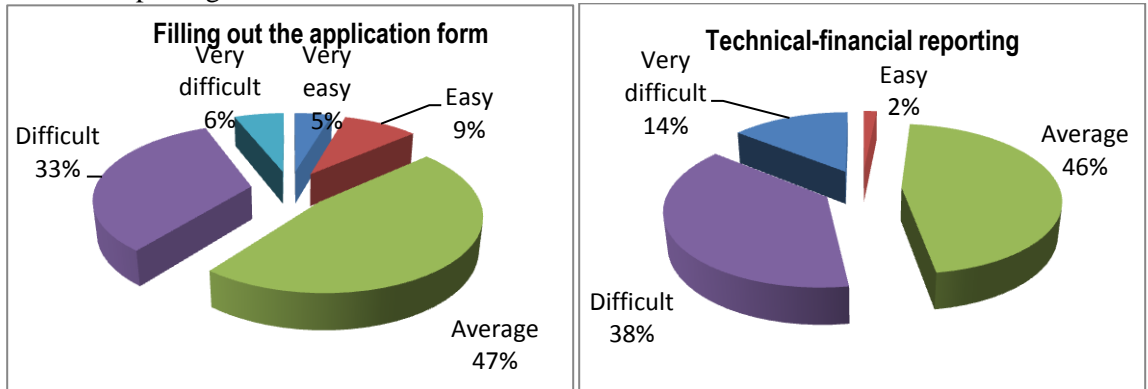
Figure 1 The degree of difficulty in filling out the application form and technical and financial reporting (made by author)
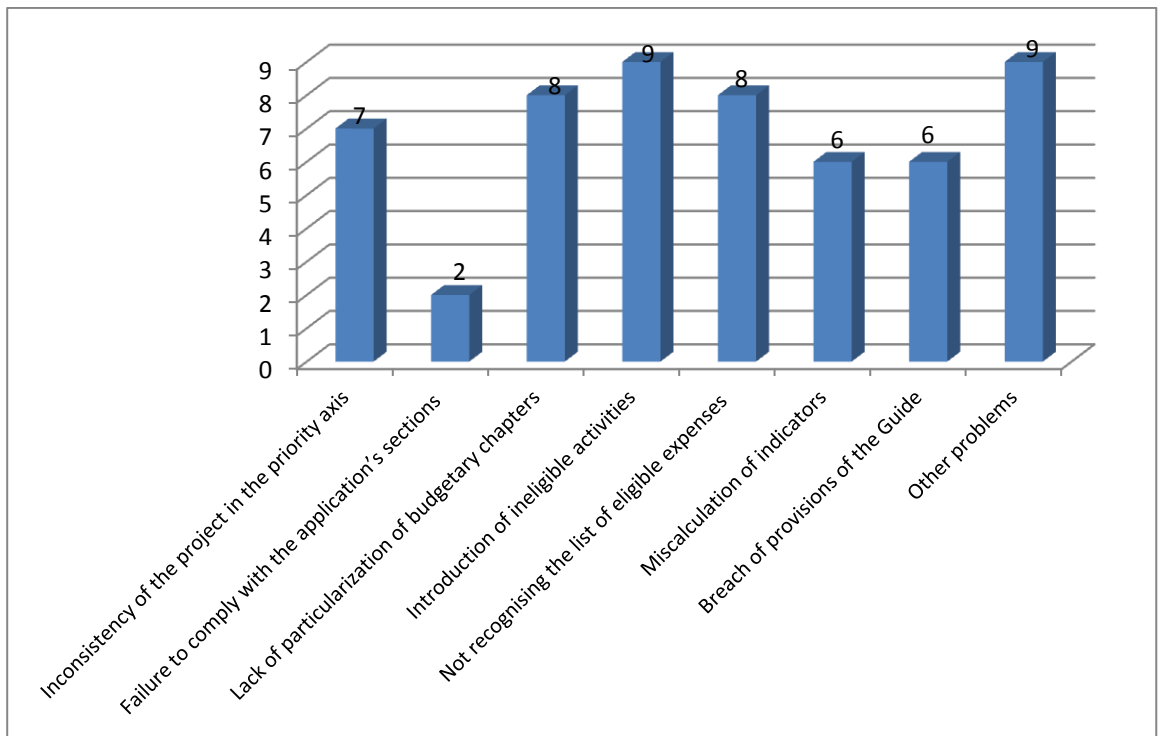
Figure 2 Problems faced by respondents in filling out the application form (made by author)

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.
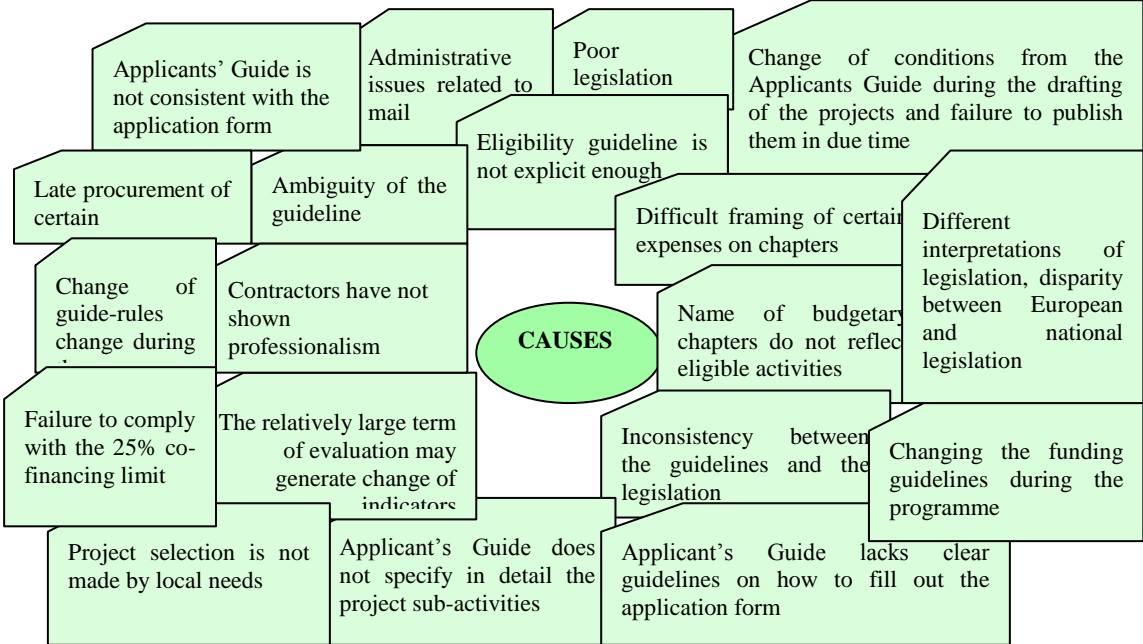
Figure 3 Causes of the problems encountered by respondents in filling out the application form
(made by author)

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.
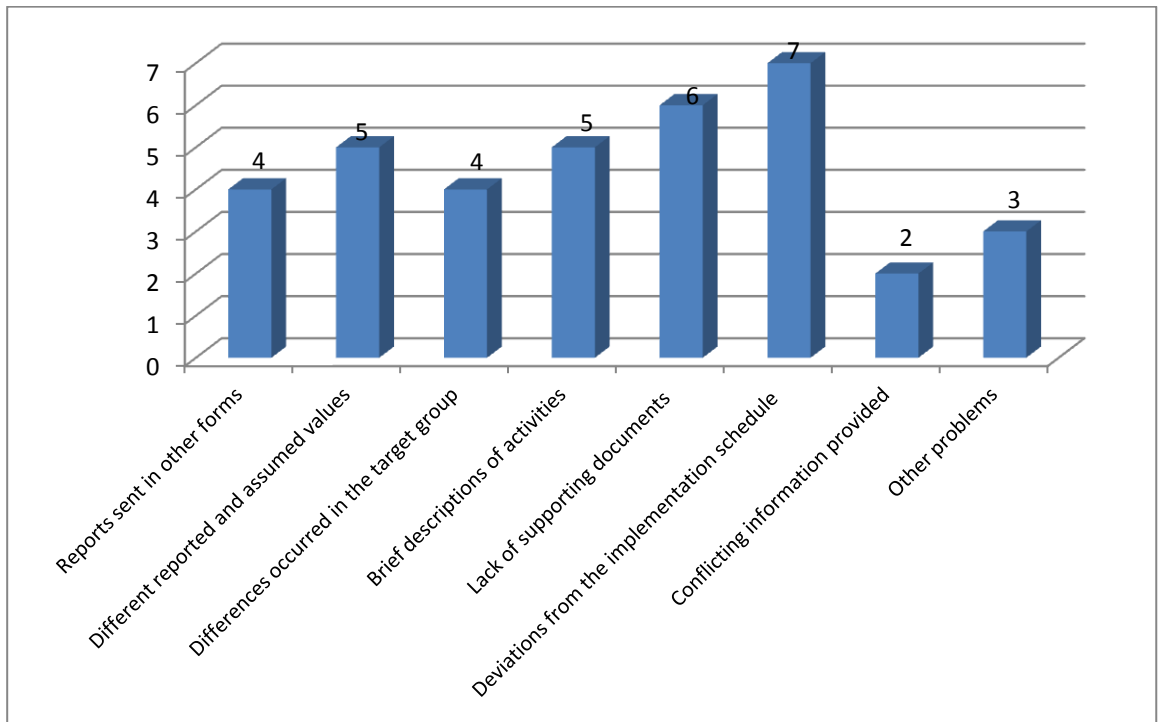
Figure 4 Problems faced by respondents in the technical and financial reporting (made by author)

Figure 4 deals with the issues encountered by the surveyed institutions in the technical and financial reporting, specifying their frequency.
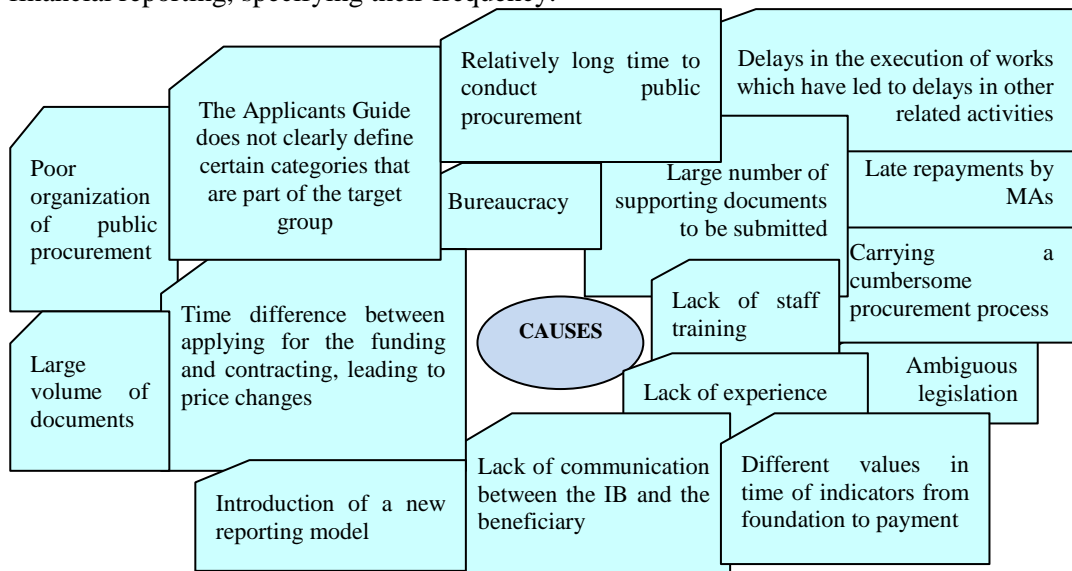
Figure 5 Causes of the problems encountered by respondents in the technical and financial reporting (made by author)

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 put 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 filing 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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RESEARCH ON PROBLEMS WITH PROJECTS AND PARTNERSHIPS THAT PUBLIC INSTITUTIONS IN THE CENTRE REGION FACED IN ACCESSING EUROPEAN FUNDS

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European project management is the main filed of the article. Assuming a connection between the degree of absorption of European funds and the degree of maturity of the Romanian society in terms of project management, the article seeks to identify the negative factors on accessing and carrying out European projects.

The identified problem is a low degree of absorption of European funds in Romania, and the main objective of the research is to identify the problems faced by the public institutions in the Centre Region in accessing European funds and also the causes that led to the low absorption of European funds.

This article's research is based on a preliminary analysis performed by the authors on the rate of accessing of European funds published in the article called "The current state of European funds absorption through funding programmes – measure of the Romanian performances in the project management practice". The conclusion of this article was a low rate of absorption of European funds in Romania, a fact that reveals a poor practice of the theory on project management. This article identifies part of the causes of this situation by identifying a part of the problems that stood in the way of beneficiaries of European funds

The qualitative and quantitative research methods are used in combination in the research. 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 interview-based qualitative research enabled the researcher to get acquainted with the subjects' problems related to the theme of investigation, the causes that have generated these problems. This preliminary investigation to the questionnaire-based research aims to provide information that would help the researcher prepare the questionnaire, so that the questions allow getting the most comprehensive information to solve the identified problems.

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. This article deals with the problems encountered during the projects' contracting stage and problems caused by partners. The respondents' answers place the problems of partners on top of the categories of problems that stood in the way of European funds' beneficiaries. A series of causes that have led to the occurrence of these problems have also been identified.

It should be stated 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, but to the institutions managing European funds in Romania, who have a lot to learn from the experience of the first period of programmes. The authors' main contribution is to integrate this study into the logical thread of the thesis entitled "Strategic management in European project funding". Both articles, part of a research in the field of

project management are unique and original and meet a current and pressing requirement of the Romanian society.
Keywords: funds, projects, problems, partnership, absorption.
Cod JEL: M16.

1. **INTRODUCTION**

The present article continues the study on identifying the problems that beneficiaries of European funds in Centre Region faced, as well as their causes. The first article dealt with the problems encountered during the stage of filling out the application form and the technical and financial reporting stage. The research continues with dealing with the problems faced by beneficiaries at the contracting stage and problems with the partners.

The research which integrates the two articles assumes that there is a correlation between the degree of maturity of the project management in the Romanian society and the low degree of absorption of European funds, thus, identifying a solution to prepare Romanian for the next programming period 2014-2020 in view of obtaining higher rates of absorption becomes a necessity.

Certainly, the usefulness of the present articles is not limited to European funded projects. A contribution of the research is the attempt to include the European projects into the wider notion of projects. Consequently, the chances of creating a coherent vision on European funds increase, on their characteristics, but also on the common elements with the actions any project involves.

Therefore, the preparation for European funds absorption should enter into a broader vision: in the future, we should not focus only on attracting structural funds, but on attracting any type of funds meant to stimulate development. Training in the field of projects must not end after the structural funds have been attracted, but it should be destined to modernize our thinking and actions. We should not forget about the next period coming up: 2014-2020 and that must find us prepared, more capable to prove seriousness and professionalism.

2. PREVIOUS RESEARCH

The study is part of the approach of a PhD thesis entitled "Strategic management in European project funding", 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. They show the authors' interest for the studied field.

The conclusions of an article published by the authors (Ranf and Dumitrascu 2011: 153-163) identified a low rate of absorption of European funds of approximately 17%, and now, a year later, of 25%. This analysis of the rate of absorption of European funds in Romania has identified the problem that led to the research of these articles. 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.

But, in order to improve the ability to absorb European funds there must be first identified the main gaps, insufficiencies or inefficiencies encountered by the people responsible with writing projects and implementing them during the first period of programmes, so that we are better prepared and more efficient in the second period.

3. METHODOLOGY OF RESEARCH

The investigation included two successive studies, the first one being an exploratory qualitative research, meant to outline the qualitative aspects of the investigated phenomena and the other one a quantitative research, in the form of occasional surveys.

The exploratory qualitative research had several purposes: a more thorough expression of problems aiming European projects and accessing European funds; clarifying certain concepts;

elaborating new hypotheses; establishing further research priorities; generating new solutions and ideas. This research was designed and carried out only as a preliminary stage, meant to facilitate the development, under better conditions, of the quantitative research.

The interviews conducted among respondents revealed the fact 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 present article deals with the problems encountered in the stage of filling out the application form, the technical and financial reporting, the projects' contracting stage, problems with the partners. 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 and whose processing would have vitiated the results.

4. RESULTS OF THE RESEARCH

With regard to the first stage studied, namely that of contracting projects, problems are fewer, but still existing, namely there is a 21% who answer yes and 16% who answer sometimes.
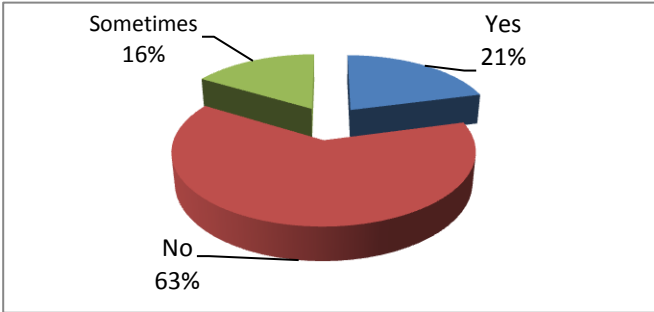
The reason of this question is the great number of projects that were approved and have not been completed through a contract. There are various other problems after signing the contract that may result in its termination.

Figure 1. Situation of projects that had problems in the contracting phase (made by author)
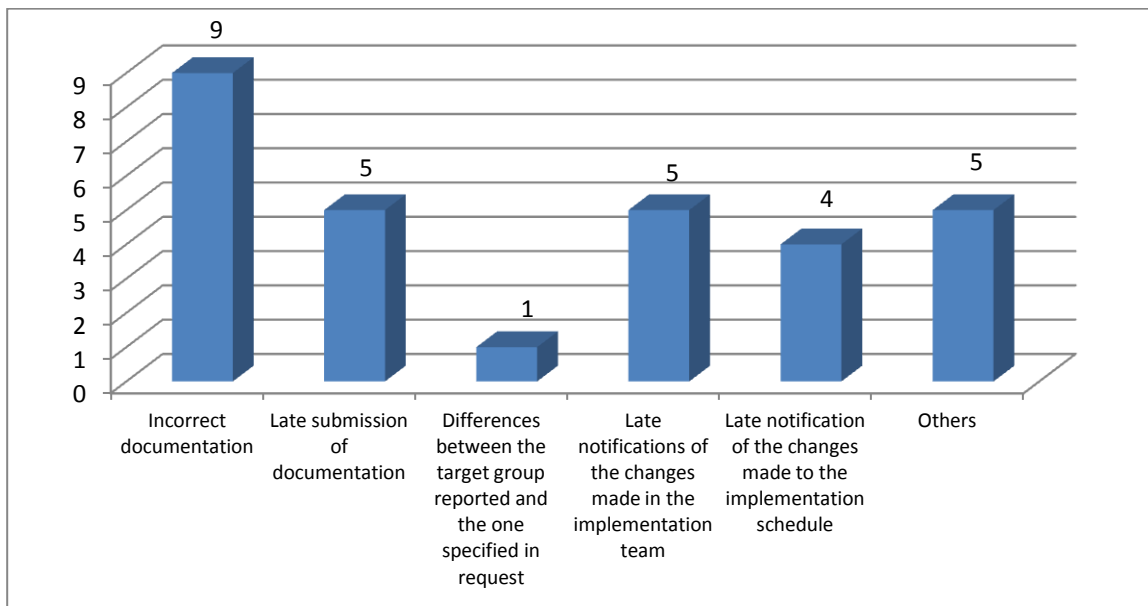
Figure 2. Problems faced by respondents in the contracting phase (made by author)

Figure 2 shows the frequency of problems encountered by respondents in the contracting phase and the frequency of their occurrence, and figure 3 outlines the causes of their occurrence.
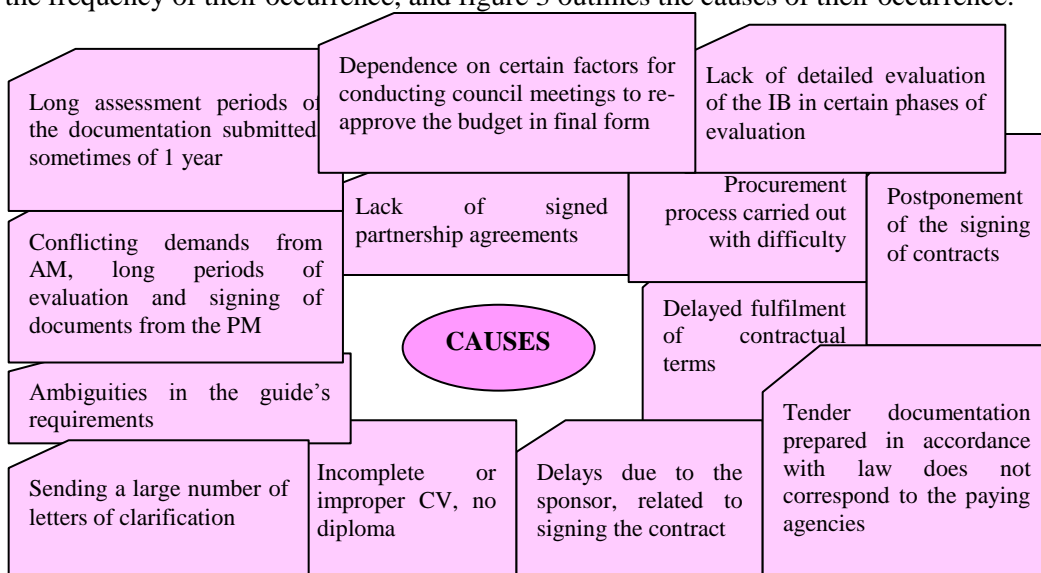
Figure 3. The main causes of the problems encountered by respondents
in the contracting phase (made by author)

Problems in the contracting phase are due both to the beneficiaries that have sent inconsistent documents such as inappropriate CVs, unsigned partnership agreements or they have sent too many letters of clarification and to the Intermediate Bodies and Management Authorities that require long assessment periods of the documentation, periods that exceed even a year, damaging the good course of the project. From the respondents' answers it appears that there are projects that are approved and then put on hold for long periods of time.

When asked if they had problems from partners in carrying out projects, 53% of the respondents answered that they did not, while 47% admit that they sometimes did.
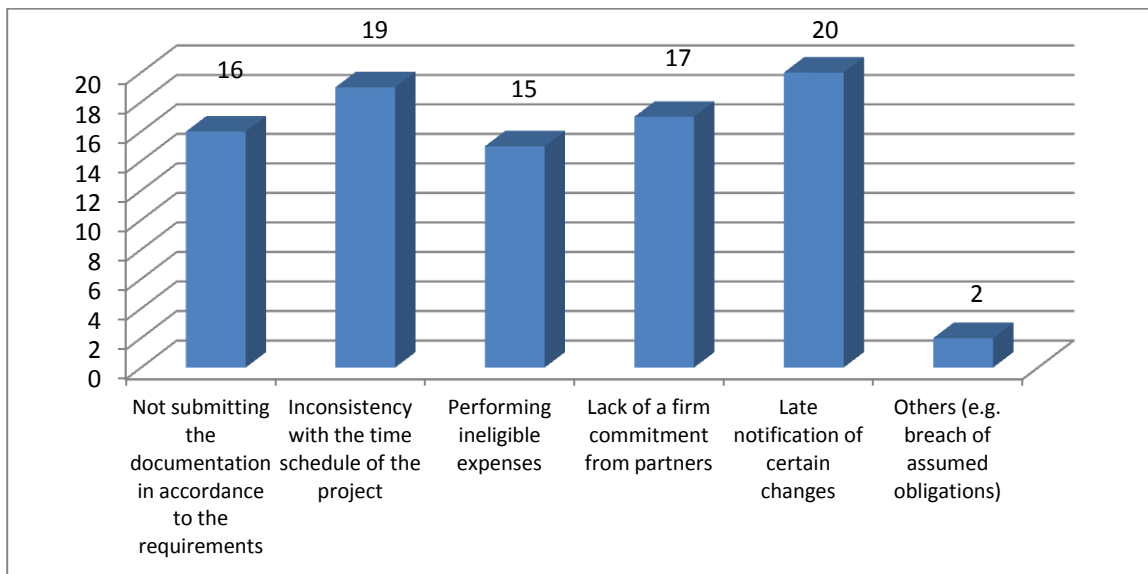
Figure 4. Frequency of problems from partners (made by author)

The respondents who had problems with partners were asked to mention the types of problems they encountered and their frequency. To make the answer easier, the questionnaire contains a number of problems identified from other sources, which might represent problems encountered from partners in the implementation of projects. These are outlined in figure 4.

From figure 4 it can be noticed that the frequency of such problems is relatively similar, most encountered problems being related to the late reporting of certain changes, planning problems such as those related to the inconsistency with the time schedule.
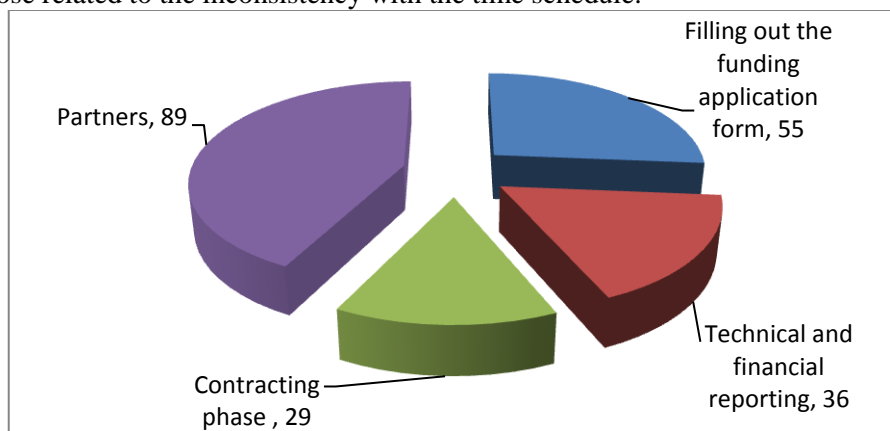
Figure 5. Comparison between problems faced by beneficiaries (made by author)

Figure 5 compares the frequency of the studied types of problems until now in both articles. It can be noticed from the figure that most problems faced by beneficiaries in carrying out projects are those from partners, followed by the problems encountered when filling out the application form. Although this category of problems is usually underestimated, respondents consider as a degree of difficulty the technical and financial reporting on the first place but they have also faced a great number of problems caused by partners, with negative effects on the performance of projects.

5. CONCLUSIONS AND RECOMMENDATIONS

The research, whose target group is the public institutions in Centre Region aims to obtain information from the respondents regarding: the problems faced by them in the projects' contracting phase and problems caused by partners.

As expected, the contracting phase had fewer problems from the beneficiaries, but with effects on the long term. For example, sometimes (24% of the cases) big delays at the signing of contracts were encountered, reaching periods that exceeded one year (17 months), delays which may bring significant changes between what was declared in the application form and later reporting from the beneficiaries.

Respondents accuse a great number of problems encountered from partners (89), the most problems faced by institutions in carrying out projects.

Regarding the **usefulness of the results**, it must be stated that the information obtained from the research we consider useful not only for the possible beneficiaries of European funds (public, private organizations, NGOs, the state, etc.), but for the entire Romanian society, because the money that these investments bring will contribute to the increase of economic stability or will even generate an economic growth with direct benefits on the population, such as the increase of jobs, the development of the social sector, etc.

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).

Recommendations for the project development institutions to obtain better results in the development and implementation of projects would be:

- studying in detail of the Funding Guide in order to reduce the number of problems encountered during all four situations studied in both articles;
- putting a greater emphasis on the quality of "partner", because, although they have encountered several problems from partners, the interviewed institutions (53%) were themselves partners in 1 or more projects.

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.
- reducing the periods between approval of projects and signing the contracts, periods that have reached even 17 months;
- simplification of public procurement procedures.

Romania should prepare thoroughly for the 2014-2020 financial period. The best lesson for this purpose is the institutions' experience from the period 2007-2013. Under these circumstances, the information obtained from this study are useful not only for project development or managing institutions, but also to any bodies responsible with spending European money, with great contribution to the development of the Romanian society.

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RISK MANAGEMENT: AN INTEGRATED APPROACH TO RISK MANAGEMENT AND ASSESSMENT

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Purpose:
The objective of this paper is to offer an overview over risk management cycle by focusing on prioritization and treatment, in order to ensure an integrated approach to risk management and assessment, and establish the 'top 8-12' risks report within the organization. The interface with Internal Audit is ensured by the implementation of the scoring method to prioritize risks collected from previous generated risk report.
Methodology/approach:
Using evidence from other research in the area and the professional expertise, this article outlines an integrated approach to risk assessment and risk management reporting processes, by separating the risk in two main categories: strategic and operational risks. The focus is on risk prioritization and scoring; the final output will comprise a mix of strategic and operational ('top 8-12') risks, which should be used to establish the annual Internal Audit plan.
Originality/value:
By using an integrated approach to risk assessment and risk management will eliminate the need for a separate Internal Audit risk assessment over prevailing risks. It will reduce the level of risk assessment overlap by different functions (Tax, Treasury, Information System) over the same risk categories as a single methodology, is used and will align timings of risk assessment exercises.
The risk prioritization by usage of risk and control scoring criteria highlights the combination between financial and non-financial impact criteria allowing risks that do not naturally lend themselves to a financial amount to be also assessed consistently.
It is emphasized the usage of score method to prioritize the risks included in the annual audit plan in order to increase accuracy and timelines.
Keywords: risk management, risk assessment, audit universe.
JEL cods: G320

1. Introduction

Risk management is a range of activities undertaken to control the strategic and operational risks within the organization. It can be defined as a business process whose purpose is to ensure that the organization is protected against risks and their effects.

In The Project Management Body of Knowledge Guide, (Duncan, W., R., 1996), risk management is defined as a systematic process of identification, analysis and response to the project risks, process comprising the risk identification, risk quantification, risk response plan, risk response control sub processes. By a closely look the reader can observe that, depending on the author of the methodology, the name or the order of these sub-processes is different. Thus, risk identification and risk quantification are sometimes taken together and are called risk assessment or risk analysis; the risk response plan is sometimes met under the name of risk mitigation plan; the risk response plan and the risk control plan are sometimes taken together under the name of risk management plan. (Valentin P. Mazareanu, Risk Management and Analysis: Risk Assessment (Qualitative and quantitative), Analele UAIC Iasi, 2007)

Going further, we can affirm that, without risk, there is no reward or progress. Unless risk is managed effectively, organizations cannot maximize opportunities and minimize threats. Risk is all about uncertainty, or more importantly, the effect of uncertainty on the achievement of objectives. By performing the risk management process steps, the emphasis is shifted from

something happening – the event –to the effect on objectives. Every organization has objectives to achieve, and in order to achieve them, any uncertainty that could interfere with their realization must be effectively managed. (Kevin W. Knight AM, Main Focus Magazine, ISO FOCUS, 2009) As stated in the well-stocked toolbox for risk management featuring (ISO 31000:2009 –Risk Management –Principles and guidelines; ISO/IEC 31010: 2009 – Risk management –Risk assessment techniques): "Risk needs to become an integral part of how things are managed*; it should* not be an add-on, or a separate activity divorced from the mainstream management of the business." This refers to the mandate and commitment of the organization's board and top management to the implementation, review and continual improvement of how risk is managed. The end goal: to ensure risk is fully focused on the achievement of objectives by using a common language and process throughout the organization.

As related to risk management reporting responsibility, the organization has to nominate a Risk Coordinator to facilitate the internal risk assessment and reporting process. Unless there is any top management person appointed to be the company's Risk Coordinator, it is anticipated that this will be the local Head of Internal Audit; although it is possible for the coordinator to come from any discipline. If this happens, the organization should ensure local Internal Audit is involved in the risk assessment. This will help ensure they have sufficient understanding of the risk assessment process and outputs to enable them to develop a risk-based internal audit plan.

2. Inside Risk Management: overview of risk management reporting process

We will present an overview of the approach to risk management starting from the main idea that: "Risk management is a range of activities undertaken to control the strategic and operational risks within the organization." Underpinning the approach is an initial separation of the strategic and operational risk assessment processes, recognizing that they serve different purposes. The key definitions of the two main risks are below:

> -Strategic risks are uncertain future events that could negatively impact the achievement of the vision and strategic objectives.
> -Operational risks are risks that could negatively impact the performance or efficiency of the day-to-day operations.

The Strategic risk report should be used to summarize the key strategic risks faced by the organization that could negatively impact on the achievement of their vision and strategic objectives. The strategic risks detailed in the risk report represent the inherent strategic risks before taking account of any risk responses.

Once the key strategic risks have been identified, the risk responses which are currently relied on to reduce the inherent level of a risk to a more acceptable level need to be detailed. Consideration should be given to operational risks that are sufficiently significant/ material that they may have strategic consequences. The strategic risk report will have a dual purpose of supporting the strategy and planning process and as an integral part of the risk management process.

The first step in the operational risk assessment is to identify potential inherent risks using the Risk Universe tool. This Risk Universe contains risk categories grouped under value chain and support headings. It is not intended to be a comprehensive list of all operational risks but it should assist in ensuring all the relevant risk issues for the business are incorporated within the assessment process. Using the categories contained in the Risk Universe, it should be involved the relevant management staff in the risk assessment process to make the outputs accurate and reliable by considering different risk assessments that need to be prepared. There is no set number of separate operational risk assessments prescribed. Examples of sub-categories of operational risks within risk universe are:

Value chain:

> -*Sales and Marketing:* customer understanding, customer relationships, exclusivity arrangement, pricing and profitability, promotion and brand management, innovation;

-Procurement: quality, scheduling, costs, commodity exposure management;
-Manufacturing: efficiency, quality, capacity, product recall, product security;
-Health and Safety: incident management, regulatory reporting, preventive programs;
-Physical assets: safeguarding and security, business interruption, natural perils;
-Warehousing and distribution: logistic, obsolesce, loss/damage, cost, distribution channel;
-Invoice and service customer: customer support, credit control, billing completeness& accuracy, product/service failure;

Management and support:
-Improvement and change: cost control, realization of planned benefits;
-Human resources: incentives & remuneration, recruitment & retention, unethical behavior;
-Financial Management: reporting, fraud, budgeting & forecasting, insurance, treasury;
-Legal and compliance: contracting, litigation management, regulatory reporting, intellectual property;
-Taxation: tax legislation, customs & excises, documentation, planning;
-Information resources and technology: strategy, integrity, security, obsolescence, availability;
-Sustainable development and environment: energy efficiency, supply chain, resource availability;
-Corporate affairs: communication, reputation management, community affairs.

Once the key operational risks have been identified, the controls which are currently relied on to reduce the inherent level of a risk to a more acceptable level need to be detailed.

The next steps in risk assessment process should be their prioritization as "high", "medium" or "low", according to the criteria outlined below. Each risk should be prioritized on a "current" basis (assuming the application of existing risk treatment). Prioritizing risks will involve judgment, but the criteria below, evaluated in the context of the local business are designated to help ensure that the prioritization process is more consistent. In this order each risk will be scored according to likelihood and impact, using consistent and defined assessment criteria:

Likelihood – taking into account the risk responses in place over the risk, assess the probability that the risk event will occur in the organization. If it is highly likely (>50%) that the risk event will occur (for example, it can be anticipated to happen within 5 years or is already occurring in the company, or a similar organization has experienced such an event), then the likelihood is "high". If it is reasonably likely (25% - 50%) that the risk event will occur (for example the event can be envisaged within 5 years but may not have occurred yet in this area or in the company), then the probability is "medium". If it is unlikely (<25%) that the risk event will occur (for example the event is considered very difficult to realize within 5 years and only under exceptional circumstances in the company, or has not occurred in a similar organization) then the probability is "low".

Impact – should the risk event occur; assess the impact that this would have on the organization. It should be consider not only financial but also nonfinancial impact, because the nonfinancial impact criteria allow risks that do not naturally lend themselves to a financial amount to be also assessed consistently. The highest non-financial impact rating for a particular risk should be used in the risk report. If there would be a highly damaging impact to the financial results or reputation of the organization, then the impact is "high". For example, the event would result in >10% impact on budget/ EBITA, or serious production disruption, or a major safety/ environmental incident or breach of regulatory requirements, or sustained media coverage.

If the impact to financial results or reputation would be significant, but not highly damaging, then the impact is "medium". For example the event would result in 2-10% impact on budget/ EBITA, or some production disruption, or a significant but limited safety/ environmental incident

or breach of regulatory requirements, or limited media coverage. If the impact of financial results or reputation would be not particularly significant then the impact is "low". For example the event would result in <2% impact on budget/ EBITA and minimal production, regulatory or media impacts. The table below contains the classification of financial and non-financial impact as described: (Table 1)

Table 1: Classification of Impact

Financial	Production	Compliance	Reputation
>10% of budget/EBITDA	Serious production disruption	Major safety/environmental incident Major breach of regulatory requirements	Sustained media coverage International media coverage
2- 10% of budget/EBITDA	Some production disruption	Significant but limited safety/environmental incident Significant but limited breach of regulatory requirements	Limited media coverage National media coverage
<2% of budget/EBITDA	Minimal production disruption	Minimal safety/environmental incident Minimal breach of regulatory requirements	Minimal media coverage

Overall priority – Once the likelihood and impact of the current strategic or operational risk has been assessed then use the matrix below to assign an overall priority to the risk. (Fig.1)

The Risk Assessment Matrix
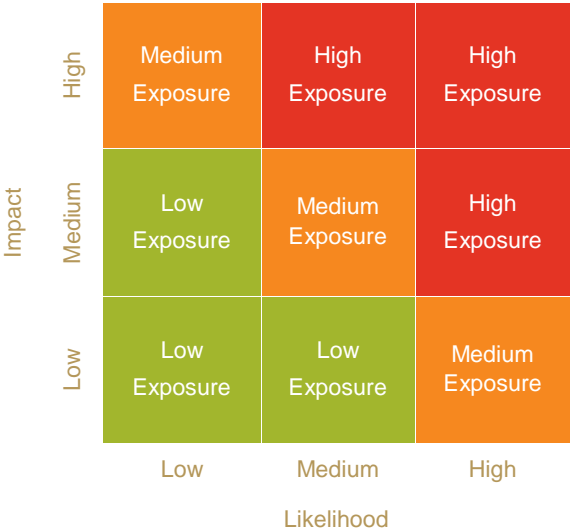
There may be some risks within the business where actions are still under development to control the risk. Where this is the case, it should be described what further actions the organization is taking to address these areas, together with the expected timescale to complete the actions and the person responsible. The overall planned risk, if these further actions were implemented also needs to be identified and included in the risk report.

After the completion of previous steps, the information captured in strategic and operational risk reports should be finalized and checked for accuracy by the Risk Coordinator. Even if the Risk

Coordinator is facilitating the 'top 8-12' risk determination process, the decisions should involve either the senior management or the preferred option of Risk Governance Committee.

The strategic risk report and the operational risk reports should then be collated and the 'top 8-12' current risks for the organization determined. These will comprise a mix of strategic and operational risks and will be a judgmental issue given the different types of risks being considered.

An effectiveness review over the risk assessment and risk management reporting process should be performed at periodic intervals to satisfy corporate governance requirements and identify any further opportunities to increase efficiency and effectiveness.

Interface with Internal Audit

The detailed operational risk assessment process (and to a lesser degree the strategic risk assessment) will be used by Internal Audit for the purpose of completing their annual plan. This risk report will identify prevailing higher risk areas that may require further review or assurance by Internal Audit in the upcoming year. These risks are likely to include strategic and operational risks. The need for Internal Audit to produce a separate risk assessment to determine these prevailing higher risk areas will therefore be eliminated.

In addition to the prevailing risks above, Internal Audit is required to identify and review additional areas, based on inherent process risk or compliance requirements, where risks may be static. Some additional flexibility should continue to be retained in the Internal Audit plan, to respond to any further ad-hoc requests for Internal Audit reviews from senior management.

Based on the risk report previous described, the Internal Audit will score the risks by considering the following: time since fraud was identified in this area; calculated gross risks and net risks based on the risk assessment matrix (see up) and transforming them in cumulative gross and net risks; time since last audit; significance of past audit findings in this area; significance of trial balances (use balance sheet accounts and income statement accounts). The scores might vary between 1 and 30, depending on their identified relevance; the total range obtained by each risk will be the basis of the annual audit plan coverage.

3. Conclusions

We conclude that, by using an integrated approach to risk assessment and risk management will be eliminated the need for a separate Internal Audit risk assessment over prevailing risks. It will reduce the level of risk assessment overlap by different functions over the same risk categories as a single methodology is used and will align timings of risk assessment exercises. The usage of the score method to prioritize the risks included in the annual audit plan is a useful and recommended tool in order to increase accuracy and timelines.

On the other side, we emphasize the recommendation that, each organization must develop its own risk management reporting manual/policy. The policy must clearly state the organization's commitment to the management of risk; the organizations have to identify risk owners to ensure accountability and authority. It must be clearly differentiate between those who are " accountable " for managing risk (those persons with a liability, either corporate or legal, for their decisions or lack of decision) and those who are " responsible " for specific tasks (those persons with an obligation to carry out an instruction from a competent authority). (ISO 31000:2009 Risk management –Principles and guidelines)

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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 compehensive 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 or research of 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 (Fredrinksson, Johansson 2009: 281). This is an effective motivation for resorting to outsourcing, given the fact that outsourcing contains a promise of cost reduction.
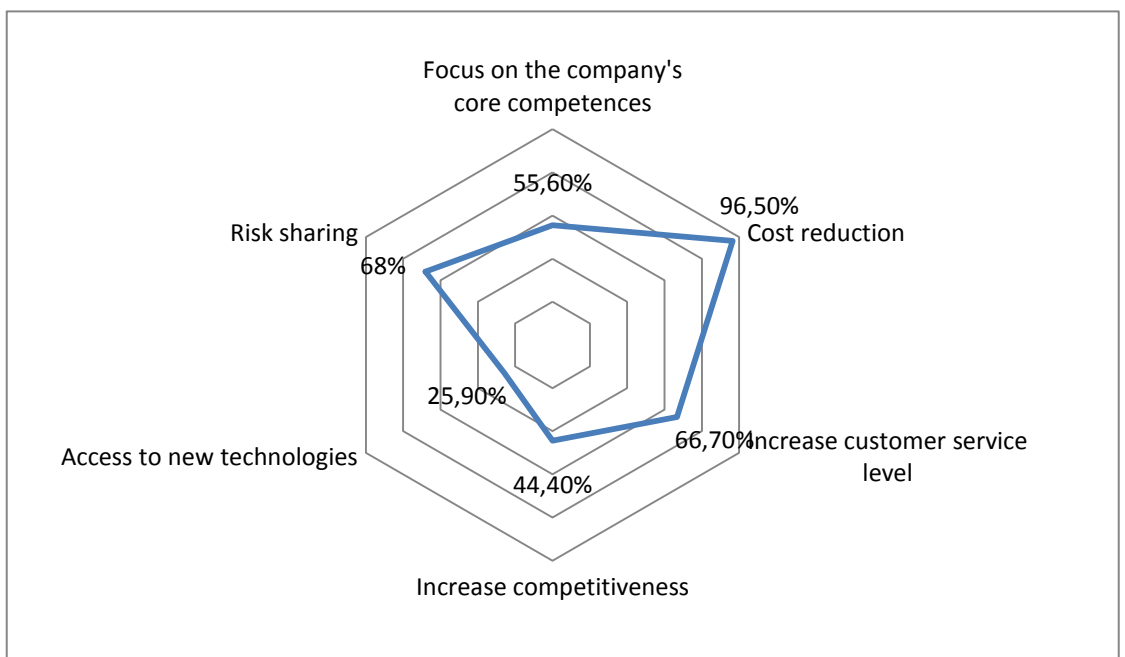
Although cost reduction seems to be the most wanted outsourcing logistics benefit, our studied population claims that risk reduction is the second most valuable benefit that they obtain in the process of outsourcing logistics. 68,5% of our respondents believe so.

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.
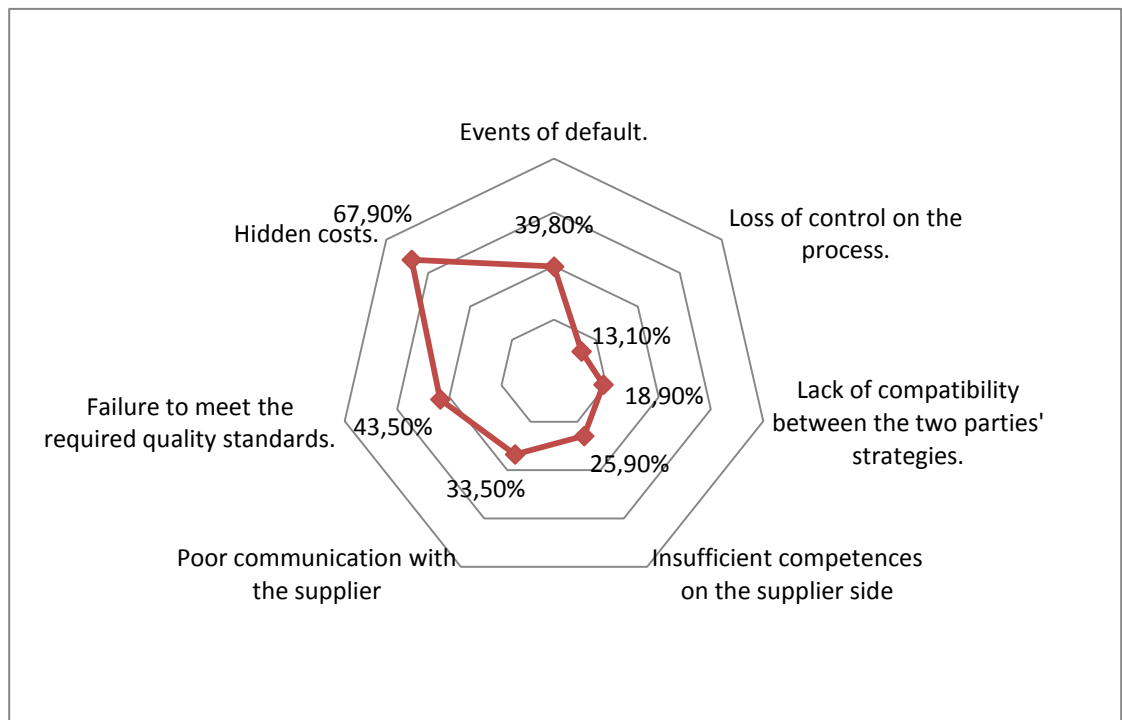
Figure 2. Problems encountered during the outsourcing of logistic activities
Source: made by the author.

Our respondents admitted that all of these risks are truly endangering the outsourcing process and that what their 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

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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 created 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.
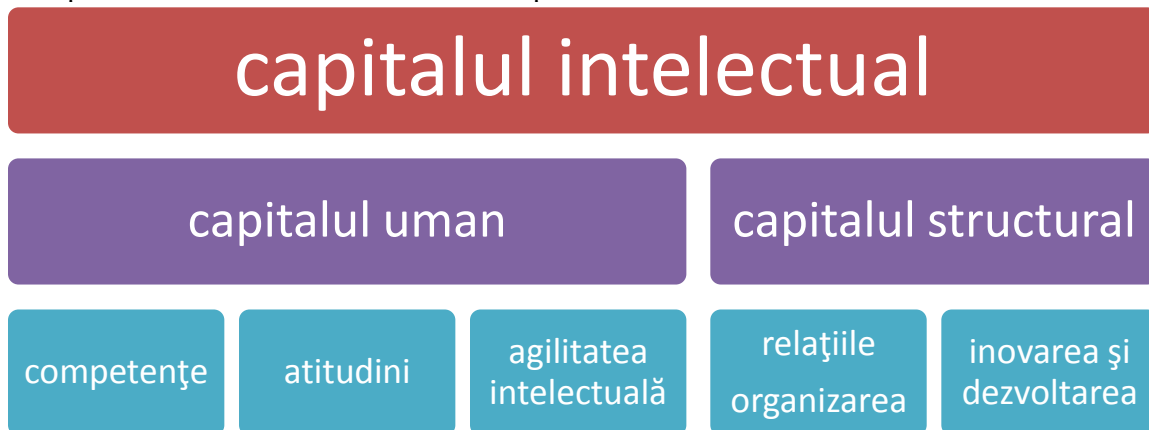
Figure no. 2. The model of the intellectual capital after Roos
Source: Figure drawn by the author, after the theoretical model

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

ACTUAL REQUIREMENTS REGARDING THE INTELLECTUAL CAPITAL AT AN EUROPEAN AND INTERNATIONAL LEVEL. THE ASSESSMENT OF QUALITY MANAGEMENT SYSTEMS IN ORGANISATIONS PROVIDING INSTRUCTION SERVICES

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The European Union Council had and still has in view the profound changes taking place in society: globalization represents for Europe a competitors intensification in all the economical sectors, while the developing and the diversification of the information technologies can lead to a radical change of the whole learning and educational system, opening the perspectives for learning possibilities and accumulating knowledge during all one's life.

The topic actuality of this article consist from the fact that, due to the globalization and the international competition intensification the request for workers with a low qualification level decreases; the new jobs presuppose high performances, flexibility, stress on qualities such as: high level of performance, creativity, openness to change, initiative. People will be obliged to possess much more knowledge, competences and they will have to work in multi spheres teams. Of course that not all the people can become conceptual analysts, something like this cannot be required, but an adaptation to the new system, to the new economy is required.

At present, more and more people work in domains in which information is created. In the future this percent will grow. The utilizing on a large scale of machines and installations will determine that even workers from the basic domains to be better and better prepared. In the countries OECD the unemployment rate is higher for the persons with a second education, unlike the persons with a higher education, the manpower being in this way forced to become more qualified. On the other hand, as more and more work is taking place at an intellectual level, the detaining and manipulating of information becomes an essential quality for each employee. This article has as a main objective the highlighting of actual requirements regarding the quality assurance in instruction services at an European and international level. Thus, the permanent learning strategies from the European Union are presented, which aim at realizing a European space of knowledge. The concept of permanent learning is being analyzed as a new vision in the instruction domain, which is centered on the individual. An important aspect is the developing of basic personal competences and the validation of these through flexible qualification structures.

Due to the complexity of the processes and the context in which they are functioning, the instruction organizations should orient themselves to the models TQM, even though the standard ISO 9001 offers advantages at implementation, connected especially with the processes management, the document control and registrations. The proposed model being a TQM model adapted to the instructional domain and integrated with ISO 9001, can be easily utilized by these organizations.

Key words: intelectual capital, management, quality, TQM, performance.
JEL – K11; J24; O34; M12.

I. Introduction

The central problem of knowledge, as a defining element of the new society, does not reside in its existence, but in the new content of knowledge, in its role in the entire society and of the economy, as well as in the ways of stimulating its formation.

Along time, two types of learning have existed: for maintaining and for change. In a traditional manner, societies and individuals adopted the type of learning of continual maintaining. This learning is interrupted by short periods of innovation, triggered often by the shock of exterior events. As a matter of fact, learning for maintaining consists from acquisition of rules, methods and fixed regulations, in order to cope with known and unknown situations. The maintaining of some given situations is very important, on a short term it is simply exceptional due to its normality.

On a long term, and especially in a time of changing and searching, in order to survive it becomes essential the type of learning which could facilitate change. It is about that type of learning which can generate revival, restructuring, problem reformulating. Recently, this type of learning has been called innovating.

Thus, a new mode of developing is imposed, which integrates the human dimension from another perspective- that of the complexity and diversity, in which an important role is detained by education (Ciobanu, 2003:13).

The European Union Council had and still has in view the profound changes which take place in society: globalization represents for Europe a competition intensification in all the economical sectors, while the development and the diversification of the information technologies can lead to a radical change of the entire system of learning and education, opening the perspectives on possibilities of learning and accumulating knowledge during one's life.

The Council has established as a fundamental strategic objective that, the European Union to become the most competitive economy based on knowledge. It was considered that the most important problem of the majority of the member states is unemployment. Eliminating unemployment can be made if consistent reforms in the domain of job occupation will be realized, the existent obstacles will be eliminated, and if necessary resources will be utilized. The elimination of unemployment was defined as an other priority of the European Union. Another established objective on the summit agenda in Lisabona (the Lisabona agenda) was improvement in employing the manpower and work quality1. At the summit new recommendations have been made and the priorities have been stressed (learning during the entire life, acquiring abilities, mobility), reflected already in the Directing Rules regarding Occupation, by means of the new horizontal objectives.

II. Theoretical framework

Much time education has been perceived as a system in which young persons entered in order to make a formation for themselves and they came back into society after a decade or two of theoretical accumulation of information, necessary for the productive work. No matter how much we pretend to humanize the educational process by attributing to it a lot of affective, moral or aesthetic dimensions, the reality is that changes are difficult to manage, because learning remains a system with an input and an output, being efficient as long as statistics, costs, infrastructure and utilized personnel indicate this thing (Matei 2002:2).

Education becomes essential for each economy, on one hand because by education, relations between people and society are being diversified, the individual having the capacity to contribute as a member of the society with something which should balance the things he gets as a consequence of living together with other individuals. On the other hand, the actual economy necessitates a well-prepared manpower, in a time of globalization and technological revolutions, which necessitate the development of competences, of creativity, solid knowledge, an increase of responsibility. In a world like ours, subject to continual changes, stagnation with regard to learning is an inadequate behaviour or even dangerous for the contemporary individual. (Anghelescu 2003:21). The economical performances of a country depend more and more on the access to the new technologies, on their adoption and on the new requirements being imposed to the manpower from a point of view of the professional training.

2.1. The European common framework of promoting training in the intellectual capital

Until now, the European Union acted steadily for the developing of the national policies and the identification of domains of inter states cooperation, with the aim of coping with usual provocations such as: facilitating of adapting to changes, supporting the integration of adults on the work market and promoting the equality of chances between men and women. The opinions common to the social partners have also constituted a point of reference at the level of the European Union, contributing to the developing of modes of approaching the professional training.

Some key aspects have been approved by all the member states of the European Union. We can enumerate some of these:

-Assimilation of a vast quantity of knowledge and professional training with a view to employment are not contradictory elements. The importance of general knowledge for the capitalization of professional competences is more and more recognized.

-Connection points between education, professional training and economical sector are being established. The provocation at which learning institutions and economic agents are subjected to is that of accepting the institutions as partners in the process of professional training. The role of an economic agent doesn't imply only recruiting the qualified individuals or the providing of extra professional training. The institution is now viewed as an important generator of knowledge and technologies. The process of professional training, especially in transverse domains, is accompanied by a very large partnership, involving local authorities, associations of consumers and specialized organisms.

-The equal rights to education and professional training are viewed in the context of ensuring equal chances, including the positive discrimination in the favour of the disadvantaged ones.

-The informational society reveals new requirements from the part of educational systems and professional training, by means of new methods regarding teaching and learning, facilitating continually the developing of contacts and connections between teachers and institutions at a European level.

Many of the problems regarding the developing of learning on the entire course of life affect the content and the organization of the professional training. The European framework of the professional training policy at European level must take into consideration the fact that that answer to the usual problems can differ from one country to the other, depending on its historical, social, cultural and economical characteristics. It can't be stated that there is only a European solution for all the aspects connected to the training. The recommendations of the European Commission for the next period refer to the implementation of strategies for permanent learning. The same approach oriented to the developing of human resources is detailed in the cohesion Policy, as a support of the economical boom and job occupation, for the period 2007-2013.

2.2. The European model of quality assurance in organizations providing training services

The European framework of quality assurance for education and professional training (CQAF) proposes a European model of quality assurance management based on the principles TQM, the standard ISO 9001:2000 and the excellence model EFQM. We can identify convergence points between EFQM principles and the ones which are the foundation of standards ISO 9000. There have also already been made steps in the direction of formalizing the activities related to the implementation TQM. Because of the recent elaboration of the European model in the professional training domain (CQAF), until now it hasn't been studied and experimented on this model implementation. We propose next in the research methodology a parallel implementation method of the standard ISO 9001:2000 with the model CQAF adapted for the organizations which provide training services.

III. Methodology
3.1. The Design of the Research
For the attaining of the research objectives regarding the implementation of quality management systems in organizations which provide training services a research based on a questionnaire was made.

The research part contains 13 questions which allow us obtaining data referring to:

-Company identification (name, field of activity, number of employees) (questions 1-6);

-Types of training programs offered (questions 7-8);

-Implementation and certification the quality management system (types of standards and quality management models implemented, accreditation of organism which made the certification) (questions 9-10);

-Accreditation of training programs (questions 11);

-Preoccupations concerning assurance of quality training services (questions 12-13);

Taking into consideration the differences which appear in the implementation process of quality management systems, between the organizations from the training area, according to their size, we propose that the data analysis is made according to the number of employees, for the following 5 categories: 1-5 employees, 6-20 employees, 21-49 employees, 50-249 employees and over 250 employees.

For achieving our purpose, a number of 385 questionnaires were distributed to training organizations either accredited or having the quality management system certified according to the international standard ISO 9001. A number of 197 questionnaires were returned.

IV. Results
The questionnaire which stood at the basis of the research included the following question with several types of answer: „The standard of reference/ model of the quality management system implemented in the organization", with the following variants of answer: SR EN ISO 9001:2001, EFQM, Romanian Award for Quality Juran, CAF (TQM in public institutions) CQAF (EFQM for providers of education and professional training), others. It results that, between 6,6% and 11,1% have not yet implemented any system of quality management. It can be noted the high degree (over 73,7%) of organizations providing training services which have implemented the quality management system according to ISO 9001. The fact that between 7,3% and 14% of the questioned organizations have already implemented EFQM and CQAF models represent an optimist indicator concerning the success of the proposition of implementing both the ISO 9001 and the CQAF model for the organizations from the training field. In these organizations, implementing ISO 9001 standard can improve management activities, measuring and controlling proceses.

Quality assurance should be implemented in the same manner as daily teaching and studying activities. Implementation covers a wide range of activities. The implementation stage has 2 basic quality criterions: instructors' and other staff categories management and processes management.

In the case of the first criterion, it is evaluated the manner how plans concerning the staff are developed, focusing on the recruiting system, performances assessment, career development, reward system and the manner how staff's potential is valued for the organization's objectives. The emphasis is on monitoring and continuous development of skills and knowledge of trainers, instructors. Also, encouraging staff to formulate suggestions and further implement them, providing appropriate working conditions and achieving an efficient internal communication represent requirements which are taken into account when assessing the performance of this criterion.

Small organizations up to 20 people appreciate that they "broadly" fulfill requirements of this criterion. It may be noted that medium and large organizations consider that the criterion is satisfied "fully".

For the second criterion, "processes" is directly related to quality management system described by international standards ISO 9000. Thus, for organizations that have implemented a quality management system such requirements should be fulfilled. However, although 74.1% of organizations with up to 5 employees are certified ISO 9001 and 73.7% of organizations with 6-20 employees are certified, the value of criterion fulfillment is inversely proportional. The same situation occurs for large organizations, of which 85.7% are certified compared to 79.6% for medium-sized organizations, and the value of meeting the criterion is lower for large organizations.

For the second criterion, „processes"

V. Conclusions

The purposed methodology has been applied within a research concerning the evaluation of conformity with the TQM model criterion of the studied organizations. The research was made on 5 different categories of organizations classified according to the staff number.

In this research, an application of the methodology considered the representation of the maturity levels of surveyed organizations. We established the conditions for determining the maturity levels of the organization, through the correlation between TQM proposed model criteria, goals, generic and basic practices, represented through the questionnaire responses.

Analysis was made by type of organization, highlighting the quality criteria that define the location of each maturity level.

Medium and large organizations, with over 50 employees have general performance indicator values that rank them first in terms of compliance with the proposed TQM model criteria.

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VII. Appendix A

Dear participant,

By answering the following questionnaire we would like to find out your opinion on the evaluation of quality management systems within organisations which offer training services. 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,

Survey questions

1. Name of the organization:
2.Adress:
3.Field of activity
4. Juridical form of your society. □ Self Employed Person □ SRL □ SA □ Public Institution □ Others
5. How long has your company registered? □ < 5 years □ 5 - 10 years □ > 10 years
6. Number of employees: □ 1 - 5 □ 6 - 20 □ 21 - 49 □ 50 - 249 □ > 250 from which: Management   Trainers / Teachers   Technical   Administrative
7. Types of professional training programs offered: □ qualification □ requalification □ beginners □ perfecting/intermediate □ advanced
8. Area where your company offers the most training courses □   IT □ Business/ management/ entrepreneurship □ Work Protection / Health and work security □   Administration/ secretariat □ Communications □ Engineering □ Drivers □ Health / Medical Assistance □   Agriculture/ horticulture □ Commerce / Sales □ Marketing □ Security/ defence □ Sport/fitness/recreation □   Arts □ Quality/management □ Environment □ Others
9. Reference standard/ model of the quality management system implemented within your organization: □   No □ SR EN ISO '9001:2001 □ EFQM □ Romanian Award for Quality Juran □   CAF (TQM in public administration) □ CAQF (EFQM for training organisations VET-educative and professional training) □   BSC (Business score card) □ Others
10. The quality management system is certified by an accredited organism: □   Yes □ No □ I don't know
11. Is your organization authorized by CNFPA as a provider of professional training to adults: □   Yes □ No □ I don't know
12. For how long has there been preoccupation concerning the quality assurance within your company? □ < 3 years □ 3 - 5 years □ 6 - 10 years □ > 10 years □ I don't know
13. Activities concerning quality of the training services provided by your company are developed: □ systematic □ in certain situations □ are not organised □ I don't know

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 and 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 approve 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 accomplish 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 founds [1].

We must take in consideration the favourable access to financial founds 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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EDUCATION MANAGEMENT DECISION-MAKERS IN EUROPEAN PRE – UNIVERSITY EDUCATION

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The theme paper consists in a comparative analysis of European preuniveristary education decision makers.
Decision makers in preuniversity education management remain the key issue in the political agenda of most European countries.
The diversity of educational policies in each European country aims to increase school autonomy, in a way that allows comparison of their main elements of management.
Scientific research carried out aimed both theoretical and practical terms:
- comparative analysis of how the makers of European schools are responsible for the management practiced in the educational institution.
- identification of the achievement of school autonomy.
Lately, in terms of policy makers and school autonomy, schools have gone through many reforms. It was felt the need to improve the democratic management and the quality of the educational process.
The analysis and the approaches differ in terms of pace of reform, scale transfer of authority and areas that apply.
No approach can be chosen as the ideal one or more effective than others, because the contexts in which they were made are so diverse. However, as it moves along, educational policy makers can learn from the approaches and experiences of others.
The methodology was based on: the study of scientific literature from the country and abroad, on the theory and practice regarding the decision in the management of school education activities.
Comparative analysis was conducted based on questionnaires distributed to managers of educational institutions respectively partners with the school Romanian Technical College Matthias Hd.
Following the research conducted, the results have shown that due to political differences between countries in European schools are not governed by the same principles regarding the type of autonomy and its extension.
In some countries, schools have been granted considerable freedoms, such as in Belgium and the Netherlands. At the other extreme, Spain and France, the transfer of responsibilities was limited.
In order to ensure that the information in this study is an accurate representation, questionnaires were distributed to several schools in the countries surveyed. Processed data are related to school year 2010-2011.
The data obtained from research can help in better understanding partly the diverse nature of school autonomy policies and models in their takeover by the makers of Romanian school units.

The implications of work on management school education are to link the level of autonomy granted and the intensity of monitoring procedures put on the bodies at the school and the staff involved.

This study examines the correlation that exists between the degree of autonomy delegated power and the responsibility of school measures that were implemented.

The added value of the work lies in the fact that the study focused on several sides of the school management process from the authorities in charge of appointing school managers to autonomy in terms of managerial strategy.

Cod JEL:I

1. Introduction

Decision makers in schools

Since the forms of autonomy at school level and general organizational policies vary from country to country, resulted a wide array of school accountability.

The three main schools court decision (management bodies located in the school) are:

- Managers
- Teachers
- Management bodies

2.Managers

In Europe, schools do not have responsibility for choosing the Manager. Where school management has responsibility for choosing the manager, this tends to be in countries generally grant broad responsibilities of such bodies: Belgium (Flemish Community, and only for subsidized sector, the French and German), Ireland (ISCED 2) and England.

In the degree of school autonomy it is considerably across countries:

- either autonomy is complete for all areas (selection, deciding on job descriptions, defining disciplinary measures and dismissal).
- or there is no autonomy. Only a few countries are outside the general rules.

In more than half of the countries, schools are not given autonomy in choosing directors.

In England the Director role is defined not only by statute and employment conditions, bound at the central level, but also partly by the aims and objectives of the management body of each school.

In Austria schools have autonomy in both areas.

In Belgium (Flemish Community and subsidized sector of the French and German), Ireland (ISCED 2) and Slovenia are given complete autonomy to schools in all areas.

Denmark and Sweden only give autonomy to decide the job description and Spain, Poland and Portugal for selection.

In Denmark, the schools have autonomy in deciding the Director job description while selecting replacement staff can be delegated to the authority.

In Finland, any dismissal not related to reference and disciplinary measures may be delegated by the competent authority.

In the Netherlands, recruitment, dismissal and conduct job description defining directors as may be delegated by the competent authority (bevoegd gezag), but firing and conduct of directors remains in the competence of authority.

In Poland, the committee includes representatives elect the management body of the school, regional education authorities, teachers and parents, while in Portugal teachers choose the directors among them.

In Spain the school principal choice is made jointly by the representatives of the school and higher education. Educational administration decides the total number of members of the

committee, but at least one third of them must be teachers elected by professorial council. Another third are non-teaching staff of the school.

In Slovakia - recruitment and dismissal of directors is made jointly by representatives of the school and the education authority.

In Slovenia, teachers are also directly involved in approving the appointment of the Director. Here, the directors are appointed by the school management body, which must obtain a preliminary opinion from professorial council, the municipality and to the parents.

Only Ireland (ISCED 1), Cyprus and Malta do not give any autonomy. This is the case, to a lesser extent in public sector schools directly by the ministry of education in French and German communities of Belgium (only job description is the jurisdiction of the school), Greece (in some cases schools may choose whether to pay or not the staff for overtime hours worked) and in Luxembourg. This situation exists in Portugal (schools can choose teachers to replace absent staff or approved by higher authority or without it).

a.Selection
b.Firing
c.Job description
d.Discipline

Complete autonomy   Without autonomy

Limited autonomy   Delegate discretionary
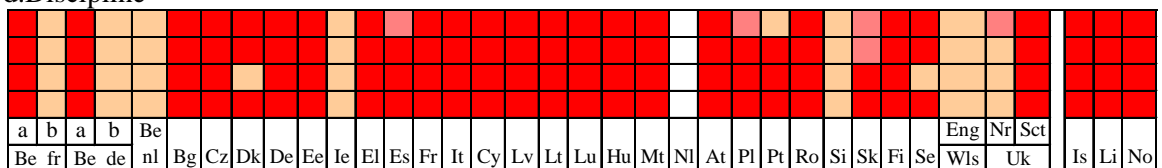
Figure 1: Autonomy of schools regarding directors, ISCED 1 and 2, 2011/2012-realizat de autor

Spain: Selection is made by a committee comprising representatives of the school and the education authority.

France: ISCED Level 1: the position of "director" does not exist as such. Heads of primary schools have only a function of leadership.

Ireland: No autonomy at ISCED level 1.

Luxembourg: ISCED Level 1: there is no job as director.

3. Teachers

The key of the quality of education is held by staff, managers and, above all teachers. This is a general requirement, however that address, especially to teachers and managers. The teacher, in the concept of CE represents the primary agent of change in education. Teacher education is the main agent. Level of competence, quality of work are reflected - in terms of the various - the quality of the school, the training of skills, abilities, ethical and civic values of the school population. And later, in economic performance, creative, innovative, participatory.

The number and percentage of women who, as teachers, working in education and training decreases compared to previous levels. In Europe, initial teacher training is usually at tertiary level, or in the universities or by non-university education programs.

Generally, there are two models of initial teacher training:

- the competitor model
- the consecutive model

The competitors include two components:

a. Course covering the content, general education and a series of studies on one or more specific topics;

b. The component is addressed to professional training courses dedicated to teacher qualifications (teaching skills) and the school in which he will find a job, a placement.

Usually, theoretical and practical training of teachers can be made at the same time as general courses.

The consecutive, unlike the competitor, separate in time the two types of theoretical education and practical respectively. In the first period of study the focus is on general education theory. The practice education, training is done in a second step, after learning the competitor model.

Upper secondary education granting certificates are required for further education qualifications included in the competitor model, while in some cases issue certificates for tertiary education skills.

Eventually, the essential difference between the two models is that: in the competitor model students decide to become teachers with their entry into university or other institution of education and training, in the consecutive model, the decision to become a teacher is taken after the first stage of higher education.

In European countries for preschool and primary school, teachers are trained in accordance with the requirements of the competitor model.

For secondary education, also competing model is the most common, there are also cases / opportunities of possible route options using in this case, consecutive model, as there are cases where only consecutive model is used (Spain, France, Italy, Cyprus and Bulgaria). The consecutive are used more to prepare teachers to work in upper secondary education. Such education teachers are trained by competitor model in Germany, Czech Republic, Poland, Slovakia and **Romania.**

In preschool education, initial training is done in most cases in education and training. In the Czech Republic and Slovakia are used two forms: one in which training is senior high school and two university level;

In Austria: upper secondary or higher secondary non tertiary. In France, Cyprus, United Kingdom initial teacher training for preschool and primary education are the same. System applies in Ireland and the Netherlands, underlining that this does not work separately pre-primary education (primary education are included.In Austria, the duration is two years post secondary education and 5 years in upper secondary education.

Primary education in most countries, teachers are preparing for this level in universities.

In Belgium, Luxembourg, Austria and **Romania** are initially trained in non-university tertiary education. In Lithuania and Poland are used both forms of training. The duration of training depends on the forecasts. There are however a number of minimum standards, usually set at national level: 3 years where teachers are trained in non-university tertiary education (in institutions), except for Lithuania over 40% of the time is devoted to professional training in Belgium (Community French and Flemish) and in Romania in Luxembourg - 90%.

Secondary education: Initial teacher training for lower secondary education is done at university level in some countries - Belgium, Austria - non-university tertiary education graduates can practice their profession in junior high school. Many countries have necessarily a final period of training at work. During training is 4-5 years except Belgium and Austria. Usually training is by "the competitor model."

Upper secondary education. At this level initial is required teacher training in universities and generally lasts 5 years, 10 countries provide brief training period. Whether the training is done by the rules "competitor model" or the "consecutive" ratio theory and practice professional training includes a qualifying phase work, which usually is not more than 30% of the total - the countries it is between 14-30%.

4.School management body

School managerial bodies had either a consultative or decision-making role. Management bodies structure was imposed by general legislation or administrative measures which have ensured the transfer of responsibilities to schools.

The structure of school management bodies are three main types of structures:

- school management body are composed of members of the immediate beneficiaries of the school: teachers, parents and students.

This structure is present in Belgium (German-speaking Community), Denmark, Germany, Italy and Luxembourg (ISCED 2).

In some countries, may be included and external MEBRA, but this decision is left to school.

- school management body includes members of the local authority responsible for school and, more rarely, representatives of the wider community.

This structure reflects a desire to establish a balance of power between different professional groups and beneficiaries involved (school management, teachers, parents, students, local authorities) and representatives of the wider community (business environment, social and cultural groups, etc..).

In the Czech Republic, school body is composed of members of the third local authority responsible for school, one third of representatives of school staff members and one third of the beneficiaries (parents and students).

In England, all shareholders are represented in school, including parents, school staff, local authority, community and, for some schools, "the Foundation" or relevant religious body. School management body structure reflects the desire to provide decision-making role of one of the groups. Thus, the power lies in the hands of school staff in countries like France and Luxembourg while the opposite end, in bodies formally established in Flemish Community of Belgium, Estonia and Latvia, external representatives (parents or representatives of the wider community) seem to have powers higher. Conclusions are drawn based on the law in force in each country.

- In some countries there are councils with additional duties.

This trend in development leads to increased complexity in school governance. This is the case of Portugal where the powers are exercised jointly by the Council Executive Director (management body composed of school staff) and School Assembly President (open external representatives).

Such bipolarity lies between management bodies and governing bodies of the Belgian Flemish Community. Work school bodies are increasingly more of teachers together with that of councils whose role are to plan the teaching of the school. This is common in Italy, Latvia, Lithuania, Romania and France (ISCED 2).

In some other European countries, establishment of management bodies of the school are left to the school. In Bulgaria, Latvia, Poland school management bodies are listed in general legislation or regulations that define school autonomy, but their settings are optional.

In Hungary, was provided a body type school (school board) which may include representatives from school, parents of students and local community representatives.

In countries like Bulgaria, Denmark, Estonia, France, Lithuania and Slovenia have provided compulsory school management organization bodies.

In England, the management bodies governing schools have a long history, but LEAs had a wide discretion and the creation and was not compulsory for every school to have its own governing body up to the 1980 Education Act.

French and German Communities of Belgium have adopted this model: in 1997, legislation (Decree Missions) demanded that in French community to be established a board of participation (conseil de participation), and in teaching the German community council (Rat Pädagogischer) in all schools, regardless of sector or 'organizational body' (subsidized private and public sectors).

In the Czech Republic, school bodies, which were originally optional, became mandatory in 2005.

In other countries such requirements are limited to certain parts of the school network. Thus, in the Flemish community in Belgium only schools responsible to The Community are required to establish management bodies.

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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 transformaţional, ca fiind cel mai complex. O nouă concepţie cunoaşte avânt, prin care lucrurile capătă o nouă viziune: cine este de fapt conducătorul? Cine pe cine serveşte? La aceste întrebări Greenleaf a dat un răspuns prin modelul său asupra leadership-ului.

Între leadership-ul transformaţional şi servant leadership au fost identificate o serie de similarităţi pornind chiar de la conceptele de bază: *viziune, influenţă, credibilitate, încredere, suport, servire.* Dar în ceea ce priveşte servant leadership, se poate argumenta, din studiile teoretice că acesta depăşeşte dimensiunea leadership-ului transformaţional prin simpla aliniere a motivelor ce îi animă pe lideri cu motivele care îi însufleţesc pe discipolii acestora.Conceptul de bază al leadership-ului în cadrul echipei este 'primul între egali' ("primus inter pares").

În 2002, Barbuto şi Wheeler au descris Servant Ledearship 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 şi Stone restrângeau numărul atributelor la nouă, atribute pe care autorii le-au numit în lucrarea lor atribute funcţionale datorită repetitivităţii acestora în lucrările de specialitate: Viziunea,

Onestitatea, Integritatea, Încrederea, Servirea, Formarea, Pionieratul, Aprecierea celorlalţi, 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 s 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 .
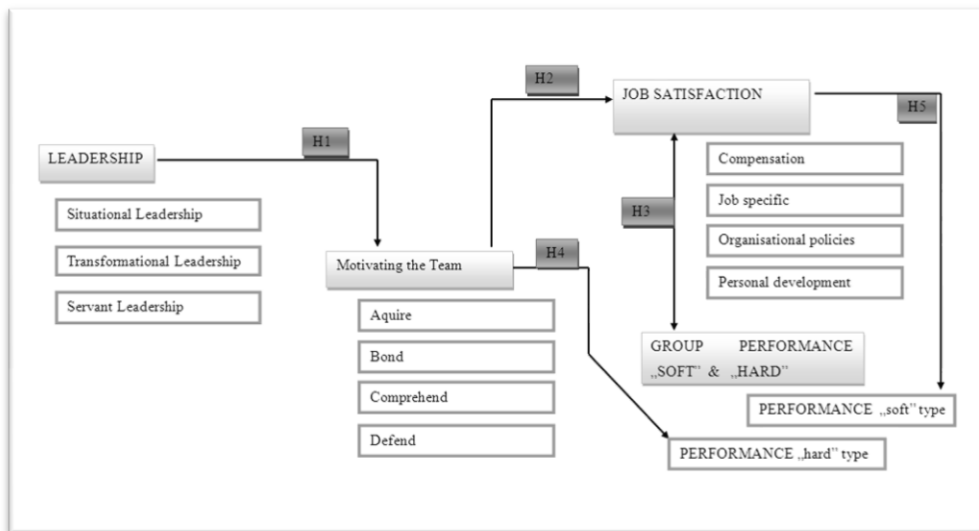
Fig. no. 1. Leadership styles and group performance-conceptual model (made by author)

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 fourtteen 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 o 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.

2.1. 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 he 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.

6. Acknowledgement

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CONCEPTUAL MODEL OF MARKETING STRATEGIC PLANNING SPECIFIC TO PUBLIC ORGANIZATIONS

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In public services, the political component of the marketing environment has a major importance, as all decisions adopted within central administration influence both the objectives and measures implemented by units of local government and other public service providers. Any discontinuity in the activity of such entities might result in neglecting the real needs of citizens and slowing the reform process in the public sector. Therefore, all initiatives of public organizations must have a unitary goal and integrate harmoniously within a single process. A tool from the management-marketing literature that both contributes to this purpose and leads to an increased customer satisfaction and organizational performance is strategic marketing planning.

This paper presents, firstly, requirements and particularities of this process in the public sector, focusing on the need for bottom-up planning, meaning from the functional levels of public service organizations, to the corporate level, where strategic decisions are taken. To achieve this goal, there should be included in the planning process the clients and other audiences, which can provide useful information about the services they want, the quality or the accessibility thereof, and news about the services they need in the future.

There are also mentioned the factors that can influence the quality of strategic marketing planning in public services domain: the importance of marketing within the organization, marketing knowledge of employees in marketing departments and/or of management personnel, the efficiency of activities within the organization, and the manager's marketing vision.

In the final part of the paper there are presented the stages of the conceptual model of strategic marketing planning in public services field: (1) accepting the idea of bottom-up planning, (2) avoid or eliminate discrepancies between measures taken at high levels and executions carried out at operational levels, (3) formation of work teams, setting tasks of members and appointment of a coordinator, (4) data collection, (5) establishment of strategic alternatives, based on information gathered from the market, (6) choosing the optimal strategy, which will lead to achieving the objectives set in an earlier phase and (7) establish and implement marketing programs.

Keywords: marketing, strategic planning, public services, conceptual model, political factor
JEL Classification: M31

1. 1. Introduction

The influence of political factor is strongly felt in public services, especially by those public entities that receive funds only from the state budget. Decision-making power of these providers is limited, since their responsibilities are limited to management of state assets. The change of governments brings sometimes the change of national strategies according to priorities established by political candidates, in order to the gather an increasing number of votes. As a consequence, the objectives and initiatives of local public services providers can be changed also, as they should follow the high-level established directives. Real needs of citizens are therefore neglected, and public administration reform process is discontinuous.

In this context it can be realized the need for strategic marketing planning in public organizations. Over time, this process conducted within companies brought many benefits, including the

following: (a) greater capacity to predict the evolution of external marketing environment's components, (b) the efficient management of resources, (c) a better organization of managers' work, as they are facing numerous, difficult and sometimes unpredictable tasks, (d) improving the firm's position in the market. (Kotler 2004)

Sometimes, can be identified obstacles in this process, as employees are required to collect and incorporate information regarding the present situation and, using the current data, they have to predict the marketing environment in which the organization will act in the future. However, these obstacles can be overcome by intuition, logical thinking and judgment of experts in marketing and management, which will take decisions and implement fundamental action in such order as to answer questions raised by the very process of strategic marketing planning. Anyway, this process, which involves setting deliberately some objectives related to a desired situation in the near or distant future, and developing ways of achieving these goals can be simple or complex, as necessary, and the strategic plan should be seen as a tool that restores all the activities within the organization and guides them with a purpose, and not as a good piece to put in a shelf, after being completed. (Schraeder 2002)

Finally, strategic planning, though described as very well put together, is not a smooth process, but a creative one, with many reminders of previous decisions, so that organization to make optimal choices.

It is therefore necessary to design a model of strategic marketing planning in public services, outlining some rules and recommendations for increasing the performance of providers. The basis of this conceptual model will be the strategic marketing planning requirements specific to public sector and various influencing factors. These theoretical considerations are presented in the following sections of the paper.

2. Requests of strategic marketing planning in the public sector

First of all, strategic marketing planning in public services domain must be the result of cumulative efforts of different providers, institutions of central government, especially ministers, and institutions of local administration, as town halls, local councils and county councils.

The stages of the corporate level planning in public services field are: development of the Government mission, naming the ministries, establishing the state budget and the funds allocated to various divisions.

Thus, if "governance is to set the main directions for a country to follow: economic, cultural, and social policies", with "the public authority right to dictate general rules, top directives of state life and work", "administration has the right to decide the means through which to achieve the general goals pursued by the government and implement these means to obtain the result" (Costea 2000: 51-52).

Instead, the local administration organizations adopt both measures specific to corporate or divisional level and to strategic business units, when they are planning their activities. They have the decision power in the management of public services and can choose one of the following forms of management: direct (direct, depersonalized, or autonomous administration), delegated (concession, lease or interested administration), and half-direct (joint management).

This is why a public institution, like any private firm, should "set up a specialized department, directly subordinated to corporate management of the company that will deal exclusively with the review and revision process of the product portfolio". (Ionescu 2011: 157)

It can be noticed, therefore, that it is necessary to involve all stakeholders in the public sector in this highly complex and continuous process.

Moreover, planning should not be done from top to bottom, but bottom-up, meaning from the functional levels of public service organizations, to the corporate level, where strategic decisions are adopted. To achieve this desideratum, there should be included in the planning process the clients and other audiences, which can provide useful information about the services they want,

the quality or the accessibility thereof, and news about the services they need in the future. Thus, specific instruments of planning in the public enterprise are the mission, market segmentation and positioning the public services in the minds of potential customers. These tools are necessary because the state institutions can get in touch with the following audiences (Popescu 2003: 163):

the organization's internal audience: heads of offices and departments, officials, public managers;

external audience of public organization: press, government, customers, local community;

primary, secondary and marginal audience – categories representative only for certain types of public institutions such as ministries, agencies;

traditional audience (employees and current citizens) and future audience (young generation);

opponent, uninvolved and supportive audience.

Second of all, all stakeholders involved in strategic marketing planning must have a common view on the enterprise market position and image of public services. Thus, there are no inconsistencies between strategic and tactical decisions that unnecessarily complicate and prolong the process.

In addition, management of public enterprises should pay attention to the whole process of organizing work teams and training of their members. Planning teams will be composed of employees from several departments, so that all perspectives of constituent groups are known and their coordinators are managers of functional areas within the organization. These coordinators will subordinate to one manager, and together they ensure smooth implementing of marketing strategic planning.

Following a general meeting, work teams will be informed and will receive instructions to begin and go through the above-mentioned process, in order to set a high quality level. In the marketing literature and practice there have been highlighted both the favourable consequences of strategic planning, with a high quality level and determinants of this process, which is very important for any business.

Thus, research shows a direct correlation between qualitative strategic planning and superior institutional performance (Oliver 2007). In other words, companies that have a good market position have previously developed an efficient planning process.

Moreover, in some cases strategic planning is not optional but mandatory for the business to survive on the market (Fiddler 2007). In the specialty literature, most authors (Leighton, Ansoff, Thune and House, Denison and McDonald in Pop et al. 2000: 191) believes that exist decisive and significant evidence confirming that firms that have assimilated marketing planning gain superior results compared with those who did not oriented towards this planning.

Also, in the international literature (Dew 1997), quality is defined as that value which "defines an organization and establishes the expected performance", which leads to the idea that quality managers should coordinate strategic planning process.

3. Influencing factors on conceptual model of marketing strategic planning

The factors that may influence the quality of strategic marketing planning in public services are:

-importance of marketing within the organization;

-marketing knowledge of employees in marketing departments and/or of management personnel;

-efficiency of activities' organization and conduct in the public unit;

-manager's marketing vision.

The first of these four factors, namely the *importance of marketing within the organization*, is determined by the position of marketing department in an organization, by the number of employees in this department, and by the marketing activities carried out within the specific marketing structure.

Marketing knowledge of employees from marketing departments and/or of management staff reflect their training in the field of marketing, but also their willingness to deepen certain

concepts or to acquire new ideas from the specialty literature or from the practice of successful companies.

A high efficiency of the organizational activities means to accurately establish the responsible employees and their duties. It is also necessary to stay within the time required or necessary for their activities, so that problems will not be postponed or avoided. Also, a good control helps to increase efficiency.

Manager's marketing vision is finally defined by attention to customers and all marketing processes, without allowing their development simply because they were included in the marketing plan, or because this is how the staff's initiatives within marketing departments are justified.

In fact, this vision must be shared by all employees of public enterprise, so that the whole team working to have the power to look beyond the "borders" of their organization, but not out of reality.

As Steven M. Hronec stated (in Struebing 1996: 22), companies that want to succeed, must assess the strategic planning process and focus on strategic thinking, a dynamic process that requires constant review of the mission, strategies and operations related to consumer needs and market forces.

Thirdly, the planning team must design some strategic options, based on data collected from the market and from correct identification of institution's competencies, but also based on its weaknesses, and finally must select the optimal strategy and develop the necessary plans.

4. Stages of conceptual model

In the specialty literature there are many models for strategic planning. One of them belongs to H. Igor Ansoff and was created in 1965 (Ansoff in Mintzberg 2008). This, the precursor of other models that have entered the literature so far, attempts by an incredible amount of information and scenarios to standardize the complex process of planning, but focusing so much on operational activities, leaves in shade the stage of strategy establishment.

George Steiner, more pragmatic than Ansoff presents strategic planning process in a much simplified form (Steiner in Mintzberg 2008). But both his model and Ansoff's model follow mainly the same steps as mentioned by Mintzberg (2008: 53) in one of his works on planning:

-external evaluation, which involves identifying environmental threats and opportunities and success key-factors;

-internal evaluation, which consists in assessing the strengths and weaknesses of the organization, and distinctive competencies;

-creating strategy, stage influenced by social responsibility and managerial values;

-evaluation of alternatives and choice of one strategy;

-implementation of the strategy.

About strategic planning other authors have written (Ginter and Swayne 2006), who addressed the field of health services. Although they advocate for the implementation of strategic management practices specific to private sector also in the healthcare domain, they believe that certain strategic alternatives successfully adopted in other companies are not realistic for healthcare organizations. This is due to the specificity of these services, the difficulty of staff to perform other activities in addition to the basic one and the limits on diversification or vertical integration.

Other findings of the study were:

-health organizations have a unique culture that influence the style of strategic planning and the involvement in this process;

-healthcare was controlled by external environmental factors belonging to the providers;

-society and its values put some requirements on organizations in this field, by the fact that health care is viewed as people's right, the way to care, indicating the quality of life, which has unfavourable effects on strategic planning process.

Health services were also in the area of interest for the authors Dey, Hariharan and Brookes (2006), who developed a quality management model with seven stages: performance analysis, identifying problems, elaborating objectives, determining the logical framework, project planning - implementation - evaluation, operations and organizational performance measurement. Far from being a model of strategic marketing planning, in its structure are found, however, some common elements: resource assessment and therefore identification of problems (like marketing audit), setting goals, offering solutions (the strategic alternatives) and development of the necessary framework for its implementation (operational level).

Returning to the stages of strategic marketing planning model specific to public services domain, these are:

-Achieving the conception that is necessary to involve current and potential customers, and other participants in the creation and delivery of public services, and in the strategic marketing planning process;

-Closely related to this step is accepting the idea of bottom-up planning, because of its special advantages.

-Preventing or eliminating discrepancies between measures taken at high levels and the executions carried out at functional levels;

-Forming work teams, setting tasks for members and appointment of a coordinator;

-Training the planning team members (including communication of objectives).

-Data collection;

-Establishing strategic alternatives based on information collected from the market;

-Choosing the best strategy that will lead to achieving the objectives set in an earlier phase;

-Establishing and implementing marketing programs (launching of tactical actions).

Depending on the values of influence factors and the ways of covering the stages of marketing planning, this process can have a high or low quality level. Consequently, public service organization may or may not be successful on the market where it activates. In fact, in this area, success can be measured by different indicators for providers such as public institutions, respectively for other public service providers, which activate in the private sector.

In the first case are concerned:

-Favourable image among citizens and thus among state authorities, which may lead to allocation of increased budgetary funds for this particular public services domain;

-Getting into the allocated state budget, which means avoiding financial deadlock, rewards for the employees based on their efforts and activities conducted in a given time.

In the second case, the following advantages are of interest:

-Building and maintaining a good position on the market, which means overcoming competitors, large market share, numerous and/or profitable customers, high sales volume, significant profits;

Identification in a given time of market opportunities and high capacity of organization to adapt rapidly to changes in marketing environment, which leads to winning situation.

5. Conclusions

Like any other major event, strategic planning has an appropriate time and place in the organization. There are several organizational elements to be considered to ensure that the strategic planning process will bring maximum benefit to public service providers. Before resorting to strategic planning, is indicated for the organization to ensure the following:

-The organization management is active and involved throughout the entire strategic marketing planning process;

-Analysis the possibility of appearing major problems during the planning;

-Management employees and those on lower hierarchical levels are not involved in any conflict and they understand together the purpose of marketing strategic planning;

-A commitment of resources to be adequate to current programs and the analysis of the ability to meet current and future customer needs.

It is also undeniable the fact that successful strategic planning has many advantages. This key instrument determines the public organization to pay particular attention to external marketing environment and especially to customers, leading to provider's market orientation. Thus, it obtains high quality data from the market and manages to motivate both employees and management staff, printing on the common activity a vision based on organization's values. Strategic planning involves a set of decisions about the tasks to be undertaken and carried out successfully, the reasons behind these responsibilities and how to act. Because it is sometimes difficult or even impossible to organize all activities necessary, due to strategic planning some decisions and actions take precedence and therefore should be adopted those decisions that are closely related to organizational success.

6. Acknowledgements

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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.*
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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 then 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; Tsiptsis 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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PERCEIVED RISK AS A MODERATOR IN THE CAT MODEL TO EXPLAIN E-COMMERCE ADOPTION

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Ever since Cox and Rich (1964) argued that perceived risk is a major behavioral determinant, a lot of literature has emerged trying to establish how it really influences consumer behavior. Nowadays, a real point of interest for marketing academics, as well as for practitioners, is the impact that perceived risk has on consumer adoption of e-commerce. Previous studies have proved that perceived risk can be a barrier for e-commerce usage (Bhatnagar, et al., 2000; Liebermann & Stashevsky, 2002). Moreover, perceived risk came forward as an important factor affecting attitudes toward e-commerce (Jarvenpaa, et al., 1999) and, as a consequence, the intention to adopt Internet as a new shopping channel (Vijayasarathy & Jones, 2000; Featherman, 2001; Pavlou, 2003; Featherman & Fuller, 2003; Featherman & Pavlou, 2003; Li & Huang, 2009). For a long period of time, TAM (Davis, 1989) was used to explain e-commerce adoption; however, recently Kulviwat, et al.(2007) proposed a new model – Consumer Acceptance Technology (CAT) - that incorporates not only a cognitive component, but also an affective one. This work in progress aims to apply the CAT model using as a moderator variable perceived risk. This study is expected to show that CAT can have a better prediction power when the perceived risk variable is introduced in the model with its two dimensions: cognitive and affective. By separating perceived risk and including it in the new model we may better understand the influences that the research variables have on adoption behavior. This research is expected to provide a theoretical extension of the CAT model and an improvement of its predictive validity.
Keywords: perceived risk, consumer technology acceptance model, cognitive behavior
JEL: M31

1.Introduction

Most of the research aiming to explain e-commerce adoption through the moderating role of perceived risk has used as a basic framework the Technology Acceptance Model (TAM) which has been introduced by Davis (1989). Among the first studies that looked for an explanation on the relationship between perceived risk and adoption intention is the one developed by Featherman (2001). His research objective was to extend TAM by including perceived risk as an explanatory variable to better predict e-services adoption. Even though at that time TAM had an extended version (Venkatesh & Davis, 2000), the author preferred to use the original, more parsimonious model. Results showed that by adding perceived risk in the model, researchers can improve understanding of evaluation and adoption patterns.

Another application of TAM in e-commerce belongs to Pavlou (2003). His work started from the following hypothesis: purchase intention influences actual transaction; purchase intention is positively influenced by trust, usefulness and ease of use; perceived usefulness positively affects ease of use; consumer intentions are negatively affected by perceived risk; trust is positively related to usefulness and ease of use; perceived risk is negatively related to trust. To validate the proposed model the author took precautionary measures and controlled for the effect of site reputation, satisfaction with previous online transactions and web shopping frequency. By performing Partial Least Squares, Pavlou (2003) tested the model and found strong reasons to confirm all nine hypotheses. Thus, he showed that perceived risk and trust are antecedents of transaction intention, moreover that trust acts as an indirect antecedent through perceived risk,

ease of use and usefulness. Data analysis confirmed that perceived risk influences e-commerce adoption, yet the model took into consideration only one type of risk: the e-retailer risk.

A more comprehensive study that analyzed multiple facets of perceived risk in relation with e-services adoption belongs to Featherman and Pavlou (2003). The authors argue that adopting e-services involves a much higher risk than e-commerce adoption as users must engage in a long term relationship. In analyzing the influence of perceived risk on e-services adoption intention, they used the basic TAM and the multi-dimensional perceived risk approach (performance, financial, privacy, social, psychological, time risk and overall risk). What they found is that perceived risk has a direct influence on adoption intention, but also an indirect one, through perceived usefulness.

Further research was undertaken by Featherman and Fuller (2003) who extended TAM by inclusion of brand related perceived risk in the case of e-services. They investigated the effect of perceived risk as a main effect of ANOVA and regression models, as a segmentation variable and as a moderating variable. In the first case, perceived risk had a negative effect on ease of use, usefulness, adoption intention and subjective norms. In the regression model, perceived risk proved to be a negative factor for usefulness and adoption intention. In the second case, perceived risk was used to divide the sample into three groups: high, medium and low risk. The analysis showed that when perceived risk was modeled as a predictor of usefulness, the influence was relevant only for high and low risk groups. When modeled as a moderator variable between ease of use and usefulness, a negative effect of perceived risk was salient.

An approach that integrated TAM and perceived risk to explain e-commerce adoption was developed by Li and Huang (2009). First of all they found that perceived risk negatively influences perceived usefulness and perceived ease of use, the two major components of the basic TAM. Secondly, the positive relationships between perceived usefulness and behavioral intention and perceived ease of use and behavioral intention were confirmed. Also, the positive relationship between ease of use and perceived usefulness was established. Moreover, they validated the relationship between behavioral intention and actual purchase. Limits of their research are related to the fact that respondents were experienced Internet users and the authors did not control for that. In addition to that, the multi-dimensionality of perceived risk was not considered in the research model.

2.State of knowledge
As one can see, a good number of studies concerning perceived risk and e-commerce adoption have concentrated on TAM as a basic framework. However, there are voices which argue that TAM is mainly a cognitive model and that it has neglected one aspect in predicting adoption of new technologies: the affective component.

To overcome this limit, Kulviwat, et al. (2007) proposed a new model: Consumer Acceptance Technology (CAT) emerged from the unification of TAM and PAD (the Pleasure, Arousal and Dominance paradigm of affect). The reason for choosing a two dimensional perspective: cognitive and affective (fig. no. 1) is that consumers may adopt technology not only to obtain benefits, but also to enjoy it; moreover, when taking the decision to use technology, consumers must deal not only with thoughts, but also with feelings.
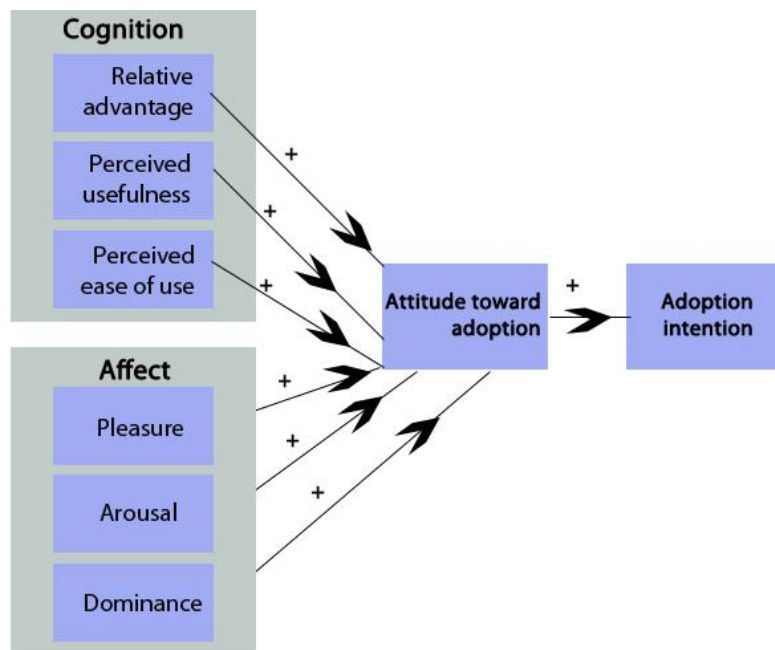
Fig. 1 – CAT model

The step taken by Kulviwat, et al. (2007) was a big one, as they succeeded to surpass the dominance of the management information systems approach by including a psychological view of consumer behavior. Their aim was to create an integrated model which captured both aspects that define human nature: cognition and affect.

The cognitive part of the model enriched the basic TAM with a variable called "relative advantage", which is defined as the benefit that a new technology offers in comparison with the old technology that is being replaced. The authors argue that relative advantage is unlike perceived usefulness, because the latter refers to the extent to which the technology helps to execute a task, while the first one evaluates the difference between two technologies. However, results showed that the two concepts are strongly correlated; that was one of the limits of the study and this is why the authors called for further research in developing better measures for the relative advantage construct.

The affective component consists of three variables: pleasure, arousal and dominance, which form the PAD paradigm. None of the predecessors used such a complete version of the affect influence on technology acceptance. Usually, pleasure formalized as enjoyment or fun is the most encountered affective factor that had been researched so far in relation to adoption intention. For instance, Childers, et al. (2001) found that enjoyment is a strong predictor of attitude toward online shopping in both utilitarian and hedonic environments. Furthermore, Dabholkar and Bagozzi (2002) provided evidence that fun can be an enhancer of technology adoption for four types of consumers: novelty seekers, high self-conscious people, high self-efficacy people and consumers in need for human interaction. Their findings are in line with Koufaris (2002) who confirmed that shopping enjoyment is a characteristic of online commerce and that it can determine consumers to return to an e-shop and make unplanned purchases. Less attention was given, however, to the other two variables – arousal and dominance.

Kulviwat, et al. (2007) managed to validate the model and to obtain a better prediction of technology acceptance. Nevertheless, the cognitive dimensions had a predominant impact on attitude toward behavior; a smaller, yet significant, impact was attributed to pleasure and arousal,

while the dominance factor was found insignificant. Because of that, Nasco, et al. (2008) engaged in further research and tested an interaction effect between dominance and perceived ease of use, which proved to have an impact on attitude toward adoption. They included also a social influence term for which a direct effect was supported.

3.Research questions
The present research proposal has as main objective to apply the CAT model to explain e-commerce adoption, using perceived risk as a moderator variable. In order to fulfill our aims we must first answer some questions:

1.Does perceived risk have cognitive, as well as affective dimensions? If so, what are the sources of cognition and affect for assessing perceived risk in e-commerce?

There is little research dealing with this proposed structure of perceived risk. Most of the studies concentrate on the two components of perceived risk defined by Cunningham (1967): probability of loss and importance of loss or on the multi-dimensional construct developed by Jacoby and Kaplan (1972) that includes five types of risks: financial, physical, performance, social, psychological. A sixth dimensions was suggested by Roselius (1971): time risk. An attempt to explain the cognitive and affective roots of perceived risk belongs to Chauduri (2006), yet the author tested only for the emotion/affective influence on perceived risk. Thus, further research should be undertaken to see how affective and cognitive perceived risk emerge in the e-commerce environment. Can we distinguish between the six dimensions of perceived risk the ones that surface from affect and others from cognition?

2.Can CAT be improved by creating a better measure for relative advantage?

Kulviwat, et al. (2007) measured relative advantage using the scale developed by Moore and Benbasat (1991). The problem discovered was a very high correlation with the perceived usefulness term, even though authors argued that they are distinct concepts. And, indeed, they are. But how can you assess relative advantage when you do not compare one technology with another? They should have expected such correlation seen that the relative advantage scale is formed by items expressing advantages of only one technology used. Consequently, what we propose is that a better measure could be obtained by comparing e-commerce with in-store shopping or other types of home-shopping channels.

3. Can perceived risk improve the CAT model in predicting e-commerce adoption? If so, what are the expected relationships?

Researchers brought significant proofs, so far, that perceived risk has improved TAM's power to explain consumer adoption of e-commerce systems. The usual relationship discovered was a direct one between perceived risk and adoption intention and an indirect one through perceived usefulness. We expect that cognitive risk should have an impact on perceived usefulness and relative advantage, while affective risk should influence arousal and dominance. Overall risk should have an effect on adoption intention.

4.Research methods
The methodology used in the study will be appropriate for a quantitative approach. Qualitative methods will be used for item generation in developing the scale for measuring affective and cognitive risk, but also relative advantage. Scale development will involve three stages as described by Forsythe et al. (2006): qualitative inquiry and initial scale proposal, scale refinement and purification and scale validation.

Structural Equation Modeling will be used to validate the CAT model with the new measure for relative advantage and the moderator variable perceived risk with the affective and cognitive components. There will be several samples used in the study which will be provided by students. Vinson & Lundstrom (1978) argue that students cannot be used in marketing research as surrogates for their parents, yet, in our case, students represent an important target segment for e-

commerce entrepreneurs. Moreover, Gemunden (1985) found evidence that the falsification rate in studies of perceived risk was higher for consumers than it was for managers or students.

5.Expected contribution
This study is expected to show that CAT can have a better prediction power when the perceived risk variable is introduced in the model with its two dimensions: cognitive and affective. By separating perceived risk and including it in the new model we may better understand the influences that the research variables have on adoption behavior. This research is expected to provide a theoretical extension of the CAT model and an improvement of its predictive validity.

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PERCEIVED RISK IN PSYCHOLOGY AND BUSINESS ADMINISTRATION

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Perceived risk has been defined in psychology as the judgment made by people when asked to characterize and evaluate hazardous activities and technologies. The origins of psychological research regarding risk perception are to be found in studies about probability assessment, utility assessment and decision making. Nevertheless, the most important paradigm that dominated risk research in psychology has been the psychometric paradigm that aims to explain how people react to risky activities. As far as Business administration is concerned, several business areas deal more with objective risk, than they do with subjective, perceived risk. In Accounting, Finance, Information Systems and Management we have the means to calculate real probabilities and to assess an objective risk. A very common case we find in Management where managers' risk perceptions are investigated in relation with investment decisions. An even more familiar domain with the concept of perceived risk is Marketing, where specialists explore the consumers perceptions regarding several types of risk (product risk, shopping channel risk etc.
Keywords: perceived risk, psychology, business administration, psychometric paradigm
JEL: M31

1.Basic concepts in Psychology

The concept of risk has no standard definition as we encounter it in several situations expressing each time a different perspective. We can talk about business risks, investment risks, natural risks, military risks, political risks and social risks. If we stop in the psychology area, there are researchers that say risk means danger, while others argue that danger becomes risk only when a person decides to make a choice that is dangerous. Hazards are usually associated with dangers and have been intensively studied by psychologists in relation with risk. Either we talk about hazards or dangers the main idea is that there are negative consequences that emerge from activities undertaken by humans. These consequences or outcomes are sometimes presented in the literature as being the risk itself, but most of the times risk is seen as a combination between consequences and probability of occurrence. Thus, risk refers to a situation where a decision should be made, that has certain outcomes, for which we have to estimate probabilities (Lopes, 1987).

The talk about probability when defining risk is important as it separates objective risk from subjective risk. There are cases in which probabilities can be calculated by using historical data if the risk is known, yet if the risk is new, assessing probabilities becomes a problem. This is why objective risk can be characterized only by stating objective facts about the physical world (Hansson, 2010). Subjective risk on the other hand does not refer to any objective facts of the physical world since there is no previous event to report to in order to estimate a real probability. In this situation probability is more the expression of someone's belief that something will happen (Hansson, 2010). When our knowledge of probabilities is not exact, then we deal with uncertainty (Lopes, 1987; Knight, 2002). Uncertainty is a psychological construct that influences human behavior where outcomes are unknown (Sjoberg et al., 2004). Subjective risk is also known as perceived risk (Kaplan & Garrick, 1981) which is defined by relativity – different persons register different levels of risk due to subjective interpretation of certain circumstances (Bauer, 1960). Perceived risk can achieve a level of objectivism only if the people have some prior experience directly or indirectly (Sjoberg, 2002). Still, to perceive risk one should evaluate the probability that an event could occur and the importance of its consequences; the differences

between calculated probabilities and probabilities based on intuition were found to be significant (Tversky & Kahneman, 2000).

Finally, a complete definition of risk, no matter the type, could be obtained by answering the three questions proposed by Kaplan and Garrick (1981):
> -*What can happen if I undertake this action? (scenario)*
> -*How likely it is to happen? (probabilities)*
> - *If it does happen, what are the consequences? (outcomes*)

According to Lopes (1987) psychologists studying risk are divided into two groups: the experimentalists who have a more mathematical perspective on risk analysis, measuring probabilities and amounts in gamble experiments and the personality psychologists, who concentrate on the differences between people characteristics when getting involved in risky activities. If in the first case, the research reveals strategies on which people rely on to choose between risky alternatives, while maximizing their utility function, the latter case refers more to people's perception of several risky activities which has been investigated using the psychometric paradigm.

2.Perceived risk. The psychometric paradigm

Slovic (1987) defines perceived risk as the judgment made by people when asked to characterize and evaluate hazardous activities and technologies. The origins of psychological research regarding risk perception are to be found in studies about probability assessment, utility assessment and decision making. Nevertheless, the most important paradigm that dominated risk research in psychology has been the psychometric paradigm that aims to explain how people react to risky activities. By using psycho-scaling techniques and multivariate analysis researchers tried to create cognitive maps so as to explain risk attitudes and perceptions (Slovic et al., 1982).

The work of Fischhoff et al. (1978) is considered the starting point for the progress brought by the psychometric paradigm in risk research. The model they proposed analyzed perceived risk in relation with perceived benefits and acceptable levels of risks for 30 activities. Moreover, these activities were rated on nine dimensions of perceived risk retrieved from the literature. Each dimension was actually a factor that influenced people's perception of risk: voluntariness of the activity, immediacy of the consequences, knowledge about the risk, control over risk, newness, chronic catastrophic, common dread and severity of consequences. The authors computed geometric means instead of arithmetic so as to cancel the influence of extreme values. These means were intercorrelated and factor analyzed. Results showed that to factors explained much of the variance in perceived risk: dread and novelty.

Even though it has shown popularity among researchers studying perceived risk, the paradigm has an important weakness: the analysis is made an aggregate level. So, if explained variance reaches 70-80% when the analysis is made across all activities, it diminishes to 20% when perceived risk is regressed across respondents (Sjoberg, 2002). Furthermore, it doesn't tell anything about what happens at an individual level.

3.Variables influencing perceived risk in psychology research

The psychometric paradigm and further studies based on it concentrated on revealing qualitative dimensions of perceived risk and their influence on risk ratings. However, research investigated many other variables affecting risk perception. For instance, Sjoberg (2002) argues that *real risk* should be the first source of perceived risk to be studied. Previous work has shown that when there was a real risk characterized by data, people's perception was veridical assessed. This happened always in the cases where the population had some kind of knowledge about that risk, directly or indirectly. It is important to mention that usually the risk perception regarded risk in general with no clear *target of risk*, which could also be a factor of influence. People perceive

risk differently when the target is themselves than when other persons are involved, known or unknown. This is why we talk about *personal risk* and *general risk.*

Another important variable that influences risk perception is attitude (Sjoberg, 2002). *Attitude* is an important component of human behavior, with a strong influence behavioral intention as proved by the Theory of Reasoned Action (Fishbein & Azjen, 1975). Attitude is formed by beliefs about a certain action one could undertake. Behavioral intention is simultaneously influenced by subjective norms, which are beliefs of other people that could encourage or discourage the action. If that action is characterized by a certain degree of risk, then attitude as well as social norms could have a role in the decision taken.

Risk sensitivity should be, nevertheless, studied by any researcher that wants to isolate factors that influence risk perception. If for attitude we have variation depending on the risky activity under analysis, risk propensity tends to be constant as there are people who are very concerned with virtual hazards, while others are simply indifferent.

Personality traits are also of great importance, especially when risk propensity is under research (Wildavsky & Dake, 1990). This were we distinguish between risk averse and risk taking persons and their relation with risk perception. The Big Five personality dimensions were investigated in relation with risk judgments. Olson and Suls (2000) found a positive connection between risk taking and the degree of openness and agreeableness and negative for emotional stability. Nicholson et al. (2005) examined risk taking in domains such as recreational, financial, career, safety and social and learn that self rating of frequency or risk taking was positively correlated with high extraversion and openness and with low neuroticism, agreeableness and conscientiousness. An interesting approach belongs to Soanea et al. (2010) who explain the relationship between personality traits and risk taking behavior through perceived costs and perceived benefits. Their findings advocate that risk related choice can be partially explained through a combination of personality traits, perceived cost and perceived benefits.

We leave the area of psychological variables to determine societal factors that influence risk perception. Gender is one variable intensively investigated (Weber et al., 2002), as well as age. Women were found to be more risk averse than men, while age was positively correlated with perceived risk (Siegrist et al., 2005). Education and income are negatively correlated with perceived risk (Boholm, 1998).

This review is not exhaustive and, as a consequence, the list of variables could continue. Interest on risk perception has passed over the borders of psychology entering areas such as economics, business administration, politics, military and natural sciences where we have to deal with new variables affecting the concept. Nowadays, a multidisciplinary trend is supported in research giving the opportunity to enrich knowledge by translating concepts, adding more value just in favor of science development.

4. Perceived risk in Business Administration

It is difficult to give a definition of perceived risk in Business Administration since there are so many sub-domains involved, such as: Management, Marketing, Accounting, Finance and Information Systems. For each of those we will find totally different approaches and diverse methodologies used to examine risk perception. Yet, there is a separation we can produce based on the literature; several business areas deal more with objective risk, than they do with subjective, perceived risk. In Accounting, Finance, Information Systems and Management we have the means to calculate real probabilities and to assess an objective risk. For instance, in the case of Finance we can easily calculate credit portofolio risk as well as insurance risk (Wilson, 1997). Financial theory is largely dominated by risk analysis. The aim has been to develop models that predict levels of corporate dividends or capital asset pricing. Accounting data supply assistance for risk assessment, offering a strong foundation for decisions to be taken in companies (Farrelly et al., 1985). Examples could continue; however, perceived risk can also be

encountered in any of these domains as long as the object of the analysis is a person faced with a risky decision and the research interest is on the perception emerged from this situation.

A very common case we find in Management where managers' risk perceptions are investigated in relation with investment decisions (Forlani et al., 2000). An even more familiar domain with the concept of perceived risk is Marketing, where specialists explore the consumers perceptions regarding several types of risk (product risk, shopping channel risk etc). The use of Psychology in Marketing research is no novelty since one of the main purposes of the Marketing science is to explain consumer behavior. And how could we do that without appealing to concepts and instruments from Psychology? The analysis of perceived risk in Marketing could be associated with the psychometric paradigm, except for the fact that in this case people do not evaluate hazardous activities, but products and other components of the Marketing mix. Perceived risk was found to be a major behavioral determinant; this is why currently it still represents a source of knowledge development for researchers in the field.

Bauer (1960) makes the inference from risk taking to perceived risk, as he says "the individual can respond and deal with risk only as he perceives it subjectively." So, this is the moment where he clearly separates real, objective risk from perceived risk, which, in fact, has little to do in many cases with the real world and which comprises the idiosyncrasy of consumers. Each consumer has a different perspective of the risk he might take when making a certain purchase.

This is due to many internal and external factors that have an influence on perceived risk and which will be analyzed in another chapter. A closer look to the consumer behavior as risk taking shows us that we are dealing with a perception of the consumer as most of the methods used to reduce risk can only affect the perceived risk and certainly not the real world (Bauer, 1960).

Brand loyalty, advertising and opinion leaders are strategies for reducing risk; they do nothing but to ensure the consumer that he took a good decision, but they never interact with the objective risk that the product might fail consumer's expectations.

With a more elaborate and specific research, we find Cox's (1967) work on risk handling in consumer behavior. Of great importance is the conceptualization of perceived risk that he proposed. Cox (1967) separated perceived risk into two concepts: amount at stake and the certainty that the decision taken will have favorable consequences. He defines the amount at stake as a function of the buying goals the consumer has in connection with satisfaction of needs; when the consumer does not succeed in fulfilling his goals then he risks the possibility of losing the means he used for satisfying his needs. The subjective feeling of certainty affects the amount of perceived risk being independent of the amount at stake. This means that if the amount at stake is kept constant, the higher the certainty the lower the perceived risk.

Naturally, the division of the concept of perceived risk into these dimensions allowed Cox (1967) to make further assumptions regarding strategies of reducing risk. One could easily see now that decreasing the amount of perceived risk has two possibilities: to reduce the amount at stake or to increase the certainty of favorable consequences.

A significant contribution to the theoretical development of the concept of perceived risk in the marketing field belongs to Cunnigham (1967a). What emerged from Cunnigham's study can be classified in three categories: major components of perceived risk, measurement issues and perceived risk dependency on product category. He gives an operational definition of perceived risk by splitting it into two components: *perceived certainty* that an event should happen and the *consequences* of this event.

Marketing literature takes into account two ways for analyzing perceived risk: one in which perceived risk is indeed a multidimensional construct, and the second, in which each type of risk is assessed independently, with its specific importance. However, the contribution of each component in assembling the risk variable varies for each individual and from a buying process to another.

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STRATEGIC MARKETING AND QUALITY OF LIFE (1)

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The strategic marketing phase is one of systematic and continuous analysis of market needs in which the concepts of high performance products or services are developed, further provide the qualitative difference to customer, and which target different categories of consumers, ensuring long-term competitive advantages while increasing their personal welfare and the one society in general. The term of quality of life has been introduced in the marketing literature in the last decade and is defined as a marketing practice designed to improve the welfare of clients while maintaining the welfare of other stakeholders of the company. This concept comes as a sequel of the concerns of the relational marketing specialists to provide a high quality offer to customers and add value to all other stakeholders interested in the smooth running of the company (suppliers, distributors, shareholders, employees, general public and various public bodies interacting with the company).
Key words: strategic marketing, quality of life, marketing strategies, relationship marketing, quality of life marketing
JEL classification: M31

I. Introduction

Marketing is a managerial process by which organizations, groups or individuals get what they need and want by identifying, providing, communicating and delivering value to others (Kotler 1999:78).The basic concepts that marketing applies are the needs and desires of consumers, the creation of value, products and services, exchange, communication and networking (Doyle 2000:233-245) (Table 1.).

Strategically speaking, marketing deals with managing long-term activities undertaken by the organization in order to gain competitive advantage. The organization allocates and uses its resources in a continuously changing marketing environment aimed at meeting consumer needs constantly while trying to raise to the expectations of different categories of "stakeholders". The strategic approach involves using a strategy which allows the organization to compete, to identify new market opportunities, develop and trade new products and services, to guide allocation of resources among the main activities of the market and also to guide the development of an organizational structure that helps to achieve predetermined performance levels.

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┌─────────────────────────┐          ┌─────────────────────────┐
│ Identification and      │◄─────────│         Needs           │
│ selection of            │          │        Desires          │
│ value for consumers     │          │        Demands          │
└─────────────────────────┘          └─────────────────────────┘
             │
             ▼
┌─────────────────────────┐          ┌─────────────────────────┐
│ Providing, communicating│◄─────────│        Products         │
│ and delivering value    │          │        Services         │
│ to consumers            │          │          Ideas          │
└─────────────────────────┘          └─────────────────────────┘
             │
             ▼
┌─────────────────────────┐
│ Sharing values and      │
│ creating relationships  │
└─────────────────────────┘
             │
             ▼
┌─────────────────────────┐
│       Consumers         │
└─────────────────────────┘
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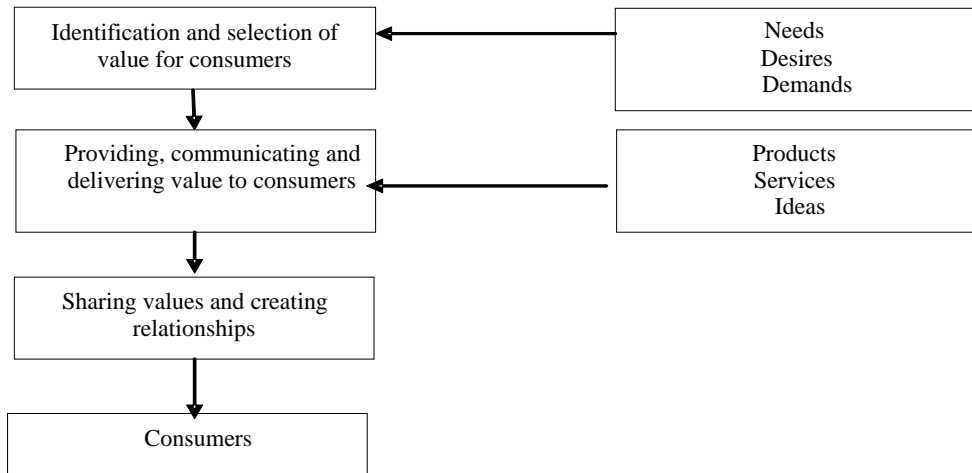
Figure 1.Basic concepts of marketing
Source: Adapted from Doyle P., (2000), Valuing marketing's contribution, European Management Journal, Vol. 18, p.233- 245

Modern marketing is essentially strategic marketing, feature resulting from the very content, that requires the use of a specific mechanism whose operation is as shown above inextricably linked to the concept of strategy. Therefore, understanding the concept of strategic marketing requires first understanding the *strategic role of marketing*, coupled with understanding the place held by it in the enterprise management system.

Conducting today a comprehensive research in the departments of organizations from different industries and countries, would have undoubtedly staff involvement in a large number of marketing related activities. This could include collecting information about customers and competitors, development of the promoting and direct marketing strategy, interaction with scientific research and development department in the development of new products or in preparation of materials and necessary support for the sales force. No doubt most of these activities add value to the organization's market activities. The questions which naturally arise are the following: which of these activities are critical for the organization?, what are the basics of strategic marketing?, what are the roles that strategic marketing must meet to ensure that the its function within the organization is relevant?

II. Strategic Marketing - Roles and Basic Principles

The key roles that strategic marketing should fulfill within the organization are the following (Capon & Hulbert 2001: 102):

-role 1: identifying and recommending market segments that the organization has to address to with its products;
-role 2: identifying and targeting market segments;
-role 3: setting strategic direction;
-role 4: building the market offer;
-role 5: ensuring support from other functions of the organization;
-role 6: monitoring and assessing the performance;

Having clarified the main roles of strategic marketing, a natural step is to define the *strategic marketing principles.* Four principles are considered fundamental to the successful execution of marketing tasks. They are (Capon & Hulbert 2001: 133):

-the principle of selectivity and concentration;

-the principle of value offered to the consumer;
-the principle of differential advantage;
-the principle of integration;

Considering the roles and basic principles of *strategic marketing* we can say this concept that is becoming widely used in the literature and practice of large companies, is thus a logical continuation of the process of marketing evolution. In general, the literature insists more on strategic marketing components, rather than on trying to define the actual concept. Thereby, strategic marketing is defined as "S.T.P." marketing, given the importance of segmentation, market target selection and positioning within marketing activity (Kotler 1999: 313). Other authors emphasize the importance of marketing in the management mechanism; defining strategic marketing as the strategic analysis and decisions process that management must perform in any organization to meet customer needs (Cravens 1987: 213). Finally, another category of definitions relies on the existence of strategic and operational processes in marketing planning (McDonald 2000: 216).

The strategic marketing phase is one of systematic and continuous analysis of market needs in which the concepts of high performance products or services are developed, further provide the qualitative difference to customer, and which target different categories of consumers, ensuring long-term competitive advantages while increasing their personal welfare and the one society in general. (Dumitru 2004:43).

Strategic marketing is not just a step in the development of marketing. He represents a core component of it. Viewed and addressed independently, this part represents a different, specialized field of marketing, reflecting itself in an occupational specialization and making subject to a distinct specialization within the educational systems. As a part of marketing this has developed along with the extensive development of it, being found mainly within areas of marketing as: internal and international, consumer goods, business to business, agro marketing, social, political, etc.

III. Evolution of the quality of life concept

In the last three decades, the quality of life has become a major interest in the EU. An example is that the European Foundation for the Improvement of Living and Working Conditions (established in 1975, European Foundation for the Improvement of Living and Working Conditions, is based in Dublin, Republic of Ireland) launches regular research and monitoring programs in matters of quality of life (Marginean 2004: 215). The quality of life at a macroeconomic level has been discussed even since the '50s (EEA Report 2009: 13), when the main areas covered were the degree of happiness of individuals and society welfare. Up until that moment, in marketing theory and practice we found the orientation towards production, which mainly implied that, for whatever was produced there, there was a demand. Given the fact that during the period before the '50, supply and demand were in balance at that moment in the market, in the company there were no major concerns regarding the inability to find the necessary products, also because people needs and expectations hadn't yet known a major development either extensively (their number) or intensively (their intensity).

The concept of quality of life gained theoretical valences in the '70s, first in Scandinavian countries and the United States (Wallace and Abbott 2004: 109), for then to be found in thousands of scientific articles that debated the importance that society and each individual must give to improving life quality.

The starting point for developing the concept of quality of life in the United States was the fact that, although in full economic development, the society still faced with increased violence, crime and public disorder. Economic growth was not sufficient to describe the quality of life, thus in order to judge a nation's welfare, social indicators were important too. The source of quality of

life research is the development of awareness that economic development does not bring wealth and happiness (Bălțătescu2009:13)

The consumerism of the '60s and '70s was considered to have a destructive effect not only on individual lives, but also on society. This leads to material overproduction which substantially affects the limited natural resources and destroying the environment. Herby, specialists of the period considered necessary to limit industrial development to mitigate its destructive effects on humanity, which can be obtained by limiting overconsumption (Marginean 2004: 220).

To some extent this attitude is contrary to the marketing objectives by which companies try to promote the consumption and purchase of products and services. In terms of evolution of the concept of marketing, during this period we encounter an orientation towards sales, when companies were trying to convince consumers of the need for products through an arsenal of techniques and marketing tools, sales forces being used mainly in direct relationship with the customer, even by going to his home.

The society's reaction to this attitude of the companies has resulted in the emergence of hippie ideologies when people protested against possible damage that large companies can bring to quality of life.

Although normally a continuation of the trend occurred in the 60s and 70s would have been the materialization of social policies to promote a high quality of life through non-economic instruments, the 80's recorded an economic trend to meet any kind of human need. Thus for the quality of life and the welfare of society it was resorted to market mechanisms, taking into account a high quality products and services. This was the period in which it was highly developed an objective evaluation of the quality of life.

In terms of marketing, the '80s were characterized by a competitive strategy development in which the companies were trying to differentiate themselves on the market through items of interest for the consumer, such as satisfying the needs at a top level , all based on providing products that could solve almost any problem or need of an individual. Given the changes in society and social trends in the periods presented above, the quality of life has gained increasing importance, primarily due to ecological movement that enforces valences both at a macroeconomic level (through guidelines and legislation) and at an individual level (by imprinting a socially responsible behavior).During this period, the individual was concerned about his welfare, but also about the one in the society he lives, taking into account the warnings that were drawn regarding the planet's limited resources, and the imminent danger that excessive industrialization can bring to the environment. Immediate influence on marketing activity was noticed in the policy of reallocation of resources (McDonald 1998: 23), but also in environmental campaigns that appear on the market to improve the corporate image of organizations.

Such campaigns were based on a trend that has also materialized in our country in the last decade - corporate social responsibility. Through specific activities for this kind of direction, companies are trying to give back to the society in which they operate, in order to balance as much as they can the resources consumed - value given to society.

In Romania, researches on quality of life have emerged in the '70s, when politically, our country was trying to separate from the Soviet government, which encouraged the promotion of some western concepts, such as concern for the welfare and quality of life. These concepts were somehow promoted even by the state institutions, in order to highlight the desire of getting close to the Western countries. Following the opening to the West, in this period, namely in 1972, the concept of marketing appears for the first time in Romanian's higher education level, which was introduced as a discipline at The Academy of Economic Studies (Balaure 2002: 17).

During this period we have for the first time researches targeting population's satisfaction level on living standards. They established a national empirical research, which used as model the American quality of life measurement, research results being published in 1984.

A few representative works for the beginning of conceptualizing quality of life in Romania are: "Lifestyle and Quality of Life" (coordinators Ion Rebedeu and Catalin Zamfir- Political Ph., 1982), "Lifestyles. Their Dynamics in Contemporary Society "(coordinators Catalin Zamfir and Ion Rebedeu – Academy Ph., 1989)," Interpersonal Relations Culture "(Elena Zamfir - Political Ph., 1982)," Journey in the Human Universe "(Albatros Ph., 1989) (Marginean, 2004).

After the 1989 revolution, the quality of life has become more important in the context of the population's new expectations on improving the standard of living. This was also increased by the establishment, on January 2, 1990, of the Institute for Research of Quality of Life (ICCV) within Romanian Academy. The appearance of this institute, together with other organizations that target in their activity the study of quality of life, lead up to a vast specialized literature and a scientifically approached practice addressed with specific methods and indicators.

IV. Changes in marketing strategy

In terms of marketing, the period that followed the revolution of 1989 represented a development opportunity both extensively (marketing being applied in more and more companies from various industries) and intensively (companies deepening their techniques and marketing tools for an accurate adjustment of supply to demand).

Romania's EU accession opens further horizons of research on quality of life, taking into account the European directives promoting general programs to improve the quality of life and its certain specific components (such as health, welfare, public services, ecology, etc.).

Thereby various legislative directives appeared also in our country, directives which promote a certain lifestyle and therefore improving quality of life, such as the National Strategy for Sustainable Development of Romania - 2013-2020-2030 Horizons.

These European directives influence marketing activities of the companies through rules and guidelines that companies must comply with regarding the manner in which the products are made, the packaging they use, their recycling, pollution control and promotion of organizational behavior socially responsible.

The link between quality of life and marketing is even more obviously given by the new paradigm of it - relationship marketing. It focuses on building long term relationships with clients, based on their level of satisfaction felt in relation to company products and services. Starting from this philosophy of relationship marketing, we can say that marketers tend to a subjective definition of quality of life, depending on individual needs and their level of satisfaction.

The term quality of life has been introduced in the marketing literature in the last decade, which is defined as a marketing practice designed to improve the welfare of clients while maintaining the welfare of other stakeholders of the company (Lee 2004: 45). This concept comes as a sequel of the concerns of the relational marketing specialists to provide a high quality offer to customers and add value to all other stakeholders interested in the smooth running of the company (suppliers, distributors, shareholders, employees, general public and various public bodies interacting with the company).

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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 advantageof 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 experential 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 inviduals (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, philarmonic 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 an 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 suh 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).
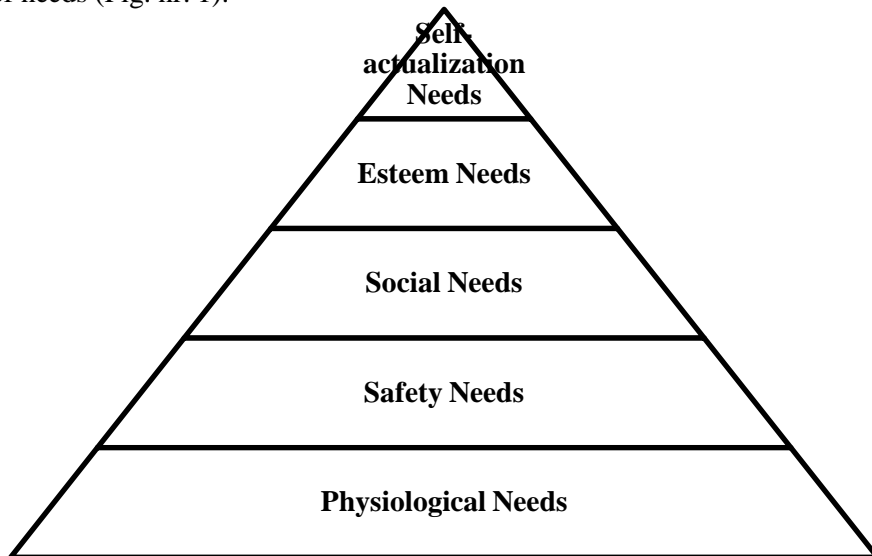
Fig. nr. 1. Maslow's Hierarchy of Human Needs
Source: Processed after (Maslow 1987: 16-22)

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 bahavior, recruiting all the capacities of the organism in their services (Maslow 1987: 18).

If both the physiological and thesafety 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 preeminent (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).

Need Recognition	→	Information Search	→	Evaluation of Alternatives	→	Purchase Decision	→	Post-purchase Behavior
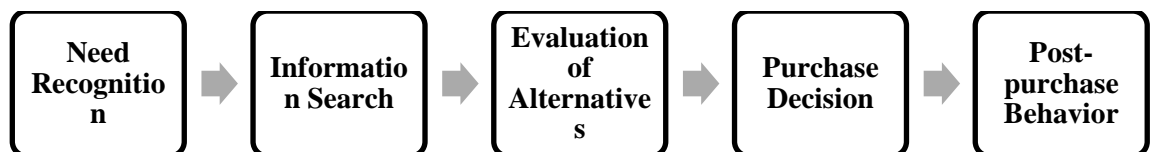
Fig. nr. 2. Buying Decision Process
Source: Processed after(Kotler and Armstrong 2005: 286)

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 experential (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 simphony 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 experential 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 all 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. Forsome 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, preponderently, with their social and esteem needs. Attending these events is a way of relaxation, of escaping from the cotidien 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 intelectual 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 accustom with the process itself. Moreover, the instutitutions'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/conducter/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, communcation 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 whichwas 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 beard 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 confering 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 clarity 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 that 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 produces 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 duet o 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 is one of the greatest university centers in the country, and we consider that is possible to obtain slightly modified results is 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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STRATEGIC MARKETING PLANNING IN SPORTS – A PERSPECTIVE OF QUALITY OF LIFE IMPROVEMENT

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Strategic marketing planning requires that the marketing objectives strategies for a specific product-market configuration be in full correlation with the directions and the resources allocated at the corporate level or at the strategic business unit one. Such a correlation is more than necessary under the current market conditions, when the economic crisis affects both consumer behavior and corporate decisions. This article focuses on the particularities of strategic marketing planning in sport, given the fact that the vast majority of sports organizations in Romania, although very active on the reference market, do not have a marketing activity correlated with the medium and long term market needs. One of these needs refers to quality of life improvement, knowing that sport activities have positive influence on many dimensions of quality of life, such as health, education, social inclusion, relaxation and leisure. The improvement within the population participation in sport (both as an active participant and as a spectator), the increased duration of leisure and the development of private financing have led to the creation of a large market, where marketing plays a central role. Therefore the marketing management process must also be implemented within the sports organization, in order to make it easier in building and maintaining a relationship with the customer, especially if the organization wants a customer orientation strategy. Such an orientation includes identifying the current needs as well as the future ones in terms of target audience, to offer a series of sports products and services that bring their significant contribution to improving the quality of life. In this paper are highlighted the influences that consumer requirements concerning quality of life have on all components of marketing management process, starting with sports organization mission statement, up to establish strategies for the marketing mix (product, price, distribution and promotion).
Keywords: strategic marketing planning, quality of life, sports marketing, marketing management
JEL classification: M31, I31

1. Introduction in strategic marketing planning

The concept of strategic planning in marketing management has evolved from the interaction between marketing management, strategy and planning. As a definition, the term refers to ensuring the management of strategic business units in order to anticipate and respond to changes occurring in the marketing environment, so that decisions that are taken today should allow the strategic unit to be ready to avoid threats and take advantage of future opportunities (Abbel 1978: 236).
Among key features of strategic planning in marketing management can be mentioned (Wilson and Solomon 1978: 68):

- The management orientation beyond the immediate issues. This approach means involvement in issues different from the operational ones which the management is facing in the everyday activity. Thus we can conclude that tactical actions undertaken every day are not part of the strategic planning;

- A specific set of decisions and activities. The concept of strategic planning in marketing management implies not "philosophizing" about the future of the organization, management, marketing or strategy, but rather implies carrying out specific actions to be taken so as to enable the objectives, while succeeding in avoiding threats and taking advantage of potential market opportunities;

- Top management involvement. In general, strategic planning in marketing management is an activity primarily implemented at the top management of the corporate or strategic business unit level, as opposed to marketing strategies and tactics that are implemented at lower levels;

- Holistic perspective. It is important for strategic planning to undertake a corporate-wide approach, not only to ensure that it won't be excluded any element which would later prove to be of utmost importance, but also to ensure optimization of all related items so as to ensure success in all strategic business units (Bendaputi and Robert 2005: 93);

- Flexibility. This implies as a starting point the fact that each organization operates in a marketing environment that is constantly changing. Considering this, the organization should always know how the marketing environment elements will change and the direction in which they will move. Therefore, while developing marketing strategies to achieve pre-defined targets, there will be developed backup plans which will consider alternative strategies for alternative objectives defined by the changes that will occur in the marketing environment;

- Proactive nature. Proactivity implies the development of the future (Drucker 1999). The development of the future does not involve making decisions for the future, because, as was mentioning by Drucker, decisions may be taken only at present. It implies rather the idea of building the future as the organization would like it. If the future revealed by changes in marketing environment is not pleasant for the organization, the marketing managers should make the necessary changes so that it can be in the benefit of the organization.

2. Applicability of marketing management process in sport

The marketing management concept has been widely debated in the economic literature, in the attempt to conceptualize it and also classify it at the organizational level. The best known approach is that of Philip Kotler that defines marketing management as "the art and science of selecting the targeted segments and building profitable relationships with them" (Kotler and Armstrong 2004: 13).

The improvement within the population participation in sport (both as an active participant and as a spectator), the increased duration of leisure and the development of private financing have led to the creation of a large market, where marketing plays a central role.

Therefore the marketing management process must also be implemented within the sports organization, in order to make it easier in building and maintaining a relationship with the customer, especially if the organization wants a customer orientation strategy. This represents the base in implementing sports marketing.

Definitions of sports marketing are highly varied, ranging from defining or, better said, matching the term with sport sponsorship up to considering it as a different field, with methods, techniques and its own instruments. However, whatever the approach in defining the concept, the literature outlines two dimensions for sports marketing: marketing for sports (marketing for products and services from the field of sport) and marketing through sports (marketing of other products by using sport as a promotional instrument).

3. Sports marketing strategic planning and its influence on quality of life

As mentioned above, the customer orientation should be highlighted in the overall management of the sports organizations, so the company can fulfill the two objectives of marketing: meeting customer needs and maximizing the profits. These two objectives are interconnected, considering that a long term profitable organization is the one that takes into consideration the customers needs (Filip 2011: 4).

One of these needs refers to quality of life improvement, knowing that sport activities have positive influence on many dimensions of quality of life, such as health, education, social inclusion, relaxation and leisure.

The concept of quality of life can be defined as "the degree to which the objective needs of the individual are met in relation to subjective perception, individual or group, on welfare" (Costanza 2008: 1). While the objective needs relate to subsistence, reproduction, security, affection, etc, the subjective perception focuses on happiness, life satisfaction and personal utility.

Quality of life is defined by experts in the marketing area mainly through the relationship which is built between consumer satisfaction and the quality of his life (Huang and Chen 2008). It is thus seen that the connection between marketing and quality of life lies in its subjective approach, therefore this paper will focus on how strategic marketing planning of sports organizations influence consumer satisfaction, with direct implications on quality of life.

Marketing management process is a joint effort of all levels of organization of a company, but what differ are the techniques and tools used. Therefore, in theory were identified three levels of application: the corporate level, the business unit level and the functional level. In sport, this separation of the marketing techniques and tools depends mainly on the size and coverage of the sport organization, as can be seen in Table no. 1.

Table no. 1. Identification of marketing management process steps according to the size and coverage of the sport organization

Type of sport organization	Marketing management process steps		
	A) *Market oriented strategic planning*	B) *Activities strategic planning*	C) *Strategic marketing planning*
Sportive Federations	At the top management of the federation	At the level of the County Associations	At the level of the County Association affiliated clubs
Multi-sports clubs	At the top management of the club	At level of each sport branch	
Single-sports clubs	At the level of the club's management		

Realized by authors

Planning at the corporate level is the broadest level of strategic planning, as here are defined the company's mission, strategic business units, each unit resource allocation and the planning of new activities. These decisions do not directly influence consumer satisfaction and the quality of life, but they represent the base for decisions at lower levels, levels at which we find the interaction between the organization and the client.

The mission for a sports organization must present the company "philosophy", its long term "vision" on what it aims to be and especially what it wants to achieve (Olteanu 2003: 84). The mission must be clearly defined, with no room for interpretation.

Depending on the mission defined, the sports organization establishes its operating areas to clearly highlight the market/markets where the offer of products and services will be presented. Defining such operating areas can sometimes prove difficult in the sports field, given the fact that there are many criteria of classification of these areas. For example, a sports federation can have as criteria of defining its operating field the age group of the athletes (juniors and seniors) or the level of the competition where the affiliate athletes are participating (domestic and international competitions). A club may define its operating areas depending on types of sports it is active in (football, basketball, handball, tennis, etc.).

Once the operating areas are defined, the sports organization must establish the development strategies. In other words, they should consider a plan for the future activity of the organization that will allow them to better capitalize on its own strengths and the market opportunities.

Seen at the level of the strategic business unit, strategic planning is an integral part of specific processes undertaken by the company. This stage can be broken down into distinct phases in the following sequence: segmentation, targeting, positioning and marketing mix. In this phase, the company will perform marketing research based on defined objectives at the level of the strategic business unit, thus the company can identify key market segments and select those targeted for the organization's products or services.

Strategic planning at the level of the strategic business unit implies the following steps:

- Market segmentation to identify the main categories of consumers to be targeted by the sport organization and determining how these segments will be targeted, activity that is achieved by designing the positioning strategy (Trout and Ries 1981);

- Life cycle analysis of products/services and establish appropriate strategies depending on the specific life cycle phase in which the product/service is;

- Developing methods and techniques of marketing mix in terms of its components – product, price, distribution and promotion, using at each level several instruments: a) at the level of product policy, are develop and launch new products, is design the service and warranty policy, is set the level of product quality, brand strategy and product strategy, b) at the level of pricing policy, we have the price construction, price list and discounts, negotiated price and price strategy, c) at the level of distribution policy, we have marketing channels, push and pull strategies, selection and role of intermediaries, analyzing relationships and conflicts within the marketing channel and distribution strategy, d) at the level of promotion policy, we have personal sales and sales management, fairs and exhibitions, public relations, advertising and sales promotion.

The most important aspect of marketing with direct influence on the level of individual satisfaction, and therefore on quality of life, is related to the marketing mix, in which sport organization should establish the product/service offered to consumers, the price for its sale, how it will be distributed to reach the customer, and the way to promote it in market.

Sports marketing specialist should identify and design the best version of a *product* so as to meet the requirements identified in the market. Currently, is no longer only the merchandise requirement, but also the requirement of a certain lifestyle, which starts with the specific environmental orientation from the last two decades. Improving quality of life is based on consumption behavior for products and services so that each individual will try to consume products that will help maintain a healthy lifestyle and will want to benefit from services that will enable him to lead a better life. To meet the requirement of improving the quality of life, sport organization should highlight the link between products/services sold and the welfare of the individual, often making the association with health and social inclusion.

In most markets, not only the quality of the supply determines the buying decision, but also the allocated *price*. Most researches in the field of quality of life are based on financial indicators, so the cost of products is also a factor influencing the perceived quality of life at the individual level

(through the accessibility of certain products and services) and at the society level (in terms of purchasing power and inflation index).

In price setting may also intervene state institutions, by subsidizing the access to certain products and sports services that can help improve the health of the population. Such an approach requires the strategic marketing planning even within the public service organizations, which will align them with the market and thus become more competitive (Barbu 2011: 88).

Maybe not as important as price, but with particular significance for the modern consumer (characterized by high levels of convenience), is the *distribution* of sports products and services. Through an efficient distribution system sports companies are trying to facilitate individual's access to products and services, so his satisfaction in relation to the offer will be as high as possible. Quality of life is often defined through the access of population to products and services, for example the indicators considered in determining the Mercer Quality of Living Index, where the availability of products and services is one of the ten major factors influencing quality of life.

The fourth component of the marketing mix is *promotion*, activity that facilitates access to information for each individual to the most appropriate products and services in relation to his needs. Through promotion, the marketing specialist presents to the customer the options regarding the purchase and consumption so that he can improve his quality of life. Campaigns show why the product should be bought and consumed, most reasons being based on achieving a good standard of living.

It should not be omitted the educational function of promotion, sport organization being able to highlight the benefits of carrying out sports activities, educating the consumer ultimately contributing to increased living standards and to much more active involvement in labor market (Aceleanu 2011).

4. Conclusions

Sports organizations have an impact both within the microeconomic and macroeconomic environment, considering the significant revenues that sport can bring into the economy; therefore a coherent and efficient marketing management process needs to be implemented by these organizations, leading to a better relationship with the customer and long term profitability for the organization. The sports marketing specialist must take into consideration that a satisfied customer is the one that, besides having his needs fulfilled for the moment, has also an opportunity to improve his wellbeing.

Also, the social side of sport should not be omitted, considering the fact that a person involved in sport activities is a healthier one, and more integrated in the community, with better social skills and communication techniques. Thus, not only the business environment should consider the marketing management process for their activities, but also the entities that coordinate the national sport policies.

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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 to10% 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 top100 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 (Chakrabortyet 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%).
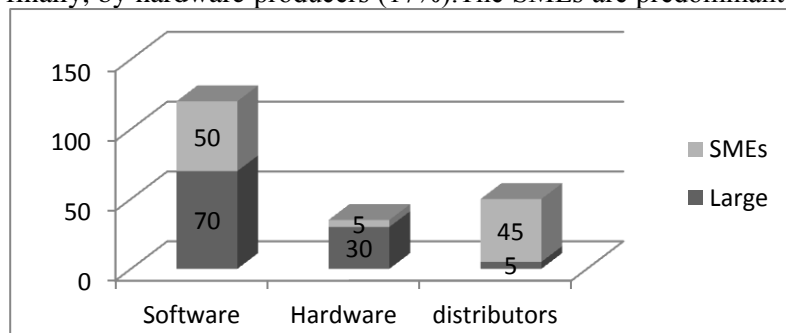
Figure no 1. *The structure of the research sample by size and fields of activity*
Source: made by the author

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 de 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 the enhance trust and credibility by displaying general and specific information related to the business and to their target segment interests.

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EMPIRICAL RESEARCH ON THE IMPACT OF LOCATION AND SERVICE ON THE RETAIL BRAND IMAGE

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Abstract
Developing and consolidating store image in the consumer's psyche is undoubtedly an essential psychographic goal of decision makers from a retail enterprise. Regardless of the tools used to draw customers—assortment and particularly the unit's own brands, assisted service or friendly and competent, attentive and carefully dressed personnel always eager to help customers, the selection of a proper location near the customer's workplace or domicile or very close to other units—the retail enterprise must undertake sustained efforts to properly understand the consumer's wishes and fancies.
Moreover, the food or non-food retail enterprise will have to adapt itself to the customer's ever-changing desires and, in the end, will have to take the necessary measures to make him/her return to the store, purchase again and develop retail brand associations. In order to attain this goal, the store will naturally seek to imprint a proper, strong, even unique image on the consumer's mind. As the literature (Keller, 1993) highlights, in order for a consumer to form an opinion in time about a particular brand, s/he must first perceive the brand, get to know it and undergo positive experiences with it.
The current research advances a model designed to emphasize the contribution made by a store's location and assisted service to shaping the store image. After the model's theoretical concepts are operationalised, the data are validated by means of the reliability analysis. Finally, pertinent interpretations are provided through the existing correlations between the identified dimensions.
The empirical research was conducted on a sample of 1800 Romanian consumers and reveals, for the selected retail formats, notable differences between the two characteristics of the retail brands in terms of their significance and impact on the store image. Finally, the research outlines several managerial implications that are relevant in taking future decisions concerning the best course of action to be taken with the aid of these two elements of the retail marketing mix.
Keywords: retail marketing, retailers attributes, location, service, store image
JEL Classification: M3, M31

Introduction

Much like the service and customer loyalisation policies, the location policy originates in the physical evidence policy and the integration of the external factor (customer, information, nominal and material commodities) into the service provision. The unit proper, that is, the store (Cora Cluj-Napoca, Carrefour Orhideea) represents the interface between consumer and provider (retailer). Location is obviously an integral part of the distribution policy as it represents the geographical area where the enterprise expends its resources with a view to offering performance to its customers (Zentes & Swoboda, 2001: 505). Service, and the quality thereof in particular, delivered through the personnel of the store is another aspect that has a strong bearing on consumer behaviour, on building and consolidating the image perceived by consumer, on his/her

return to the store, repurchase as well as on the recommendation of the unit to friends, relatives, acquaintances or any other people (Dabholkar & Shepherd & Thorpe, 2000: 139 -173; Osman, 1993: 136). The concept of store image has been intensively studied in the literature over time. Some authors (Martineau, 1958: 48-52; Lindquist, 1974-75: 31-32; Hildebrandt, 1988:95) equate store image with retail brand equity whereas others believe that retail brand equity is the outcome of the combined action of different marketing tools which contribute to developing retail brand equity and to properly imprinting the brand image on the consumer's psyche/mind (Sirdeshmkh & Singh & sabol, 2002: 34).

Literature review

In most countries, store location has undergone constant evolution (changes) over time. Initially, retail units were clustered together in village/town/city centres or in the centre of districts but later on the outskirts became the preferred place for erecting retail units. Town and city centre areas captured again the attention of retailers because more and more public establishments and service providers appeared in these areas. However, retailing has lately been "relocated" to business centres and districts. Location is chosen depending on the type of retail unit (Liebmann & Zentes & Swoboda, 2008: 494). Proximity, specialty and discount stores are particularly to be found in densely populated areas, very close to people's homes, near places with heavy flow of people (pedestrian zones and walkways) or near places where public establishments (hospitals, banks, schools) abound. Supermarkets are also placed in crowded or densely populated areas and, in addition, they have to provide customers with parking lots. Hypermarkets, cash &carry or DIY units are built on the edge of, or outside, the localities and can be reached by public or their own transportation means.

When choosing a particular location, the retailer will take into account a number of factors such as the distance from people's homes, the competitors' format and assortments, areas with busy (foot or road) traffic, the existing infrastructure, public transportation, the existence of other establishments in the area, the demographic factors (population size and density, ethnic composition, the number of single-, bi- or multi-parent households), the psychological and social factors, the competition in the area as well as the possibilities to expand or improve the location, its value and degree of attractiveness (Müller-Hagedorn & Natter, 2011: 133-142).

Last but not least, when determining the place for a new subsidiary, the retailer will ensure that the ratio between the potential income forecast by the opening of a new location and the investments necessary to inaugurate and operate the store is optimal. Finding the best location for a new subsidiary equals finding an area with very good custom (Matmüller & Tunder, 2004: 321). The selection of the best custom/location can be made by the retailer through a range of specific methods and procedures such as the concentric circles model, the method of temporal distance (measuring how much time is needed to reach the new location), the profile method (use of scoring models), the analogy method (the utility of a new retail location is assessed by analogy with an existing retail unit), the gravity models (studies the attraction or gravity that a retail pole exerts upon consumers) or the degree of centralization.

The importance of studying personnel policy emerges from the fact that after the investment in building and opening a new store and the costs associated with the merchandise procurement, the staff is the third most significant expenditure for a retailer. This is, perhaps, the very reason why some retail chains – such as the discounters Lidl, Aldi, Penny Market – strive to give up the human factor, substituting it with a sort of standard arrangement of the store, and simplistic, but somehow logical, layout of the products on the shelf. The opposite is true, however, in the case of hypermarkets, supermarkets, department and specialty stores where the personnel abound. Naturally, the number of necessary employees in a retail unit is decided depending on other factors as well retail format, store's location, customers' daily or weekly frequency of visits to the store, structure of the department, employee fluctuation from one period to another, store's

business hours as well as the days of the week when the store is open or the promptness with which an employer manages to serve a customer (Ahlert & Kenning, 2007: 221).

Personnel play a key role in attracting consumers and „binding" them to the store. Therefore, personnel must have very good communication skills, show appropriate training, a good appearance and care, competence and objectivity in the expression, be helpful and attentive to the problems identified by clients and always have a friendly approach to their problems (Deery & Iverson & Walsh, 2002: 3-16). There is a strong relationship between customers and personnel particularly in the case of proximity stores, the mutual trust and kindness usually simplifying the acquisition act and leading, as a consequence of this, to its repetition. As part of the personnel policy, the retailer must pay attention to the planning, recruitment, selection, development, motivation, organization, remuneration, evaluation and loyalisation of employees (Ahlert & Kenning, 2007: 223-231; Müller-Hagedorn & Natter, 2011: 418-422).

Self-service, specific to the majority of retail formats, and in particular to discounters, means the absence of personnel qualified to advise customers from the sections or departments of the retail unit. Basically, the merchandise shall be chosen by the customer, taken off the shelf and carried to the cash register, where it is scanned by the personnel or even by the customer himself/herself (Ahlert & Kenning, 2007: 224). Personal selling may be regarded as belonging both to service policy and to communication policy, the options varying in the technical literature. There are considerable differences between retail chains concerning the extent to which a retailer resorts to personnel to advise customers and promote sales.

Personal selling conducted by means of customer advising is manifested in two forms, namely, the intensive one and the simple one. Whereas the first form of manifestation involves going through all the stages required to complete the sale, the second form only includes addressing the customer, delivering the goods and finishing the payment. For that reason the simple selling may be regarded as the "bridge" between personal selling and self-service (Mattmüller & Tunder, 2004: 291).

Retail brand image is a mental and behavioural concept which conveys the consumer's perception of the store and the entire retail chain, respectively. Brand image may also be described through the emotional and cognitive brand associations which together make up the brand behavioural value. Brand behavioural value can be analyzed in terms of behaviour effects generated by the brand strength on condition that the latter is correlated with marketing tools effectiveness. There are certain indicators whereby brand strength can be assessed such as loyalty, trust and appeal as well as brand acceptance in general and the consumer's willingness to pay more for the preferred brand. In fact, brand image, which some authors equate with brand equity, is the totality of the cognitive (verbal and visual) processes which emphasize the "knowledge" about a particular brand. Brand knowledge, in turn, is the sum of all verbal associations and interior impressions and reflections on the brand (Morschett, 2002: 70-76).

There are several attributes that make up brand image, such as attitudes, that is, the emotional and cognitive aspects associated with the brand, the intensity of brand commitment and the verbal and non-verbal representations of brand associations. These associations are understood as those cues that a consumer "sees" when s/he thinks of a particular brand. The clearer the cues are, the easier for the consumer to choose a particular brand. Brand image may also depend on how accessible and relevant brand associations are to consumers or on the number of possible associations. The strength of the brand image can also be built through the unique associations that consumers make with the preferred brand, namely, a plethora of individual characteristics whereby the brand is marked as different (unique) from competing brands (Keller, 1993: 1-22; Krishnan, 1996: 389-405).

2.2 Research operationalisation

The theoretical concepts pertaining to location and service have been operationalised by paying attention to similar empirical studies published in the technical literature. The operationalisation of location took into account how optimal is the site where the unit is to be located ("The location of the preferred store is optimal"), how close the store is to other food, non-food units or service providers and the accessibility and convenience of location as these are perceived by customers ("The location of my preferred store is convenient for me"). Service operationalisation took into account aspects such as service impeccability ("The preferred store provides excellent service") as well as personnel competence and amiability ("Personnel is amiable at the preferred store"). Also, attention was paid to the extent to which service is customer-oriented ("Through the service provided, the preferred store treats me seriously when I encounter difficulties") as well as how fairly customers are treated by the store through personnel (Anselmsson, 2006:122; Birtwistle & Freathy, 1998: 322; Chowdhury & Reardon & Srivastava, 1998: 74; Porter & Claycomb, 1997: 380; Sirdeshmkh & Singh & Sabol, 2002: 34). Finally, Brand image according to Keller (1993) has been operationalised by paying attention to the characteristics of his model: awareness ("The preferred store is a well-known brand"), uniqueness ("…is a unique brand"), strength ("… is a strong brand") and attractiveness/appeal (…is an attractive brand").

3. Research methodology

In order to provide the means for quantifying the previously described theoretical concepts, they were assembled into a questionnaire administered to Romanian consumers in the food and non-food retailing. The statements with similar meaning were made with the aid of the seven-level Likert scale. The data were collected in 2011 under direct supervision of the author. Out of 2000 received questionnaires, 732 were deemed valid for non-food retailing and 1084 for food retailing. The respondents were interviewed with regard to their preferred store but the retail format to which the stores belong was not made known to them. Classification according to retail formats has been made by the authors in accordance with the guidelines of the technical literature (Barth, 1999; Liebmann et al., 2008). The formats which made the object of investigation in the food retailing were the hypermarkets, supermarkets, the "category killer" stores (a type of stores that differentiate themselves through two or more characteristics which traditionally belong to different retail formats), the cash & carry units (very familiar to the investigated consumers for issuing them quite easily with loyalty cards), the proximity and discount stores. Non-food retailing was represented by DIY stores, electrical and household appliances stores, and shoe, textile or sports stores. The sample selection was made according to sex and age groups. The interviewing process generally respected the limits of the original structure, although slight deflections were recorded on several of these groups. The testing of data validity and reliability was made by using Cronbach's alpha coefficient, the "item-to-total" correlation and the exploratory factor analysis. The contribution of location and service to the creation of a retail brand image was subsequently studied by means of the multiple regression analysis/model as presented in Figure 1.

4. Research findings

4.1. Validity and reliability analysis

The alternate application of Cronbach's alpha coefficient and item-to-total correlation highlighted the fact that the operationalisation carried out for each theoretical construct may be validated for service, location and store image. Cronbach's α coefficient takes on the value 0.807 for location, 0.909 for service and 0.853 for store image. The use of exploratory factor analysis confirms the stability of the theoretical constructs *location, service* and *store image* as the value that they take on for the Kaiser-Meyer-Olkin (KMO) criterion is 0.835 for location, 0.840 for service and 0.730

for store image. Although these values are not optimal, we believe, however, that they can be validated and employed in subsequent analyses.

4.2. Regression analysis

The application of regression analysis on the model presented in Figure 1 revealed that both location and service exert an important and great impact ($***p<0.001$) on store image. As can be noticed, service exerts greater impact on store image than does location, leading to a positive contribution to building retail brand image. The impact of location in the consolidation of the brand image is slightly greater with non-food retailing (0.102***) than with food retailing (0.096****). This is probably due to the fact that, with non-food retailing, location has increased involvement in the decision making process. Service has greater impact on building non-food retail brand image than building food retail brand image (0.376**** as against 0.314****). This seems quite logical if we are to consider the fact that much more customer advising is needed in household appliances or clothes stores than in super- or hypermarkets.

Figure 1. Findings of regression analysis for the overall sample
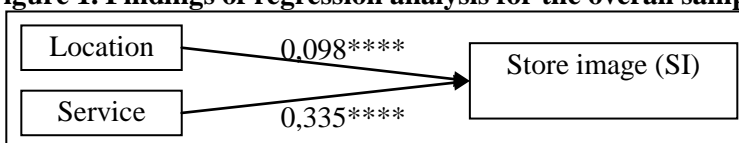
(Legend: n.s. – not significant; *p<0,1; **p<0,05; ***p<0,01; ****p<0,001)
Source: own research.

The breakdown of findings according to food retail formats reveals that location exerts the greatest impact on building store image in the case of cash & carry units which, at least theoretically, consumers should not be familiar with. However, this significant impact of cash & carry units (in our case Metro and Selgros) may probably be attributed to the former which has been on the Romanian market for more than 15 years. By the time the Romanian market was penetrated by other retail chains, particularly hyper and supermarkets, Metro was for the Romanian customer the only viable alternative to traditional proximity stores. Moreover, it seems very likely that Metro has become for the Romanian consumer as a sort of benchmark against which other retail brands are judged. For this reason, consumers will likely be willing to cover a longer distance so that location may no longer be the most important element in building the image of this retail format.

The impact of service on building brand image is insignificant in the case of proximity stores, represented in the current research by several chains (mic.ro or CBA), and some independent units, which indicates that these units fail to properly embed their image in the consumer's mind through personnel or the processes taking place in the store. As can be seen in Table 1, contrary to our expectations derived from the literature, service exerts a strong and significant impact in the case of Lidl and Penny. It should be, however, weak and less important, much like that provided by Kaufland. It seems likely that, according to the Romanian customers' perception, Lidl and Penny fail to gain a dominant position within consumer's mind through proper price policy, unlike Kuafland which oftentimes uses specific slogans such as "the lowest prices in Romania" and "if you find a cheaper product we pay you back the difference" etc. We believe that the two units are perceived by the Romanian customers as a retail format resembling hyper and supermarkets rather than the category in which the literature includes them.

Table 1 – Impact of location and service on store image in grocery retailing

Retail format	Discount	C&C	Hyper-market	Proxi-mity	Super-market	CK	Food retailing

Location → SI	0,218***	-0,148[n.s.]	0,127**	0,275***	0,111*	0,184**	0,096****
Service → SI	0,355****	0,609****	0,349****	0,090[n.s.]	0,459****	0,124*	0,314****
F	20,683****	10,556****	34,229****	6,032***	31,783****	6,824***	74,856****
R^2 adjusted	0,208	0,323	0,162	0,083	0,236	0,056	0,124
Durbin-Watson	1,874	2,012	1,707	1,936	2,021	2,021	1,845

Legend n.s. – not significant, *$p<0.1$, **$p<0.05$, ***$p<0,01$; ****$p<0.001$
Source: own research.

As far as food retail is concerned, discount and proximity stores are the formats in the case of which location exerts the greatest impact on store image building which indicates that their perception by consumers is relatively similar. Location has a positive influence, albeit low in terms of intensity and significance, in the case of hypermarkets. Thus, the significance of location according to food retail formats reveals that this characteristic does not hold a special place in building retail brand image.

In the case of non food retail, all retail formats feature strong influence of service in building store image, the greatest impact being recorded with DIY stores (0.530****). The product range of the DIY stores is the very reason for which they have to hire personnel capable of advising properly the customer and putting forward the best solutions to his/her problems. Interestingly, service has greater impact on building brand image in the case of textile and sports stores than in the case of electronic and household appliances stores. The low impact of service is likely to be the result of the fact that by the time of the purchase act, the consumer already analysed carefully the offer of electrical and household appliances so that his/her consumption decision is not made based on the advice received from the store personnel during purchase but well in advance. It is also possible that the customer, upon entering a household appliances store, should know precisely what s/he wants and appeal to personal advising only for finding information about maintenance, warranty or compatibility with other products. On the other hand, location has an important and strong impact only in the case of shoe stores which bespeaks the Romanian consumer's care when choosing the unity where s/he will buy shoes. Surprisingly, location has very little, if any, impact on building retail brand image in the case of household appliances and sports stores, and a negative one in the case of DIY stores. This is accounted for by the fact that, in order to attain their objective, that is, obtain the desired items, consumers are willing to cover a longer distance just as they do in the case of cash & carry units.

Table 2 – Impact of location and service on store image in non-food retailing

Retail format	DIY	Electro	Textile	Shoes	Sports	Non-food retailing
Location → SI	-0,236*	0,017[n.s.]	0,143**	0,319***	0,140[n.s.]	0,102***
Service → Store Image (SI)	0,530****	0,372****	0,396****	0,274**	0,382**	0,376****
F	7,955****	6,229***	36,976****	10,76****	5,43***	79,111****
R^2 adjusted	0,208	0,118	0,226	0,211	0,171	0,176
Durbin-Watson	1,840	1,824	2,100	1,492	1,443	2,017

Legend n.s. – not significant, *$p<0.1$, **$p<0.05$, ***$p<0,01$; ****$p<0.001$
Source: own research.

6. Implications

The obtained findings reveal that service has a greater and more important impact on store image whereas location makes a smaller contribution thereto. By comparison, notable differences can be noticed between the analysed retail formats as to the impact of service on store image. In the case of food retail, some formats (supermarkets, hypermarkets, discount units) feature relatively similar impacts, the only difference being the cash & carry stores where service has a very great

impact on brand image. Non-food retail formats feature significant differences in terms of service and its impact building store image. On the other hand, store location contributes to building store image only in the case of some retail formats, with notable differences between them.

One of the main limits of the current research consists in the fact that non-food retail formats are much more heterogeneous than their food counterparts. Likewise, the number of questionnaires for the analysis of retail formats must have an as equal distribution as possible for each particular format. However, the present findings may serve as a basis for pertinent conclusions about the impact of service and location on the consolidation of the retail image.

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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 (Svendsen 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 Pomering 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	1.000	.639	.949**	.882**	.730*	.824**	.832**
		Sig. (2-tailed)	.	.064	.000	.002	.026	.006	.005
		N	9	9	9	9	9	9	9
	International Tourist Arrivals	Correlation Coefficient	.639	1.000	.760*	.612	.316	.442	.394
		Sig. (2-tailed)	.064	.	.011	.060	.374	.200	.260
		N	9	10	10	10	10	10	10
	International Tourist Receipts	Correlation Coefficient	.949**	.760*	1.000	.900**	.710*	.851**	.790**
		Sig. (2-tailed)	.000	.011	.	.000	.021	.002	.007
		N	9	10	10	10	10	10	10
	Travel & Tourism Industry and GDP	Correlation Coefficient	.882**	.612	.900**	1.000	.924**	.879**	.915**
		Sig. (2-tailed)	.002	.060	.000	.	.000	.001	.000
		N	9	10	10	10	10	10	10
	Travel & Tourism Industry and Employment	Correlation Coefficient	.730*	.316	.710*	.924**	1.000	.778**	.948**
		Sig. (2-tailed)	.026	.374	.021	.000	.	.008	.000
		N	9	10	10	10	10	10	10
	Travel & Tourism Economy and GDP	Correlation Coefficient	.824**	.442	.851**	.879**	.778**	1.000	.818**
		Sig. (2-tailed)	.006	.200	.002	.001	.008	.	.004
		N	9	10	10	10	10	10	10
	Travel & Tourism Economy and Employment	Correlation Coefficient	.832**	.394	.790**	.915**	.948**	.818**	1.000
		Sig. (2-tailed)	.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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VISUAL POLLUTION: A NEW AXIOLOGICAL DIMENSION OF MARKETING?

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Everyone's belief is that marketing plays a fundamental role in all economic or uneconomic areas of business. However, what becomes very clear is that, in addition to the many positive aspects that it generates, marketing produces unwanted effects as well.
The paper tries to prove the relationship between marketing and axiology (its value and its perception on the people), on the one hand, and one of its most obvious effects - visual pollution, which already starts to be in the attention of those who can counter it, on the other hand. Value, as a concept, is a result of a long and laborious research, both economic and uneconomic (philosophical, psychological, etc.). The visual pollution and the ecological architecture are recent approaches and it cannot be said that there is a very rich experience or a proper literature in this domain. But the interest is growing undoubtedly.
The authors consider that the demarche of the paper, to sit marketing, value and pollution alongside, is at the beginning of the road and certainly will arouse the interest of further research.
The paper is the result of an office research of secondary sources of information. They are limited and also limiting, the domains being studied separately. The result of the paper is the noting on the fact that marketing can be extremely harmful. We agree with the idea that marketing supports businesses and the economy of an area, but it is better to be aware that the pollution it produces is increasingly significant so the rules by which marketing plays must be rewritten.
If the authorities, the business itself and those involved in education will focus and will exactly understand their role in a sustainable development of the society, than the aim will be achieved. We believe that the authors' concerns, which are dedicated to the idea that by means of marketing one should not destroy but build, will be of public interest as well.
Keywords: axiology, value, pollution, marketing, ecology.
JEL classification: M31, Q56

1. Introduction

Nowadays, the conviction of everyone, professional or not, is that marketing undoubtedly plays a fundamental role in all economic or uneconomic areas of business.

According to the marketing study in terms of axiology, we can highlight the values followed by this activity, compared with those generally accepted. We define value as a specific axiological relationship between a natural or created object and the human subject, by means of which he expresses his appreciation for its qualities that are meant to satisfy some specific needs. Value appears as well as the relationship between subject and object, in which by means of polarity or polarization and of hierarchy, we express our differentiated appreciation for certain things or their

qualities, for certain persons or human acts, for certain works created by virtue of their ability to satisfy some specific needs, aspirations or interests.

2. Concepts used

A classification of values is as follows: economic values, legal values, political values, ethical values, historical values, aesthetic values, religious values. The first four values are determined by the constituent and regulating functions of the social life. The other three are determined by the frame in which the social reality exists and evolves.

For our study we only discuss three of these values, which are directly related to marketing, and have impact on this activity, namely: economic, ethical and aesthetic values which, depending on the way they are perceived, lead to visual pollution.

The economic value is generally understood as the awareness of the usefulness of the goods comparing to others, which satisfies a certain need. The needs are physical and mental, so we distinguish between two kinds of values: spiritual values and material values. The economic values are material. The value theory is more likely a theory of cost, since it addresses a crucial moment of the value, that meaning the cost, a labor required to produce the goods and the limited usefulness.

The economic values are constituent for the social reality; they represent only a part of the social values that span multiple levels with different functions in the social life.

The ethical values relate to our desires which can be numerous, so we always require the same question: Which is the best goal? For some people it is happiness for others wealth, virtue, etc.

The psychological theory states that a ethical value has a mental basis, it is a product of the self will, of the will to upgrade one's personality.

The analysis of the moral conscience takes into account the opposition between sensitivity and the responsibility imposed by the categorical imperative, because the ethical value is an imperative that we all must obey.

The ethical value has life as an ultimate principle and the ethical laws are natural laws, whose inobservance brings evil. So, shall we sacrifice the ethical values to the detriment of the economic ones?

The aesthetic values relate to the aesthetic pleasure by the existence of an object that has a value and a subject for which that value exists. Beauty is the central aesthetic value, to which all the other ones report. By their specifics, the aesthetic values are significantly related to sensitiveness. The aesthetic values can be intuited, felt, experienced, represented and imagined. And then we might ask ourselves: where is the beauty in all the examples that will be further presented?

3. Research on the marketing negative effects on the environment

Mankind has a spectacular rate of development and marketing has the main position in greatly contributing to this development. This one actually "pushes" forward the world economy and the contemporary society, but it is also responsible for many negative effects which are difficult or even impossible to be repaired, attracting more and more criticism this way.

The oversized consumption of resources (e.g., the paper used in much larger quantities than normal, the lights burning all night), the shopping addiction, the excessive consumption of unhealthy foods leading to obesity, cancer, etc. are negative aspects that began to be reported a few years ago. Their influence reflects on individuals, as consumers, their age being in a rapid decline.

We live in a dense environment, with attempts to influence. Much of the population seeks to make the others conform to their demands. The estimates of this type of research suggest that a person can receive up to 400 persuasive marketing calls during an only single day. Managers boosting the productivity, a policeman directing the traffic, a vendor selling something are numerous attempts to influence every day.

In fact, the company is a massive group of people seeking for influencing, persuading, requesting, asking, urging, or manipulating each other. We call it society because it convinces us instead of physically restraining us. We cannot even imagine what it would be like if every attempt to influence would be replaced by coercion: the store owner would hit the customer who would not buy the shirt, the boss would hit the employee to make him work harder, the police officer would beat the driver who would drive by 60 km / h in an area of 50 km / h. After a typical day, everyone would be a physical wreck.

Persuasion, on the other hand, allows the work in a company to be performed without problems - while the physical coercion stops it. The successful conviction is when the physical coercion is useless. As a result, the society benefits from persuasion and those who do not know how to persuade benefit the most from society.

Lately, another negative effect is quickly to install: pollution, which is a consequence of the oversized and unjustified consumption. The forms of pollution are: air pollution, water pollution, soil pollution, radioactive contamination, and noise (sound) pollution, thermal and visual pollution. It is noticed the possibility to group them into three basic categories: chemical, sound and visual.

We shall next refer, in detail, to the final form, the visual pollution, which seems to be the least dangerous. This statement can not be demonstrated though because the „evidence" that show exactly the opposite are very numerous.

We live in a civilization based on image, this phrase becoming an automatism in expression which seems to not send any message any more. The initiator of the concept of society of the spectacle, derived precisely from this media explosion, G. Debord argues, „Where the real world changes into simple images, they become real beings and effective motivations of a hypnotic behavior. The spectacle, as a tendency to make the world, which is no longer directly perceptible, be visible by means of various specialized mediations, finds the sight as the privileged human sense, as once was the touch; the most abstract and the easiest to mystify sense perfectly corresponds to the generalized abstraction of the contemporary society" (Pascu 2002: 97).

In a simplistic and easy to understand manner, the visual pollution can be defined as the damage to the landscape issue, in a manner which can be perceptible to the human visual sense, and with effects on the psyche of the person. In the matter of fact, everything that is around and does not delight us and that has even a negative impact on us and on our psychic as well can be defined as visual pollution. Although the negative effect is much less harmful than the one of the other forms of pollution, by the full accumulation of the specific factors, the issue becomes a drama.

We can state as visual pollution the vandalized buildings left in ruins, the abandoned sites, the large advertising blades placed on the vertical surfaces of the high blocks (damaged by weather and environmental pollution) and on the large stores in cities, the display on the side roads which has lost its validity, but which nobody ever updated, the parking spaces organized for a possible halt or garbage disposal, but which have been destroyed, and even panels that advise to protect the forest, but which have themselves become a pollutant because they are rusted, warped and torn. Examples may continue indefinitely.

And since this phenomenon involves the person's visual sense, we cannot limit to the quality of "images", but also to their quantity, which induces the individual in a state of hypnosis, in which he can no longer discern. Most critics of this category are directed against outdoor advertising, because the print ads in the newspapers are easily ignored by turning the page and the ones in television by changing the channel. As shown, both the "by mail" advertising as well as the billboards and the street display lead a struggle against those who wish to apply legal restrictions against the use of these promotional techniques, which use images par excellence (Russell and Lane 2002: 870).

It must be mentioned that all living organisms (plants, insects, birds, animals, humans) are affected by visual pollution.

In this paper we shall refer primarily to people, but also note that anything that affects other creatures listed above, actually distorts the functioning of the ecosystems and hence of the human. If the bright light prevents insects to move, they can no longer be food for birds, the latter ones receive and transmit their influences in their turn, and the weaknesses chain continues.

Visual pollution on humans is manifested in two forms which have been already recognized:

- *direct*, the effects being psychological and physiological;

- *indirect,* the effects being various, from road accidents caused by distraction, to the economic decline of a community.

The authors, A. Dumitrescu and D. Manolache, define the visual pollution by the presence, in the visual field, of some human-made implants, which are in disharmony with the landscape and which promote excessive, depressed or subversive messages, (www.imst.pub.ro/TCM/Dumi/Visual_Pollution.pdf).

This is strongly felt in the large urban areas where the aggressive outdoor advertising (posters, banners, billboards, pictures, neon etc.) became more than just unbearable. Experts consider that Graffiti, for example, has a strong negative influence, which may cause depression and acts of vandalism.

The **visual pollution sources** are:

- *administrative negligence* – the local public administration loses control over what is built or assembled in public spaces, it does not know what and where is displayed, does not solve the problem of buildings in ruins no matter who the owner is.

Logic, architecture, cleanliness, space harmony must be kept in the urban jungle, but they are all suffering because of the business interests and the obtaining of the profit.

It is well known the skyscraper building type, with 19 floors, ground floor and four underground levels, called the Cathedral Plaza, built near St. Joseph Cathedral in Bucharest by Millennium Development Building.

Other changes in the environment are determined by the location of all kinds of items (terraces, public transport stations, garbage cans, huge panels so powerfully illuminated that they can blind drivers at night, stalls, tents, booths installed for commercial purposes, different network cables, etc..) on the public spaces.

- *excessive advertising* - literally suffocating because not even the green areas (trees, land, parks, etc...) are not spared in the desire to ensure good visibility. The existence of giant billboards, outdoor display in general, which is present from the means of transportation to garbage bins is also suffocating.

A frequent complaint against advertising is that it is simply too much advertising and that is annoying. With the rapid introduction of the new communication technologies, the fragmentation and the interactive nature of the future advertising vehicles will undoubtedly reduce much of this criticism, obviously, when the interactive media will allow consumers to select programs, advertising or info-advertising you want, it is unlikely that advertising will be considered troublesome.

While the economic contribution of advertising is, specifically, the major preoccupation of both companies and consumers, in the recent years its social implications are increasingly analyzed.

Almost everyone, even the fiercest of his critics, agree that advertising plays an important role in informing consumers about the new products, locations, prices and markets. These are the economic functions of the institution of advertising. On the other hand, the social and cultural roles of advertising are much less clear and are increasingly becoming a subject of discussion in some circles.

Many observers point out that advertising is both a **mirror** and also a **shaper** of public opinion, social manners and standards. They state that by the absolute value of exposure, advertising sets a social agenda on what is expected, what is fashionable and what is of good taste for a considerable number of people. This influence is manifested especially on young people, poorly educated and impressed people.

But image is not universal language, even if there is an illusion that it forwards meaning because of its analog capabilities. There is this confusion between perception and interpretation
- *vandalism* – from the Graffiti mentioned above to offensive messages, obscenities, street markings of different groups, all made without the owner's consent of course.

The study of the individual and group territoriality is important in terms of reactions that can be caused by an intrusion into the intimacy of a person or in a group territory. Thus, the proxemical research, discipline that deals with the study of nonverbal communication through fixed distances between individuals reveals the characteristics of each culture regarding this issue. The communicational action in ET Hall's studies shows the trials of individuals, often unconsciously, to give a certain distance of communication (intimate, personal, social and public) (Pascu 2002: 79). The failure to comply, as the studies in this area emphasize studies, determines the feedback from participants in the process of communication, such as: the increasing of the blood pressure and heart rate; confusion; the trying to regain territory or the acceptance of an intruder; the lowering performance; the increased verbal aggressiveness; the diminishing of the sense of cohesion within the group.

According to the survey, we shall refer forward to the reactions resulting from intrusion. We have as types of intrusion the following: *violation of territory* by using the territory without permission and looking at someone when they are not expected to be observed, *invasion of territory* by trying to „grab" the group territory and *land contamination*, namely to leave something undesirable on the territory of a person/group.

4. Results of the authorities involvement in the visual pollution
In front of this wave of attacks on the human security made in the name of progress and marketing, the authorities in some states and cities have passed effective measures. Of a particular importance in this context is the need to develop anticipatory policies and to prevent, mitigate and monitor any adverse impact on the environment in general and in a transboundary context in particular.

In *Norway*, severe restrictions have been imposed in Bergen since 1990.

The great city of *Beijing* is recognized as a pioneer of this struggle. The layout of any street advertising is reviewed by a special commission, which sets out its beneficial or polluting role, the harmonization with the urban area, and the possible distraction of drivers in congested areas with heavy traffic and only after that it is approved.

In the *U.S.A.* we are witnessing a limitation on the size and number of panels according to various criteria, such as the number of houses on a street. In certain areas there are allowed only small panels, the large ones being history. States such as Alaska, Vermont, and Maine have partially or totally banned them and in about 1500 cities, the outdoor advertising is prohibited.

The Czech Republic took a number of measures on the visual pollution caused by the excessive use of neon.

The mayor at *Moscow* has introduced a regulation to reduce the size of the outdoor advertising.

But the most radical response was recorded in *Brazil*, in the largest city, Sao Paulo, whose population has exceeded 11 million. The outdoor advertising is considered illegal here. The metropolitan local council decided it in September 2007, which triggered strong reactions from firm's discontent. For example, lawyers from America `s Clear Channel Outdoor, the largest firm in the world, considers this decision as unconstitutional, saying that it would lead to the destruction of business and, therefore, they sued the government. The „Clean City" Law prohibits advertising on public transport and strictly regulates what can appear on the frontispiece of the shop signs.

The residents have noted that Sao Paulo became a more beautiful and clean city after this demarche. Taking the example of the city which became free in terms of advertising and being

inspired by its success, the authorities in Rio de Janeiro, Porto Alegre and Brasilia discussed similar measures.

The authorities in **Seoul** invest in innovative technologies and construction that respects nature, and they are also supported by the largest research and development institute in Europe, Fraunhofer Institute - Germany. The researchers here are working on developing an environmental project involving a prototype building efficiently built in point of energy, incorporating all the principles of modern technologies of saving the energy and using alternative energy like the sunlight, the wind and the geothermal heat.

The most recent reaction of the authorities in *Seoul*, however, is on the economic crisis and the increasing of oil prices, fueled by the turmoil in the Middle East and North Africa. They announced severe penalties for the „insignificant" lighting starting on 1 March 2011. Thus, many commercial buildings, bridges, houses etc. are obliged to shut down the lights after midnight. Amid the measures taken, the countries, regions and cities mentioned above are increasingly becoming a tourist attraction. In their promotion, there are sold as items of attraction the restrictions mentioned above, which is likely to offset any losses caused.

The localities and the urban population in **Romania** face the same problems and the voices and initiatives in the domain begin to be visible. For example, on 27 March 2010, 37 cities marked the Earth Hour by interrupting the lighting of prominent buildings in the hours 20.30 to 21.30. In 2011, the same action took place on March 26 at the same time slot, with extensive participation of 50 cities, which synchronized with the similar demarche of a great number of people, more than one billion in 5000 cities in 130 countries.

The increasingly used concepts are *the ecological landscape* and *the ecological architecture*.

Formed about 40 years ago, the *ecological architecture* has not yet been clearly defined. Two approaches are highlighted: the "green" (ecological) architecture and the sustainable one. The first one represents the practice of increasing the efficiency with which buildings and adjacent land use and take energy, water and materials, and the reducing of the negative impacts of such buildings on the environment and human health by improving the design, construction, use, maintenance and demolition, and the last one means the conformation of the „green" architecture with the principles of socio-economic and ecological sustainability. In practice, the ecological architecture products are represented by the passive housing, with zero emissions, green, ecological, durable and sustainable.

About *ecological landscape* it can be stated that it represents the dialogue between the buildings and their surrounding area, in compliance with the environmental regulations. In such an organization there cannot be outside display to jam this dialogue. Finally, the public spaces will not be used for private business, and the reducing of pollution will lead to social benefits that will delight many.

Even the problem of plastic waste, which often fly blown over us and which is known that they are not biodegradable has a very simple proposal to be solved, recently coming from a 16 years old student in Canada, Daniel Burda. He discovered the process of decomposition of the plastic bags in less than three months. Some water, very little carbon dioxide and Sphingomonas and Pseudomonas bacteria are needed for this.

The outdoor advertising supports businesses and businesses support the economy of an area. It is known that large amounts are collected by renting the public spaces and the rights of the display.

5. Conclusions

One will not definitely give up this kind of trade - *public spaces for information by means of advertising and money by renting*, due to the earnings. People are aware of the both sides of the phenomenon; the measures can be seen, especially in the local communities. It is a vicious circle, only that the rules will be better written! That is why business will give the both sides a strong impulse to work together.

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SOLVING CUSTOMER COMPLAINTS: A STUDY OF MULTIPLE COMMERCIAL SETTINGS

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Theme: *Many reports stress the importance of solving customer complaints in order to maintain customer satisfaction, but also to learn from mistakes and further improve the customer service. However, relatively few empirical studies have been conducted regarding the effect of complains handling activities on customer satisfaction and on company-customer relationships.*

Objectives of research: *This paper attempts to identify the main elements of the complaints handling strategy that are considered essential for customers, and their effect on customer satisfaction.*

Literature analysis/previous research: *Previous studies define a complaint as a conflict between a consumer and a business organisation in which the fairness of the resolution procedures, the interpersonal communication and behaviour, and the outcome of the complaint resolution process are the principal evaluative criteria used by the customer. In our opinion, a complaint is not necessary a conflict, however, it can create a conflict between a customer and a business organisation, when the answer to the consumer's complaint is not satisfactory. Therefore, the way in which business organisations deal with consumer complaints can significantly influence the consumers' level of satisfaction and loyalty.*

Research methodology: *The empirical analysis of primary data collected through face-to-face interviews with 150 French customers provides a detailed picture of the specific elements of complains handling which are perceived as important in four different settings defined in relation to the perceived importance of the product or service, and the emergency of the experienced problem.*

Results: *The identified elements of the complaint-handling procedure have a variable importance from one element to the other, and in the context of various complaint situations. This finding highlights the fact that, depending on each situation, the factors that will determine customer's satisfaction, and that will shape the final perception of the complaint service, will be different. On the other hand, the study presents and discusses the effect of various dimensions of the complaints handling strategy on the customer satisfaction.*

Implications: *The findings of this study indicate the specific elements that should be improved by companies in order to enhance the quality of the complaint-handling process in various transactional situations.*

Contribution of author/authors: *The present paper compares the importance of the various dimensions already identified by researchers in relation to four different situations defined by the variation of two subjective dimensions: the importance associated by the customer to the product and the emergency level of the product/service failure.*

Keywords: *customers' complaints, customers' satisfaction, multiple commercial settings*
Cod JEL: M31

Introduction

Many reports stress the importance of solving customer complaints in order to maintain customer satisfaction, but also to learn from mistakes and further improve the customer service. However, relatively few empirical studies have been conducted regarding the effect of complains handling activities on customer satisfaction and on company-customer relationships. This paper attempts to identify the main elements of the complaints handling strategy that are considered essential for customers, and their effect on the customer satisfaction. The empirical analysis of primary data

collected through face-to-face interviews with 150 French customers provides a detailed picture of the specific elements of complains handling which are perceived as important in four different settings defined in relation to the perceived importance of the product or service, and the emergency of the experienced problem. On the other hand, the study presents and discusses the effect of various dimensions of the complaints handling strategy on customer satisfaction.

The effect of customer complaints

Tax, Brown and Chandrashekaran (1998) define a complaint as a conflict between a consumer and a business organisation in which the fairness of the resolution procedures, the interpersonal communication and behaviour, and the outcome of the complaint resolution process are the principal evaluative criteria used by the customer. In our opinion, a complaint is not necessary a conflict, however, it can create a conflict between a customer and a business organisation, when the answer to the consumer's complaint is not satisfactory. Therefore, the way in which business organisations deal with consumer complaints can significantly influence the consumers' level of satisfaction and loyalty (Blodgett, Hill and Tax 1997; Kelley, Hoffman and Davis 1993; Levesque and McDougall 1996). In the market environment, customers' complaints represents an opportunity for the business organisation to identify problems in its production or service process, to remedy these problems, and, by doing this, to positively influence consumers' perception about the professionalism of the organisation, which may determine an increase of customer satisfaction and customer loyalty (Blodgett, Hill and Tax 1997). From a relationship marketing point of view, consumer complaints are the external and visible manifestation of a crisis in the relationship between company and customer (Tax, Brown and Chandrashekaran 1998). This crisis can be successfully solved, determining the continuation of the relationship, or can deepen further, if the customer is dissatisfied with the way in which his/her complaint is managed by the firm (Dos Santos and Von der Heyde Fernandes 2008; Tax and Brown 1998).

Previous studies have attempted to identify the elements that define the quality of complaint resolution for customers (Gilliland 1993; Goodwin and Ross 1992). Tax, Brown and Chandrashekaran (1998) focused on the concept of justice, as it is perceived by customers in relation to complaint resolution activities. The three main dimensions of justice identified by researchers (Blodgett, Hill and Tax 1997; Smith, Bolton and Wagner 1999; Tax, Brown and Chandrashekaran 1998) are distributive, procedural and interactional justice. Distributive justice can be considered as an expression of the equity theory (Dos Santos and Von der Heyde Fernandes 2008), which involves the allocation of benefits and costs between the parties interacting in a transaction situation. For customer complaints resolution, the focus is rather on the tangible compensations offered by the company to the wronged customer (such as product replacement or refund).Procedural justice involves the procedures used by the company during the complaint handling process, which can be evaluated from the point of view of flexibility, accessibility, process control, decision control, response speed and acceptance of responsibility (Blodgett, Hill and Tax 1997; Tax, Brown and Chandrashekaran 1998). Finally, interactional justice concerns the way in which the company interacts with the wronged customer during the complaint-handling process, in terms of courtesy, honesty, offering explanations, empathy, endeavour and offering apologies (Tax and Brown 1998; Tax, Brown and Chandrashekaran 1998).

The existing studies have investigated the reaction of consumers to various elements of the complaint-handling process, using as basis of analysis specific situations of product or service failures, however, no comparative studies have been realised for various types of products and/or services. However, the complaint behaviour and the requirements of the same customer can vary in relation to the subjective importance associated to various products and/or services, and with the emergency level of the failure. The present paper attempts to address this literature gap, by comparing the importance of the various dimensions already identified by researchers in relation

to four different situations defined by the variation of two subjective dimensions: the importance associated by the customer to the product and the emergency level of the product/service failure. On the other hand, the level of customers' satisfaction regarding the dimensions of the complaint resolution process is also investigated.

Research methodology
To investigate the importance of various elements of the complaint-handling process, and their influence on satisfaction, both secondary and primary data have been collected and analysed. In the first stage of the research process, the existing literature on consumer complaints and on the influence of various elements of the complaints-handling process on customer satisfaction was accessed and investigated. These secondary data offered a clear perspective of the theoretical and practical aspects of this phenomenon, and provided the necessary information for the development of a list of questions for primary data collection. This list of question was tested in a pilot face-to-face interview with 10 consumers, the results being used to improve the order and the wording of questions. The resulting list of questions was used to realise face-to-face interviews with 150 French consumers. The consumers were approached while sitting in one of the cafes of a large commercial centre in Montpellier France, and invited to participate in this study concerning complaint resolution. The interviews lasted between 15 and 30 minutes, the respondents being asked first to consider their behaviour during the complain process, and identify the essential elements of the complaint-handling process. Then, the respondents were asked to remember specific situations in which they addressed complaints about products or services to business organisations, in four different situations.

The situations were selected by the respondents from their own experience since the perception of importance and/or emergency is subjective. Among the situations selected by consumers, the following are exemplifying well the four categories of complaints:

-high importance-high emergency: complaint about a new car, or complaint about medical services;

-low importance-high emergency: complaint about the service in a restaurant, complaint about Internet or mobile phone connection;

-high importance-low emergency: complaint about newly acquired furniture;

-low importance-low emergency: complaint about the quality of a music CD or of a DVD.

Although a large number of respondents have experienced a large variety of complaint situations in the last three months, not all of them were capable to provide answers for all the four situations described above.

Considering each type of complaint situation, the respondents were invited to associate specific levels of importance to the elements of the complaint-handling process identified above, associating a number from 1 to 10 to each element (where 1 indicated very low importance, and 10 very high importance). Each respondent then provided the level of satisfaction associated with each element of the complain-handling situations that he/she experienced recently. The answers were recorded on a separate document for each respondent, the interviewer realising together with the respondent a clarification/standardisation of various elements indicated by the consumer. Then, the answers were codified and introduced into the SPSS for general descriptive analysis. The quantitative results were complemented by the qualitative interpretation of the comments provided by various respondents regarding the complaint situations, their perception and their behaviour towards to business organisation.

Presentation and analysis of findings

The general profile of answers

As indicated above, not all 150 respondents were able to remember a complaint situation for each of the four categories of circumstances defined in the project. The number of answers was also restricted by the time limit considered for analysis - the last three months. Table 1 indicates the number and the percentage of complaint situations discussed by respondents for each of the four categories. 96% of respondents indicated that they had a complaint situation of low importance, low emergency in the last three months. For the other situations, the percentages are less important; however, even the most extreme situation characterised by high importance, high emergency circumstances was experienced by 28% of respondents. The possible explanation of these findings is either that the quantity of the goods and services provided nowadays by companies is less than satisfactory in many cases, or that the respondents are very exigent and complaint-active. Indeed, previous studies have indicated that French customers are more inclined to express their dissatisfaction in comparison with other nationalities (Jasper 2007). Finally, both these explanations can be true and inter-related, the general quality of the goods and services provided determining a behavioural transformation in the general mass of consumers.

Table 1. The number and percentage of complaint situations described by respondents

Situation	Frequency	Percentage
High importance-high emergency	42	28
High importance-low emergency	101	67.3
Low importance-high emergency	123	82
Low importance-low emergency	144	96

The essential elements that define the quality of the complaint-handling process

The essential elements that define the quality of the complaint-handling process do not correspond exactly to the criteria identified by Tax, Brown and Chandrashekaran (1998), and then categorised as distributive, procedural and interactional justice. This classification is rather abstract and although represents a useful bundling of various elements under the same general logic, in reality it does not correspond to the natural perception of the customer, who tends to consider these elements in relation to the logical order of activities in a complaint-handling situation. The respondents have indicated the following elements:

-accessibility: the complaint service should be easily accessible in terms of location, communication channels and availability of personnel;

-reactivity: the attitude of the complain personnel should be reactive rather than passive; as soon as they receive a complaint, the specialised service must adopt an active attitude to guide the dissatisfied customer through all the phases of the complaint resolution process;

-personalisation: the complaint personnel should address every customer as a specific person, with particular needs, wants and feelings, adapting in a flexible way the process of complain resolution to the specific personal circumstances of the plaintiff;

-responsibility: the complaint personnel should accept the responsibility of the company, apologise and provide explanations, and have a responsible behaviour in handling and solving the complaint;

-rapidity: the complaint service should apply professional procedures for a quick resolution of the complaint situation;

-quality: most respondents indicated here the quality of the solution provided to the complaint situation, but some of them have also emphasised the quality and the professionalism required for each stage of the complaint resolution process.

It is interesting to note that in the mind of respondents, the criteria identified and classified by Tax et al. (1998) are not isolated and static, but rather dynamic and interactive, influencing, and being influenced by other elements. The vision provided by the respondents in this study is more synthetic and holistic than the criteria defined by Tax et al. (1998), which provide an interesting insight in the order and structure of subjective perceptions regarding the evaluation of the complaint-handling situation.

The subjective importance of various elements of the complaint-handling process
The average importance of the elements described above varies from one complaint situation to another (see Table 2). The circumstances of each specific situation clearly influence the subjective perception of respondents. In a high importance, high emergency situation all the elements of the complaints-handling process are associated with high levels of importance. The most important elements are reactivity (9.32), rapidity (9.21), and personalisation (9.05). When the complaint situation is characterised by high importance but low emergency, the level of importance associated with accessibility, reactivity and rapidity decrease; however, personalisation, quality and responsibility become more important. The hidden message of respondents is that they are willing to wait more time for complaint resolution, but on the other hand they expect a high quality, customised solution to their problem.

Table 2. The average values of the level of perceived importance

	H.imp.- H.em.	H.imp.- L.em.	L.imp.- H.em.	L.imp.- L.em.
Accessibility	7.85	7.14	7.06	6.36
Reactivity	9.32	6.21	8.55	4.78
Personalisation	9.05	9.08	5.27	2.69
Responsibility	7.23	7.66	5.36	5.72
Rapidity	9.21	6.69	8.48	3.56
Quality	9.17	9.23	5.34	5.29

For the complaints characterised by low importance and high emergency, the reactivity, rapidity and accessibility of the complaints service are significantly important for customers. However, the low importance associated to the product/service which is the subject of the complaint determines lower expectations in relation to quality, responsibility and personalisation. For a low importance, low emergency complaint situation, the average importance of all elements decreases below 7. The customers are expecting a good accessibility and responsibility of the complaint service and a good quality of the solution, but are less exigent regarding the reactivity, rapidity and personalisation.

The presentation of these data using average values does not permit a detailed analysis of the various groups of consumers, based on the level of perceived importance. In fact, 15-20% of the respondents have indicated high importance levels to all the elements of the complaint-handling process, in all the four categories of situations, arguing that the complaint resolution service has to be characterised by overall quality and professionalism in all complaint situations. 25-30% of respondents have provided very similar above average values to all the elements of a situation, introducing some differentiation among various situations. Finally, the rest of respondents provided differentiated levels of importance both among the various elements of the complaint-handling process, as well as from one complaint situation to another. These respondents provided rich comments to explain their perception, and spent more time thinking about the most appropriate answers.

The level of satisfaction associated with the complaint-handling process

The respondents have indicated a variable level of satisfaction in relation to various elements of the complaint-handling process. On the other hand, the perceptions about the level of importance and the emergency of the complaint significantly influence the level of satisfaction indicated by customers. In order to simplify the presentation of data, the score between 8 and 10 was interpreted as high satisfaction, the score between 4 and 7 as a medium level of satisfaction, and between 1 and 3 as a low level of satisfaction.

Table 3. The level of high satisfaction associated by respondents with various elements

	H.imp.- H.em.	H.imp.- L.em.	L.imp.- H.em.	L.imp.- L.em.
Accessibility	57.7	75.3	63.5	77.9
Reactivity	44.8	62.4	75.1	45.8
Personalisation	70.3	51.7	71.9	33.8
Responsibility	71.2	49.6	46.4	29.3
Rapidity	35.7	62.3	66.1	48.9
Quality	42.4	38.5	53.8	42.6

For all elements of the complaint-handling process in a high importance-high emergency situation, the percentages are not very high. Responsibility has the highest percentage of highly satisfied customers (71.2%), but at the other extreme, the respondents indicate that rapidity, quality and reactivity should be significantly improved. In a high importance, low emergency complaint situation, the percentages of highly satisfied customers increase regarding accessibility, reactivity and rapidity, maybe because the expectations of respondents are more moderate. On the other hand, the customers perceive significant problems with quality, responsibility and personalisation. The interpretation in this change of perceptions is the expectation of consumers that the quality the service should be significantly improved in the case in which the company does not have to respond quickly to the complaint. The respondents that provided information about their satisfaction in a low importance, high emergency situation seem to be quite satisfied with the reactivity, personalisation, rapidity and accessibility of the complaint service, but many indicate that responsibility should be improved. For a low importance-low emergency complaint situation the percentage of highly satisfied respondents is quite important in what concerns accessibility, but the scores are lower than 50% regarding the other dimensions of the complaint-resolution process. This situation can be explained by the low level of resources invested by firms in solving this type of complaint situation, which may be determined by the low value of the product/service sold.

Concluding remarks

This study has attempted to investigate the way in which French customers perceive the complaint-handling process in various complaint situations. The complaint handling process was analytically decomposed in a number of elements that are considered important by the respondents. These elements have, however, a variable importance from one element to the other, and in the context of various complaint situations. This finding highlights the fact that, depending on each situation, the factors that will determine customer's satisfaction, and that will shape the final perception of the complaint service, will be different. The respondents have also indicated the level of satisfaction that they associate with every element of the complaint-handling process in four different complaint situations, which can provide important information regarding the dimensions that should be improved during customer-company interaction.

This paper has a number of research limitations determined by the applied methodological approach. The presented findings do not permit a deep understanding of the way in which individual customers perceive the complaint-resolution process managed by companies. The

results are descriptive and synthetic, despite the attempt to define and contrast four different complaint situations. Future studies should attempt to combine the quantitative analysis of data with a more qualitative approach, based on mini case studies, in order to complement the general description of the investigated phenomenon with an understanding of the particular factors and elements that can ultimately influence the decision of the consumer to continue or not the relationship with the company. On the other hand, a similar study should be initiated in the area of B2B marketing.

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ANALYSIS OF MARKETING MIX IN METALLUGY (MMM)

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Abstract: This paper presents an algorithmic analysis of the marketing mix in metallurgy. It also analyzes the main correlations and their optimizing possibilities through an efficient management.Thus, both the effect and the importance of the marketing mix, for components (the four â€œP-sâ€) are analyzed in the materialsâ€™ industry, but their correlations as well, with the goal to optimize the specific management. The analysis of the correlations between the 4 â€œP-sâ€¢ (the four components of the marketing mix) and their management in metallurgy are also very important. The analysis of the main correlation between the 4 marketing mix components in a case of a product from the materialsâ€™ industry highlights the importance of management in order to optimize that product. In order to obtain an optimal marketing mix for a product from the materialsâ€™ industry, the technological optimization management must focus on both functional and constructive betterments. The functional betterments need constructive betterments and constructive betterments generate functional betterments. An important component of the marketing mix for a product in the metallurgical industry is the quality and the cost control activity. The technological optimization in the metallurgical industry is based on functional and constructive betterments. The optimization of the biunivocal correlation between them (need-determination) assures the efficiency of the marketing mix of that product.
Keywords: Marketing Mix, Management, Correlations, Metallurgy
Jel Codes: M

1. Overall view

The four components of the marketing mix (the four "P-s"):
    -Product (P1);
    -Price (P2);
    -Promoting (P3);
    -Placement-Distribution (P4).
and their correlation is very important for an efficient management in materials' industry. The analysis of the correlations between the 4 "P-s" (the four components of the marketing mix) and their management in metallurgy are also very important (Nicolescu 2000, Ioana 2004a).

2. The main correlations between the marketing mix components in metallurgy

In figure no. 1 there are briefly presented the main correlations between the 4 marketing mix components (the 4 "P-s") for a product within the materials' industry.
    Aspects regarding management:
– The biunivocal correlation Product (P1) - Promoting (P2) is based on assuring the quality of the product.
– An important role in optimizing the correlation (1) is held by advertising directly correlated with the product' s quality level.
 – The Product (P1) needs and determines technological development for assuring the quality technical requirements.
 – The biunivocal correlation Product (P1) – and Price (P2) is based on cutting of production costs.

– The level of technological optimization is directly correlated with the product's quality
– A good (low) price of the product assures good placement condition of it.
– A good placement of the product can lead to a good price (optimal in direct correlation with the sales level).
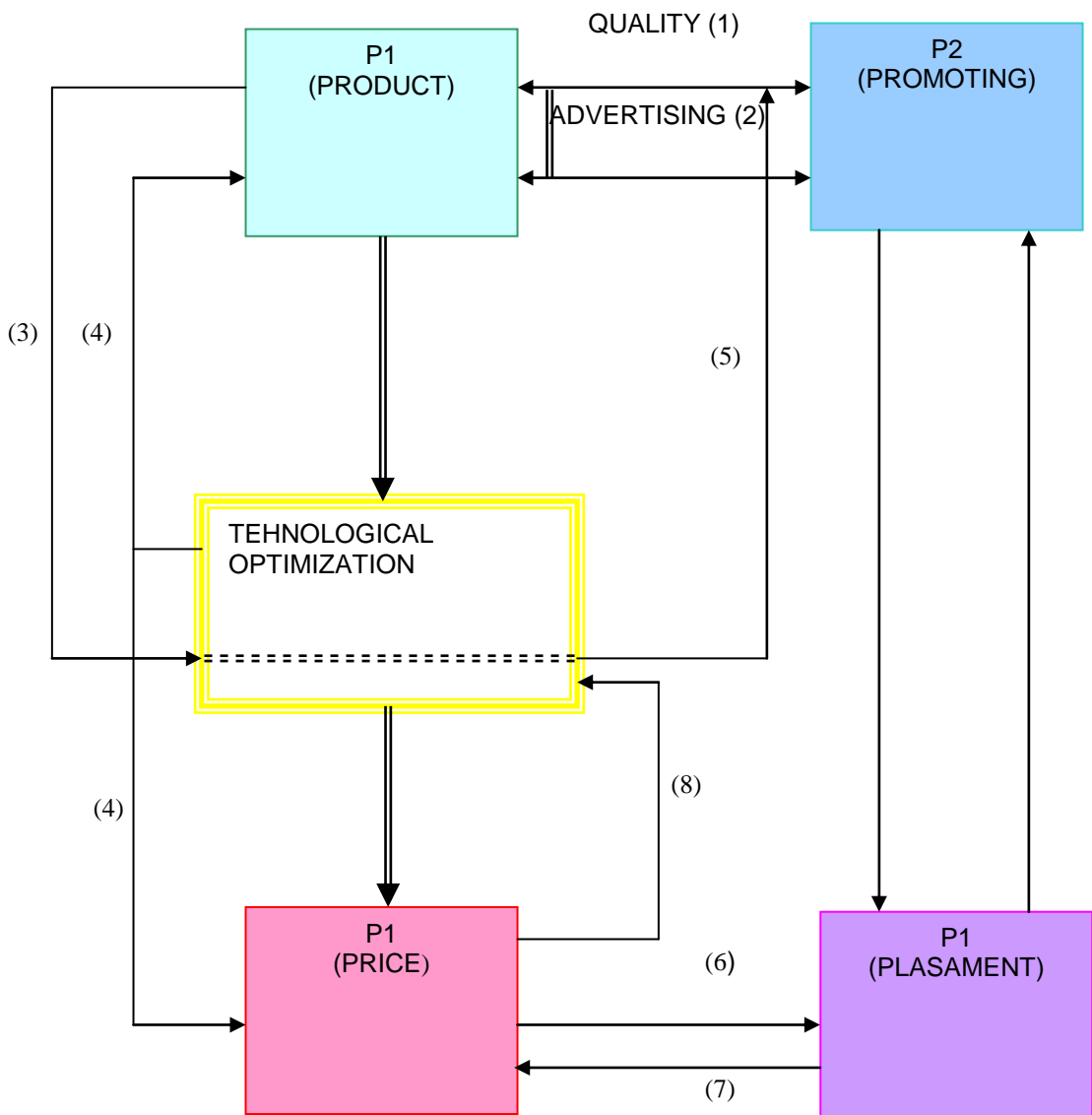
Figure 1. The main correlations between the 4 marketing mix components for a product with the materials' industry

The lower the price (P2) is (witch is facilitated by a high level of technological optimization), the higher the profit (benefit) is, which allows investing it in research-development.

The analysis of the main correlation between the 4 marketing mix components in a case of a product from the materials' industry (presented in figure no.1) highlights the importance of management in order to optimize that product.

Figure 2 presents the main correlations between the functional and constructive betterments regarding a product from the materials' industry (Ioana 2004b).
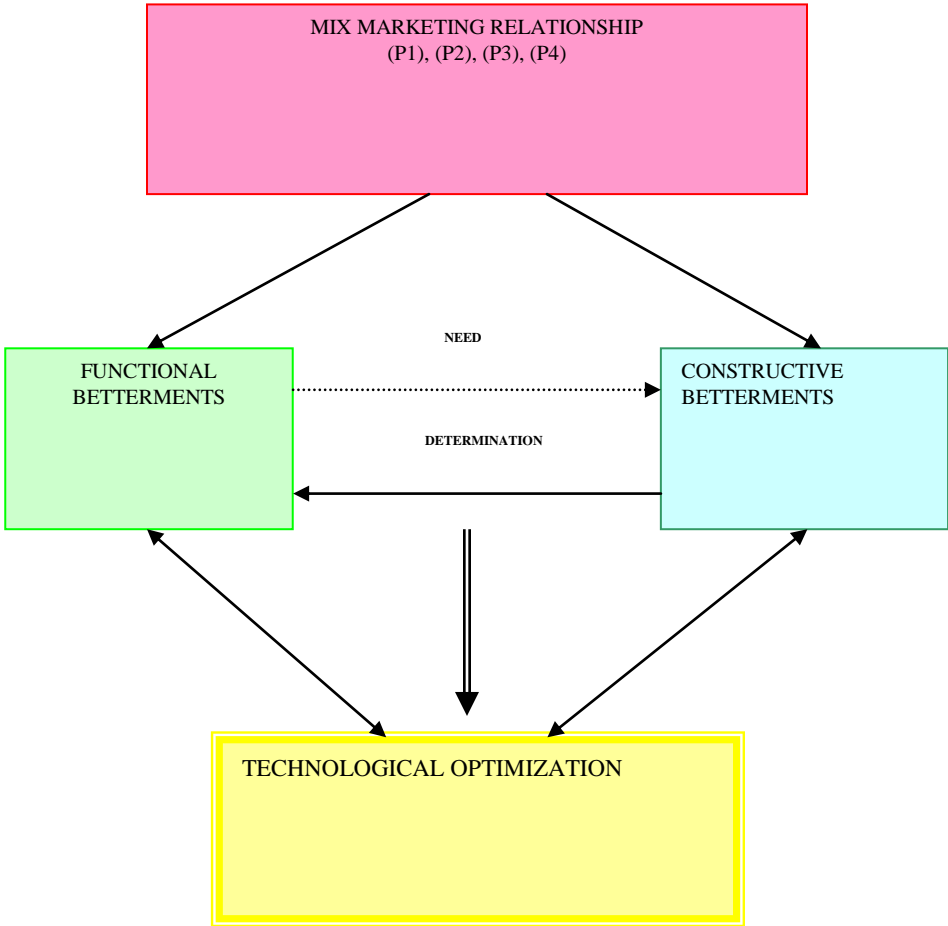
Figure 2. The main correlation between the functional and constructive betterments in the technology of a product from the materials' industry, needed in order to assure an optimal marketing mix

It is to be noticed that. In order to obtain an optimal marketing mix for a product from the materials' industry, the technological optimization management must focus on both functional and constructive betterments.

The functional betterments need constructive betterments and constructive betterments generate functional betterments.

An important component of the marketing mix for a product in the metallurgical industry is the quality and the cost control activity (Ioana 1998, Kotler 2003).

The main steps (and their correlations) of the quality and cost control activity management for product in the metallurgical industry are briefly presented in figure no. 3.
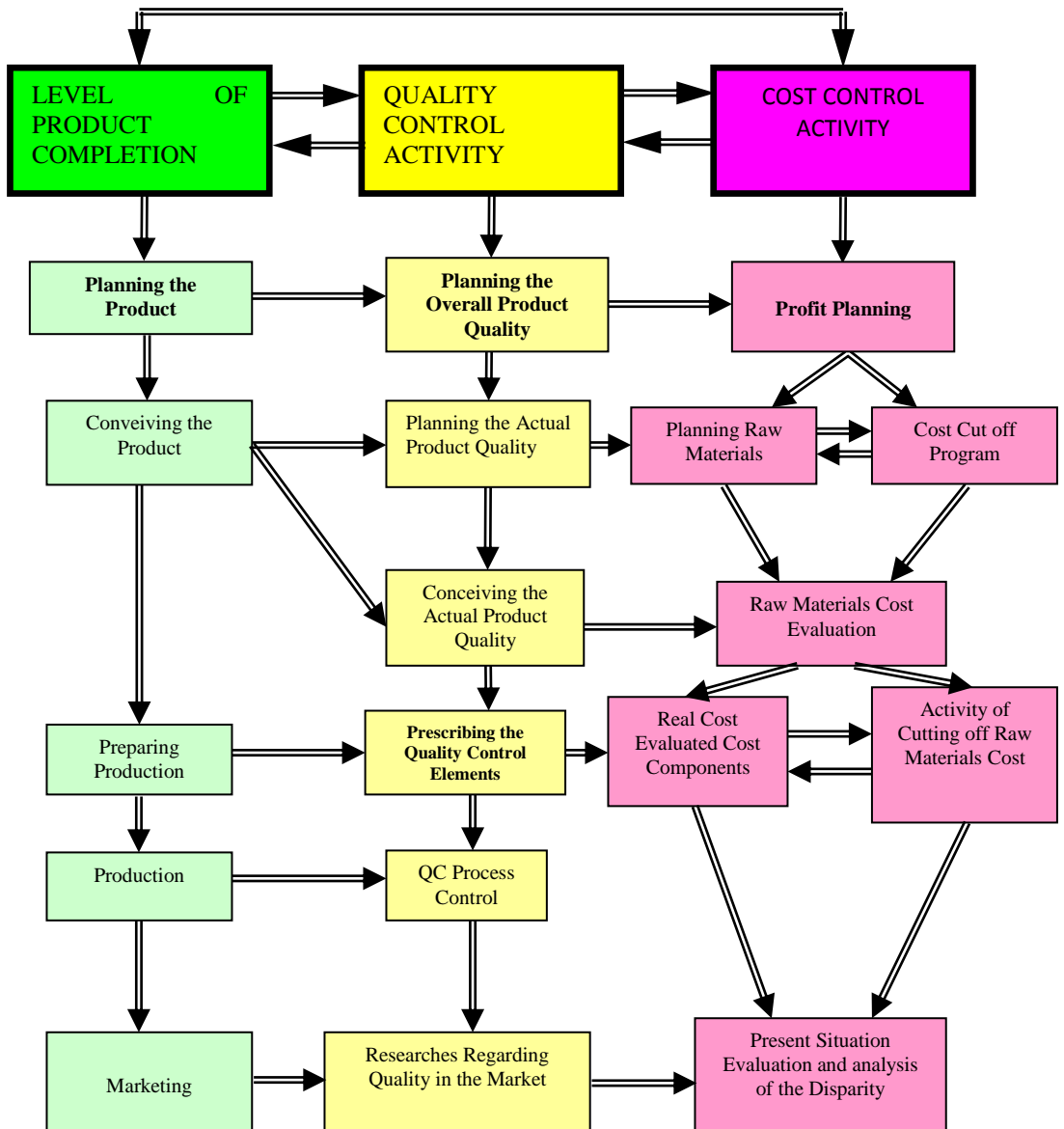
Figure 3. The management of the quality and cost control activities for a product from the metallurgical industry

The level of the product's completion is to be noticed. This based on the following activities: planning the product, conceiving the product, preparing production and marketing (Patriche 1994, Scarlat 2003).

3. Conclusions

The marketing mix analysis for products in the metallurgical industry highlights the importance of the technological optimization in order to obtain an optimum in the field.

The technological optimization in the metallurgical industry is based on functional and constructive betterments. The optimization of the biunivocal correlation between them (need-determination) assures the efficiency of the marketing mix of that product.

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TAX, STEPHEN, BROWN, STEPHEN AND CHANDRASHEKARAN, MURALI. "CUSTOMER EVALUATIONS OF SERVICE COMPLAINT EXPERIENCES: IMPLICATIONS FOR RELATIONSHIP MARKETING." *JOURNAL OF MARKETING* 62(1998): 60-76. 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 Guiltiman (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 Chines 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 chose 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.b

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D.P.M. METHOD - A PERFORMANCE ANALYSIS INSTRUMENT OF A STRATEGIC BUSINESS UNIT

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Considering the uncertain economic conditions, the market dynamics, the fundamental changes in the attitudes and aspirations of the consumers along with the strong growth of the political role and interventions in the economy, currently characterizing both Romania and other countries of the world, it can be said that the need for strategic planning was never so acute as now. The strategic planning process is an ongoing organizational activity by which managers can make decisions about their present and future position. A number of analytical portfolio tools exist to aid managers in the formulation of the strategy. The use of these tools within the broader context of the overall strategic planning process allows managers to determine the obstacles and opportunities existing in the company's environment and to define and pursue appropriate strategies for growth and profitability. The present paper aims to highlight from a theoretical standpoint the D.P.M. method, its strategic consequences, advantages and disadvantages.
After conducting this analysis I have found that restricting the business portfolio analysis to the D.P.M. matrix is not a very wise decision. The D.P.M. matrix among with other marketing tools of business portfolio analysis have some advantages and disadvantages and is trying to provide, at a time, a specific diagnosis of a company's business portfolio. Therefore, the recommendation for the Romanian managers consists in a combined use of a wide range of tools and techniques for business portfolio analysis. This leads to a better understanding of the whole mix of product markets, included in portfolio analysis, the strategic position held by each business within a market, the performance potential of business portfolio and the financial aspects related to the resource allocation process for the businesses within the portfolio. It should also be noted that the tools and techniques specific to business portfolio analysis do not give accurate answers, despite the appearances created by the analysis stage, where the businesses are plotted rigorously. However, their main virtue is simplicity, as these highlight the managers' need for further investigations.
Keywords: matrix, strategic business unit, portfolio, profitability, competitive position, strategic directions
JEL classification: M31

Introduction

At the beginning of strategic business planning, almost all companies put emphasis on diversification. Over time, due to changes in the marketing environment, generated by the tightening competition, technological, social and political pressures and not only, it became obvious that a company can no longer solve the problems brought by these changes, simply by action of diversification of the business portfolio, leading to the company's business portfolio to grow quantitatively. As a result of this approach in the '70s the companies' attention switched from the actions of diversification to the optimization of the entire businesses portfolio.

Over time, a series of methods have been created with a view to support the strategy assessment and the selection process of the strategic business units within a business portfolio. Of these, the methods corresponding to business portfolio analysis stands out.

Although the concept of strategic planning has been strongly debated in the literature abroad and has been applied both in private and public sectors in highly developed economies, in Romania there have not been conducted marketing research on using this marketing tool (Barbu 2011: 87).

Business portfolio analysis is an analytical approach, whereby a company manager can view the company as a sum of strategic business units that must be managed in a profitable manner. The business portfolio analysis must become routine activity undertaken by the company, through its carrying out on a regular basis, so that decisions of earmarking of financial resources may be monitored, updated and modified with a view to accomplishing corporate objectives, correlated to the process of generation thereof carried out in an efficient way by each product (Armstrong and Brodie 1994: 2).

The D.P.M. method
Within the list of significant contributions to the business portfolio analysis domain, must be disclosed the one made by S.J. Robinson, R.E. Hichens and D.P. Wade. These management consultants developed in 1975, for the Shell International Chemicals, a method in order to analyze the competitive position within the market of the company's divisions. First, it was built to be used only in the petrochemical industry. Later was modified and reconfigured in order to be used in a large number of industries (Robinson and Hichens and Wade 1978: 8).
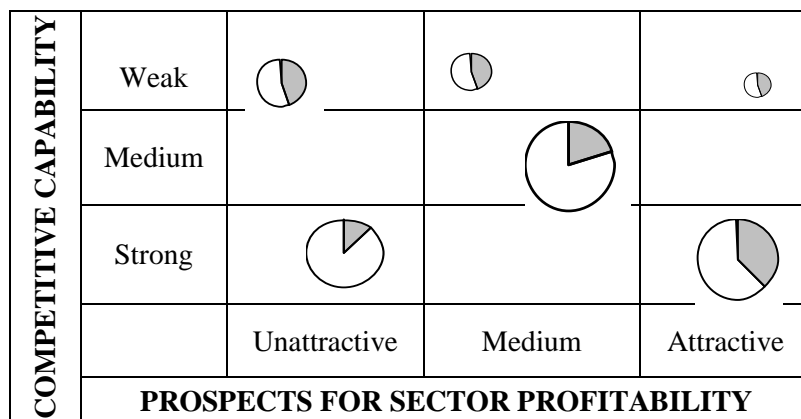
Figure 1.- **D.P.M. Method**

Source: Hussey, David (1999), *Strategy and Planning – A Manager's Guide*, John Wiley and Sons Ltd, pag. 153.

Regarding its structure, the D.P.M. method has two main axes and consists of 9 squares, being a 3x3 type matrix. This matrix is illustrated in Fig. 1. The horizontal axis measures the profitability of the economic sector (industry attractiveness) and the vertical axis measures the competitive position of the company (Thompson and Martin 2005: 427).

Thus the method examines if the market opportunities worth to be considered or not and also measures the success degree of the company in those markets (Hussey 1999: 150).

The D.P.M matrix uses a scoring method based on two indicators, which reaches a maximum of 12 points. However, other companies have adapted the scoring method, according to their needs. The scoring system used by the present matrix manages well enough to differentiate the strategic business units within an enterprise (Hussey 1999: 150).

Looking at Figure 1, it can be seen the presence of some fictive strategic business units, represented as circles of different sizes. The size of the circles represents the size of the market within the strategic business units activate and the shaded portions inside the circles represent the market share held by the strategic business units. Also, the managers must not overlook the fact that the lines of the nine quadrants can be considered flexible. This should be considered when one or more strategic business units are located very close to the edges of the nine quadrants. In practice, this should not raise problems to managers, since the matrix does not claim to be

considered a method that provides specific answers but rather a way for managers to shape a strategic perspective and to take strategic decisions.

The two indicators of the Ox and Oy axes are taking into consideration a complex set of factors. Thus, the Ox axis is based on three factors, which are: market growth rate, quality and market profitability and market supply (Hussey 1978: 2).

Regarding the market growth rate, it must be said that this is an important factor in determining the market forecasts. Also it is relevant during the decision making process regarding the investment decisions for the enterprise. Therefore, for an enterprise is more appropriate to make investments in growing markets than markets experiencing slower growth.

The second factor, of the Ox axis considered for analysis is the quality and the profitability of the market. Thus, for the analysis of this factor is recommended to give answer to the following questions: What levels of economic profitability of the industry occurred in the past?; There are many consumers and few producers or there are many producers and few consumers?; There are alternative products on the market and which is the risk for the enterprise? ; How restrictive is the technology?; There are in the market place enterprises offering post-sale products or services that complement the sales of another enterprise?

The answers to these questions will vary from company to company, depending on the particularities of their businesses. However, some of them might not be important for some companies, because there are other vital factors in the market to be included in the analysis.

The last factor to be analyzed is the supply ability owned by the suppliers within the market place, correlated with the market growth. This is not only a capacity analysis, but also an analysis of the availability of components and raw materials.

The Oy axis is based on the following factors: the position held within the market place, the production capacity and product research and development (Hussey 1978: 2).

The factor "market position" is somehow related with the market share indicator. Using this indicator the managers are trying to assess the position held by the company within the market place, in terms of its ability to lead in prices. Basically, the market position can be classified as follows: leadership, major producer, viable producer, minor manufacturer, insignificant producer (Hussey 1999: 152).

The second factor of the Oy axis refers to the company's ability to sustain their own resources, necessary in the production process and not depending on raw material suppliers. The last factor of the Oy axis covers the enterprises capability to sustain the research and product development, the distribution, the after sales service and other necessary items.

After completing the analysis of all influencing factors specific to the Ox and Oy axes, the managers can move to the next step which establishes the position held by the strategic business units, within the D.P.M. matrix. Following the graphical representation within the D.P.M. matrix, the managers start to identify the strategic options for each strategic business unit, included in the company's business portfolio. This last stage of the company's business portfolio analysis is discussed in detail in the following section which presents the implications of strategic nature.

Strategic implications of the D.P.M. method

After the process of establishing the position of the strategic business units within the D.P.M. matrix, the next step regards the identification and selection of strategic directions.

In figure 2 there are presented the strategic choices specific to each of the nine quadrants of the D.P.M. matrix.

The eight categories identified, were based on some combination of the company's strengths and the prospects offered by the respective economic domain and are ranked according to degree of importance as follows:

Leader – the strategic business units, which fall in this quadrant, are characterized by the lowest unit costs, the largest market share and the strongest competitive position. Thus, the

recommended strategy is to maintain this position. It should be noted that, initially, these types of units may need an infusion of cash from other sources of income, in order to develop. However, managers should give them high priority;

COMPETITIVE CAPABILITY	Weak	**Disinvest**	**Phased Withdrawal**	**Double or Quit**
	Medium	**Phased Withdrawal**	**Custodial**	**Try harder**
	Strong	**Cash generator**	**Growth**	**Leader**
		Unattractive	Medium	Attractive
	PROSPECTS FOR SECTOR PROFITABILITY			

Figure 2 - D.P.M. strategies

Source: Drummond, Graeme and Ensor, John (2001), *Strategic Marketing – Planning and Control*, 2nd Edition, Butterworth Heinemann, Oxford, p. 102

Try harder – this quadrant corresponds to strategic business units, which have the potential to improve their position held within the market place, but this can only be achieved through judicious allocation of resources. As such, the company should strive to push the product in the position of "leader";

Double or Quit - this quadrant includes those strategic business units that have the potential to become the flagship of the company. As such, managers should carefully assess the market attractiveness, and then select those strategic business units, to be abandoned and those units to be supported and developed. Thus, the strategy required in this situation is to abandon their development;

Growth – the strategic business units that lie in this position are characterized by high production capacity and also high capacity for research and product development. Most times, these kind of strategic business units generate sufficient financial resources which are necessary to their development and self-financing. As such, the strategy recommended in this case is to enable the strategic business units to develop in the same rhythm with the market;

Custodial – the strategic business units within this quadrant activate on markets in which there are some strong competitors. The strategy that should be applied in this case is to maintain their position, but not to allocate additional financial resources;

Cash generator - in this quadrant lays the strategic business units with a slow growth and an unattractive economic context. Also, these strategic business units are approaching the last stage of their life cycle and there will be replaced by new ones. As such, they should not receive additional financial resources for expansion, although normally they would have to hold capital to maintain its current position within the market. However, as long as they are profitable, they should be used as a source of financial resources for other businesses within the company's portfolio. So, the recommended strategy for this situation is to maximize profits and cash flow;

Phased withdrawal – the strategic business units within this quadrant are characterized by a small market share held within a market in stagnation or decline phase. Because they are not able to generate reasonable cash flow they should be "milked". Further, the financial resources collected must be invested in other businesses which are more profitable. So the strategy

indicated in this situation is phased withdrawal, correlated with the evaluation of the strategic business unit's assets, in order to redirect the available resources to other business;

Disinvest – the companies holding strategic business units within this category must immediately withdraw them from the market because they represent real financial traps. More specifically, they consume resources allocated by the company without generating measurable results. The strategy recommended in this situation is undoubtedly to reduce investment to that business in order to be eliminated from the company's portfolio.

If the portfolio is composed predominantly of mature strategic business units which are generating financial resources, the company must identify new business opportunities.

In an opposite situation, if the company has strategic business units that need cash infusions, it must find a balance between this kind of units and the cash generators units (Robinson and Hichens and Wade 1978: 15).

Advantages and disadvantages of the D.P.M. method

The D.P.M. matrix can raise some problems to managers arising from their inability to assess the competitor's moves. In other words, the accurate information about competitors is of major importance in order to determine the position occupied by the company's strategic business units within the D.P.M. matrix.

Also, the managers must define the economic domain and the market of the strategic business units in which they operate. The accuracy with which managers conduct this process may affect the place of the company within the market place and the strategies that it adopts. The measurement of influence factors, individually, adds more accuracy to the evaluation process of various aspects specific to the internal and external environment of the company (Robinson and Hichens and Wade 1978: 15).

However, it should be remembered that the measurement of influence factors is largely based on subjective assessments of managers (Drummond and Ensor 2001: 101). Also, this process depends on the access degree of managers to information and on a variety of factors, which may be mentioned: the limits of the budget, the short-term objectives and the internal policies of the company.

Given the disadvantages mentioned above, I must consider a number of strengths offered by the D.P.M. method.

As I mentioned earlier, the present method was developed in order to be used within the petrochemical industry. Thus, the adoption of this method by companies operating in completely different industries, involves the change of all evaluation factors and their measurement system. Even so, the method shows a high level of flexibility because it can be adapted to reflect the priorities and specific characteristics of any type of enterprise (Newton 1981: 52).

The D.P.M. method is an analytical financial instrument and therefore is not dependent on the boundaries of the company's financial reporting procedures.

The results of the analysis can be easily interpreted and the manager can also identify a number of meanings. Even if the conclusions are general, without going into detail, they can be used to indicate the positive and the negative directions. Thus, the D.P.M. method gives managers the opportunity to make a diagnostic analysis, both of the company and of the products.

In addition this method allows the managers to consider a variety of factors during the evaluation process of the profitability prospects of the economic sector (industry attractiveness) and of the competitive ability of the company. In other words, The D.P.M. method provides a starting point within the strategic decision making process and facilitates communication with other people, which represent decision makers within the enterprise, by reducing the large amount of information that managers are facing day by day.

Given the advantages and disadvantages of the D.P.M. method, in conclusion I can say that this is a challenge for managers because it urges them to focus on strategic thinking by which they can measure the potential of the strategic business units, in order to correctly allocate resources.

Conclusions

Finally based on the theoretical analysis I consider appropriate to insert some comments in the form of recommendation that managers can consider in the future. Thus, according to the information mentioned above, it must be highlighted that limiting the portfolio analysis to the D.P.M. method is not a very wise decision.

The tools of business portfolio analysis facilitate discussion and shape the competitive position of a company, generating at the same time questions related to the contribution of the current allocation of resources to the success and long-term vitality. However, besides the fact that these tools help managers to control the allocation of resources and to suggest realistic goals for each strategic business unit, they also offer the possibility of using strategic units, as vital resources within the process of fulfilling the objectives established at corporate level.

Therefore, the recommendation for the managers consists in a combined use of a wide range of tools for business portfolio analysis. This affirmation is strengthened by the results of a study undertaken in 2001, that highlights the fact that companies that rely only on financial instruments fail to build strong business portfolios and the companies that combine the financial instruments with the marketing and management methods obtain in the end much more competitive product portfolios in the markets (Cooper 2001).

In conclusion, I recommend the combination of the financial and strategic instruments because the top managers will better understand the whole mix of strategic business units, the strategic position held by every strategic business unit within a marketplace, the performance potential of the whole strategic business units portfolio and the financial aspects of the resource allocation process for the strategic business units of the company. It should also be noted that the tools specific to business portfolio analysis do not give accurate answers, despite the appearances created by the analysis stage, where the strategic business units are plotted rigorously. However, their main virtue is simplicity, as these highlight the managers' need for further investigations.

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Acknowledgement

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).

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 indentified 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, 2005). The theoretical underpinnings of exploratory behavior in these studies involve needing, seeking and processing information as an activity for its own sake.

Table 1

Antecedents of flow in the reviewed empirical studies

Studies	Factors determining a flow state	Proposed/Validated relations to flow
Novak et al. (2000) **Contexts of study**: general web usage	skill/control interactivity (speed) challenge/arousal focused attention telepresence/time distortion	+/+ +/+ +/+ +/0 +/+
Huang (2003) **Contexts of study:** general web usage	complexity interactivity novelty	-/0 +/+ +/+
Koufaris (2002)* **Contexts of study**: online shopping on a selected web site	skills product involvement challenges value-added search mechanisms	+/+ +/+ +/+ +/+
* statistically significant relations exist only between antecedents and one of the flow dimensions (*shopping enjoyment*)		
Skadberg & Kimmel (2004) **Contexts of study**: browsing a tourism related web site	skill (visitor`s knowledge of the web site topic) attractiveness interactivity telepresence challenge (information in the web site)	+/0 +/+ +/+ +/0
Li & Browne (2006) **Contexts of study:** general web usage	need for cognition mood	+/+ +/+
Guo & Poole (2009) **Contexts of study**: online shopping on multiple web sites	web site complexity (direct influence) web site complexity (direct influence) goal clarity congruence between skills and challenges feedback mechanisms	-/- -/- +/0 +/+ +/+
Agarwal & Karahanna (2000)* **Contexts of study:** general web usage	personal innovativeness in the domain of information technology computer playfulness	+/+ +/+
* this study uses the construct of *cognitive absorption*, a construct similar to the of flow		

Note: += positive relationship; – =negative relationship; 0= statistically non-significant relationship.
Source: developed by author

H1: The perceived level of online search skills is positively related to the intensity of the flow experience during online information search activities.
H2: The perceived level of challenges is positively related to the flow state intensity during online information search activities.
Novak et al. (2000) and Koufaris (2002) confirmed the positive relationship between the level of skills and the flow intensity, as well as between the level of perceived challenge and the flow

state (Table 1). However, flow itself has different operationalizations in the two studies. While in Novak et al`s (2000) research it is conceived as a one-dimensional construct, Koufaris (2002) measures flow indirectly through a set of related concepts (control, pleasure, concentration, 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 o 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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ELABORATING A MEASUREMENT INSTRUMENT FOR THE FLOW EXPERIENCE DURING ONLINE INFORMATION SEARCH

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Flow is a construct imported in marketing research from social sciences in order to examine consumer behavior in the online medium. The construct describes a state of deep involvement in a challenging activity, most frequently characterized by high levels of enjoyment, control and concentration. Researchers found that the degree to which online experience is challenging can be defined, measured, and related well to important marketing variables. As shown by our extensive literature review, flow measurements include antecedents, dimensions and consequences of flow.

The present paper represents a detailed description of the construct`s operationalization in the context of online information search. In this respect, our main goal is to produce a basic instrument to evaluate the flow experience of online search, in order to capitalize on the premises of an interactive, complex informational medium – the World Wide Web – and on the consequence of an exploratory informational behavior of users. The instrument is conceived to offer a primal possibility to collect data.

The composition, source and significance of the 11 scales used to measure the multiple factors of the flow experience during online search are detailed in this study with the aim to ensure the compliance with scientific rigors and to facilitate correct reports of data related to the reliability and validity of measurements.

For further research, we propose factor analysis to test the resulted instrument and to ensure that the measures employed are psychometrically sound. Factor analysis refers to a wide range of statistic techniques used to represent a set of variables in concordance with a reduced number of hypothetical variables called factors. Factorial analysis is used to solve two types of problems: reducing the number of variables to increase data processing speed and identifying hidden patterns in the existent data relations.

However, we expect our scales to perform different in the context of information search with second generation web tools and suggest further qualitative research concerning web determinants of flow.

Keywords: operational definitions, multi-dimensional construct, scale development
JEL classification: M30, M31, M39, D83, L86

I. Literature review

Novak et al. (1998; 2000) are the first to demonstrate the measurability of flow factors as well as the fact that they all relate to one another in predictable ways. Further studies have operationalized, tested and applied flow in numerous ways. They have adopted alternative operational definitions, often with different terminology of the major dimensions related to the flow construct. Collectively, these operationalizations proposed that any measurement of the construct should include its antecedent conditions, consequences, and dimensions.

Measuring skills and challenges as essential flow preconditions

The original flow theory (Csikszentmihalyi, 1990) cites *balance of skills and challenges* as the most important factor to flow experience. If challenges exceed the skill levels, people feel overwhelmed and anxious; on the other hand, if the activity is too easy, people get bored. Both challenge and skill should be situated on a level above daily average, so that the person may live a compelling experience.

However, as authors like Guo and Poole (2009) or Finneran and Zhang (2005) have noticed, most flow studies (Koufaris, 2002; Skadberg & Kimmel, 2004) analyze skills and challenges as separate constructs, which may represent a distancing from the original flow model imported from social sciences. It is generally accepted that operationalizing the skills/challenges ratio is troublesome.

Moreover, in the reviewed literature there is still a persisting ambiguity of what types of challenges and skills should be measured (those focusing on the medium, or those regarding the underlying activity).While most researchers of online flow relate online skills and challenges to interface usage issues, Skadberg and Kimmel (2004), for example, consider a vision of challenges that are provided by the available information, that is, by *the site content,* and a vision of skills that are given by the *knowledge* on a certain topic.

The multi-dimensional measure of flow itself

Flow dimensions represent indicators of the experience described by construct and they exist on a different level from the flow level (Guo and Poole, 2009; Siekpe, 2005). In other words, each dimension is necessary but not sufficient to define the flow construct. The structural models which propose multi-dimensional flow measurements start from the consideration that there is a certain inter-correlation level of these dimensions, which indicates the effect of a underlying higher-order construct.

The central dimension of the online optimal experience is *enjoyment,* the most common flow measure. The state of mind associated with flow is extremely gratifying and self-motivating (Koufaris., 2002; Huang, 2003; Li and Browne, 2006; Guo and Poole, 2009). Focusing attention on the task also represents a major indicator of the flow state. Koufaris (2002) considers *concentration/attention focus* a flow measure and he studies it in the context of online shopping activities. The attempts to operationalize control as a flow dimension include Koufaris' (2002), Huang`s (2003), Li and Browne`s (2006) and Guo and Poole`s (2009) structural models. Huang (2003:429) speaks about "a sense of control over the computer interaction". Li and Browne (2006) define *control* as the individual's perception of the fact that they have the responsibility of an activity or of an environment.

Operationalizing and measuring design factors of a flow experience

The Web offers a special environment for the flow experience (Chen, 2006; Huang, 2003; Skadberg and Kimmel, 2004; Novak et al., 2000; Koufaris, 2000; Guo and Poole, 2009), as it provides rapid feedback and orientation, which support users` concentration, offer them intrinsic motivation and a feeling of control over their actions.

In flow models, rapid feedback and orientation are operationalized using the constructs of: (1) *interactivity* (Novak et al., 2000; Skadberg and Kimmel, 2004), (2) *value added search mechanisms* (Koufaris, 2000) or (3) a *fast, unambiguous feedback mechanism* (Guo and Poole, 2009). Novak et al. (2000) build upon Steuer's (1993) three-part conceptualization of interactivity: *speed*, *range* and *mapping*. The *speed of interaction* refers to the rate at which input can be assimilated into the environment – a variable which has a maximum value represented by real-time interaction (a common value for broadband Internet today). *The range of interactivity* refers to the number of possibilities of action at a certain moment, and *mapping* refers to natural and intuitive reactions of the system to actions initiated by users. Guo and Poole`s (2009) conceptualization of *a clear feedback mechanism* entails its capacity to show the user his/her progress in achieving an online goal (search goal, shopping goal, etc). For Skadberg and Kimmel

(2004), interactivity is determined by *response speed* (as suggested by Steuer) and *ease of use*. *Ease of use* refers to the navigational characteristics of the web site.

A related concept both to *interactivity* and *ease of use* is *usability*. *Usability* is a concept largely used in information systems and marketing literature, which generally refers to the totality of attributes which make a technology easy to use (Pearson and Pearson, 2008). One of the elements which ensure increased usability is *coherence* – that is applying a unitary pattern of presenting information, instruments and surfing clues and/or a unitary interface for similar tasks. Guo and Poole (2009) study the web site complexity (a concept opposed to that of usability) as one of the important interface design variables that influence flow.

If *navigability* and *usability* refer mainly to those characteristics of the Web that determine or support users' decisional processes, the construct of *telepresence* describes an online state that does not require cognitive involvement of the user, but can resume to a multi-sensorial engagement in the virtual reality. Telepresence is the perception that the virtual environment one is interacting with is more real/dominant than the actual physical environment. Authors like Novak et al. (2000) or Skadberg and Kimmel (2004) tested telepresence as a flow antecedent, while others like Pace (2003) proposed telepresence as one of the flow dimensions.

Proposing and measuring personality factors of flow

Considering that flow is less about predicting behavior and more about predicting a person`s affective state (which may in turn influence behavior), Finnerang and Zhang (2005) suggest that individual differences can yield very different flow experiences from the same activity. The difference among individuals is not merely in their online skills, but also in their underlying attitude towards web technologies. Agarwal and Karahanna (2000) proposed and tested *personal innovativeness* as an important determinant of a flow like experience (*cognitive absorption*).

II. A Measure of Flow during Online Information Search

In order to measure challenges and skills related to them in an online search activity, we have adapted and rephrased the original scales used and tested by Novak et al. (1998; 2000) with positive results (α alpha=0.86 for the skills scale and α alpha=0.87 for the challenge scale). In the context of the present research, both skills and the challenges correlated with them refer to the online search process, ignoring other general informational abilities and offline literacies of users:

> - *I am extremely skilled at web search.*
> - *I consider myself knowledgeable about effective search techniques on the web.*
> - *I know somewhat less than most users about web search. (-)*
> - *I know how to find what I'm looking for on the web.*

Beside the user's perception about his/her skills, we have supplementary introduced a second personal factor in our measurement instrument: *innovativeness towards online search applications (tools)*. To be able to measure it, we have adapted Agarwal and Karahanna's (2000) *personal innovativeness* scale, positively tested by the authors in the context of general web use (α alpha=0.87):

> - *If I heard about a new online search application, I would seek modalities to test it.*
> - *Generally, I hesitate to try out new online search tools. (-)*
> - *From all the people I know, I am generally the first to try out new search applications.*
> - *I like testing new online search applications.*

In order to evaluate the *navigability* of the web environment, we have rephrased in our study a subscale of interactivity suggested by Novak et al. (1998) using Steuer's (1993) interactivity model. From our point of view, *navigability* represents the adaptability of the information system to users' surfing needs offering them a relevant map to manage the complex, often oppressive, informational space.

> - *Surfing the web with the available browsers is natural.*

- Web interaction is intuitive.

We have considered *navigability* essential in defining web 2.0 experiences and we have reintroduced it into flow measure, although previous tests did not obtain good results in the context of an incipient stage of web development. In light of this, we recommend further qualitative studies to perfect operational definitions of navigability in the context of exploratory search interfaces.

In order to measure *telepresence*, we have partially used the scale designed by Novak et al. (1998). The original scale (Novak et al., 1998) operationalizes a subjective experience generated by the multi- and hypermedia attributes of the web and it was successfully tested by the authors (α alpha=0.69) in the context of general web usage:

- During online search I forget about my immediate surroundings.

- During online search I feel rather in the online environment than in my immediate surroundings.

- During online search I feel that I am in a virtual reality.

A concept closely related to *navigability* is *usability,* a term that is used especially in information systems research (Pearson and Pearson, 2008; Guo and Poole, 2009), where efficiency of structural web organization is described. Broadly, *usability* comprises aspects related to the utility of web content. Guo and Poole (2009) measure the perceived complexity and speak about the necessary cognitive effort to understand websites. We have taken some items from the *perceived complexity scale* referring to dynamic complexity and we have transformed it, by rephrasing the positive pole, in the expression of web *usability* (that is, approaching it from a structural point of view):

- The web is a coherent medium.

- The web is a logical medium.

- The web is a predictable medium.

- The web is an organized medium.

Based on the conceptual multi-dimensional flow definition, we have applied distinct operational measures for each aspect of flow experience (Table 1) and we have used a common measure accomplished as a simple arithmetic mean of the four scales.

Online search requires special skills, providing users special satisfactions, both extrinsic (related to search results) and intrinsic (related to enjoyment of using digital devices and applications). For the present study we have used a scale to measure intrinsic enjoyment of online search, a scale that uses items from Koufaris's (2002) scale (α alpha= 0.81) and from Guo and Poole`s (2009) scale (α alpha= 0.91).

The dimension called *sense of control* is operationalized in a narrow sense, that of the user`s capacity to control online search. In the reviewed literature, conceptions regarding control measurement are extremely varied and they often include both elements describing user characteristics and elements related to the system`s capacity to respond to users' initiatives (or to transfer initiative). To measure the sense of control in the context of online search we have used a variant of Guo and Poole's (2009) scale, tested by them in the context of online shopping (α alpha=0.90).

In marketing literature, the construct of *attention focus* is often a synonym for involvement and it describes the cognitive dimension of active participation in the consumption experience (including media consumption). In our research, we have used Guo and Poole's measure (2009) for *focused attention* (α alpha=0.90) and we have extended it with Huang's items (2003) from his *focused attention* scale (α alpha=0.82). We named the resulted scale *attention focus*.

The measure of *time distortion* entirely uses Guo and Pool`s scale called *transformation of time*, that has proven consistent reliability (α alpha=0.92) in the context of online shopping.

Table 1

Describing scales used in flow dimensions measurement

Construct measured	Significance	Scale items
Sense of control	It measures the level of trust in one`s own capacity to control the evolution of an online search session.	- *I feel in total control of the search process.* - *I feel like I could control the search process.*
Attention focus	It evaluates the degree of focusing attention exclusively on the online search process.	- *My attention is focused entirely on the search process.* - *It is no effort to keep my mind on what is happening.* - *I have total concentration.* - *I think about other things. (-)* - *I am aware of factors that distract attention from the search. (-)*
Intrinsic pleasure	It evaluates the degree to which a search activity is enjoyed for its own sake, irrespective of attaining one`s initial search goals.	- *Search is generally interesting.* - *Search is generally fun.* - *Search is generally exciting.* - *Search is generally enjoyable.* - *I really enjoy the online search experience* - *I love the feeling experienced by online search and I want to capture it again.* - *The online search experience leaves me feeling great.* - *I find the online search experience extremely rewarding.*
Time distortion	It measures the degree to which the user sets free from time pressure.	- *Time appears to go by very quickly when I`m searching online.* - *Time flows when I`m searching online.* - *I`m losing track of time when I`m searching online.*

Source: developed by the author

To measure exploratory behavior as a result of online search experience, we have used a three-item scale adapted after Novak et al. (2000). The exploratory behavior scale measures the degree to which the user is open to experiments and innovation in his information search behavior:

   - *I like experimenting during information search.*
   - *I enjoy exploring the web just to see what information it offers.*
   - *I like to click on a link just because it seems interesting.*

III. Future research agenda: data collection and data analysis strategy

The plan that we have conceived to collect data includes the creation of a survey which has questions referring to the six antecedents of the flow experience (skills, challenges, innovativeness, interactivity, usability, telepresence), to its four dimensions (pleasure, sense of control, attention focus and time distortion) and to exploratory behavior as flow consequence. The eleven flow related constructs are going to be operationalized with five-point rating scales (scale values from strongly disagree to strongly agree). The survey will be an online form, based on a web application specially designed and developed for our future research.

Using PHP and HTML, the online application will be adapted to the type of collected data and will ensure the possibility to select the questions and variants for answers from the data base, as

well as that of posting them on the user interface. Security and efficiency of stocking questions and answers will be ensured by the data base engine MySQL, especially due to the large variety data that it can stock.

Moreover, MySQL will offer enhanced flexibility in manipulating data during research, allowing a real-time intervention and the possibility to improve the research instrument based on incipient feedback from respondents.

After collecting data, we will test reliability and validity of the scales using factor analysis. First we will apply an exploratory factor analysis to confirm the constructs` unidimensionality. In the second stage we will use a confirmatory factor analysis to test the construct`s validity, by identifying which items load on a particular factor and establishing a factor loading threshold. We will also test the reliability of each scale using Chronbach`s coefficient alpha.

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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 barters. 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 barters. 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 disappeared 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 barters. 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 barters 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 barters. 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 luxurios 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 it`s 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 barters.

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 barters 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 barters 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 LETSystems 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. LETSystems 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 incresing 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 Reciprocical 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 Aprill 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 intersting. 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 barters. 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. Ie 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 theier 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 that 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, qurrying, 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 aroung 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 hels 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 afirmed 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 barters benefits it expanding the distribution channel.

Start-up businesses are the most that didn`t made a swap. 3 of them were set up after 2006. The old firms are likely to understand the benefits of this kind o exchange.

The number of employees is not conclusive when it comes to barters. 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 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 addition value paid for the product you need it is balanced with the addition value for the product you offer. You can say that you gain something with 20-30% less. Barter should be a very fair trade, therefor the added value of assets that make the exchange object should be the same.

Nowadays due 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, at 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 habbit was present in mens life from the beginning of time by trading food, tools or goods; it couldn`t dissapear suddenly because it has many benefits. It is still present at a reduced scale due 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 influent 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, than 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	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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NEW APPROACHES TO CUSTOMER BASE SEGMENTATIONFOR SMALL AND MEDIUM-SIZED ENTERPRISES

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The primary purpose of this paper is to explore current praxis and theory related to customer segmentation and to offer an approach which is best suited for small and medium sized enterprises. The proposed solution is the result of an exploratory research aiming to recognize the main variables which influence the practice of segmenting the customer base and to study the most applied alternatives available for all types of enterprises. The research has been performed by studying a large set of secondary data, scientific literature and case studies regarding smaller companies from the European Union. The result of the research consists in an original approach to customer base segmentation, which combines aspects belonging to different well spread practices and applies them to the specific needs of a small or medium company, which typically has limited marketing resources in general and targeted marketing resources in particular.

The significance of the proposed customer base segmentation approach lies in the fact that, even though smaller enterprises are in most economies the greatest in number compared to large companies, most of the literature on targeting practices has focused primarily on big companies dealing with a very large clientele, while the case of the smaller companies has been to some extent unfairly neglected. Targeted marketing is becoming more and more important for all types of companies nowadays, as a result of technology advances which make targeted communication easier and less expensive than in the past and also due to the fact that broad-based media have decreased their impact over the years. For a very large proportion of smaller companies, directing their marketing budgets towards targeted campaigns is a clever initiative, as broad based approaches are in many cases less effective and much more expensive.

Targeted marketing stratagems are generally related to high tech domains such as artificial intelligence, data mining and marketing analytics and presuppose the availability of sophisticated computer software and specialized personnel. The methodology proposed in this paper takes into consideration the fact that, due to financial and time-related constrains, smaller companies need a more practical and straightforward solution for segmenting their customer base. The simplicity of the solution, however, should not come at the expense of its efficiency. The original contribution of this paper resides precisely in the fact that it aims to offer the best of two worlds: the simplicity and cost-effectiveness of plain methods which can be used without the aid of specialized software and the high return on investment given by the use of artificial intelligence algorithms such as clustering.

The main implications of this paper relate to the fact that it draws attention to how targeted marketing can be performed successfully by companies with restricted budgets by providing an actionable set of guidelines which can be put into practice by smaller enterprises using limited efforts and resources.

Keywords: segmentation, customer base, small and medium sized enterprises, cluster analysis, targeted marketing

JEL classification: M31

I.Introduction

Data about customers is extremely important, as it constitutes the basis of efficient marketing decisions. The business logic of performing a customer base segmentation is concisely described by Philip Kotler: "The key point is that the marketeer needs to define the target market as

carefully as possible. The *mass market* is too vague. It is hard to make a product that everyone will want. It is easier to make a product that some will love. This has led businesses to pursue niches and mini-markets. But the downside is that as markets become sliced into finer segments, the resulting low volume in each will permit only one or a few companies to survive in that market." (Kotler 2003: 122)

This is why many businesses go out of their way to collect as much customer-related data as possible. However, for those businesses which deal with a large clientele, collecting customer profiles and sales data is not a solution all by itself and the real challenge is making sense out of great volumes of data. The end goal of dealing with customer data is developing marketing segmentation strategies and tailoring marketing activities to customer characteristics in order to use resources more efficiently and increase the success of the activities. For this purpose, patterns need to be recognized and, furthermore, shaped according to the business objectives. Identifying groups of customers which have similar needs is a first step for targeting marketing efforts and budgets towards the most rewarding groups of customers. Sometimes, segmenting the customer base is as simple as performing a classification of customers by one or more characteristics, while at other times a complex cluster analysis may be required, which is often done with the aid of specialized computer software.

The most common data sources available for the purpose of performing a customer base segmentation are data sets of commercial transactions, third party marketing research data and data obtained from customized research. The main advantages of customer segmentation are the following:

- it simplifies the data related to customers for analysis, as it groups together data sets which are relatively homogenous and therefore facilitates pattern recognition and helps reveal hidden relationships
- when building a model to predict future purchases, it is useful to group the data in order to reflect the underlying characteristics of different segments of customers; if several models are generated - one for each customer segment - the predictions will be, in most cases, simpler and more accurate
- response models can be developed for marketing campaigns based on past behavior of a certain customer segment

Segmenting the customer base is derived from categorical or continuous data and can be done based on various criteria, among which:

- geographic criteria - customers can be divided into local, national and international or can be categorized into groups based on their geographic location
- demographic criteria such as age and sex
- psychographic criteria such as behavior and attitudes, including brand loyalty and product preferences
- economic criteria expressed as values or ranges related to the amount of business transacted over a given period of time, the contractual value, profitability etc.

II. Customer base segmentation approaches

Segmenting the customer base can be performed in many different ways according to the business logic. However, all the approaches have one thing in common: they involve a pattern recognition process, which means assigning labels to each individual customer. These labels can be further on used to group together individuals which share one or more distinctive characteristics that differentiate them from the individuals which are not included in the group. Grouping customers based on some measure of inherent similarity facilitates choosing the most suitable target segments according to the marketing strategy and using resources more efficiently by customizing the marketing campaign to each selected target group.

Pattern recognition algorithms aspire to supply a reasonable output for all inputs and utilize fuzzy logic, operating with fuzzy logic variables which may have a truth value that ranges in degree between 0 and 1. The reasoning in fuzzy logic is similar to human reasoning and allows for approximate solutions. The simplest and most common approaches to customer base segmentation are performing a simple or multi-criteria classification and employing a cluster analysis.

Classification assigns each input to a set of classes. Statistical classification represents identifying the sub-population to which a certain new observation belongs, based on quantitative information on one or more characteristics and taking into consideration an initial training set of data containing observations whose sub-population is given.

Clustering is an application of associative rules mining and it aims to group the data into sets of related observations or clusters. Observations within each group are similar to observations within the same cluster and at the same time dissimilar to observations in other clusters. In contrast to classification, which is a supervised learning technique, clustering is unsupervised. There are no initial training data sets containing predefined classes and no examples to indicate possible relations among the data.

Due to the fact that market and customer base segmentation have in time been proven to be essential for the success of any regular business, from big corporations to medium and small enterprises, the domain is continually under study and various mathematical approaches, as described above, are designed with the aim of optimizing the results. In order to perform classifications and clustering on large sets of data, specialized computer software and personnel are required. While companies with large turnovers are generally in the position to be able to allocate significant financial resources and personnel to attain this objective, for the small scale enterprises the problem of customer base segmentation can be more difficult to control. The basic dilemma for most startups and the majority of established small and medium companies is the fact that marketing research requires time and money, while they generally operate in an extremely dynamic business environment and have a limited budget that must cover all their activities, including promotion and sales support.

III. Exploratory research regarding targeted marketing approaches suitable for small and medium-sized enterprises

The final purpose of the present research is to formulate a viable strategy for a small scale business that needs to develop but does not have the resources and the logistics that large companies employ in marketing and sales support research. In order to arrive at the conclusions presented in this paper and to create a set of guidelines to be used by small and medium-sized enterprises in planning targeted marketing campaigns, an exploratory research has been performed with the following objectives:

- to get familiar with the concepts of targeted marketing and customer base segmentation in general and in the context of small and medium-sized enterprises in particular
- to recognize the most important constraints which smaller companies have to face when planning marketing campaigns
- to determine the most important variables and to identify the most common alternative approaches available in customer base segmentation
- to generate ideas and create an original approach customized for smaller businesses

The following research methods have been employed:
- the analysis of secondary data from institutes of statistics, journals and publications
- case studies
- in-depth interviews conducted with marketing specialists or entrepreneurs with a background in small and medium-sized businesses

- focus group discussions with marketing specialists working in the small and medium-sized business environment

The research was done using a flexible approach, based on collecting ideas from various scientific writings and case studies and making intuitive associations, with a focus on qualitative aspects and formulating empirical conclusions. The results of the exploratory research consist in a set of guidelines created to be used by small and medium-sized businesses in the process of performing customer base segmentations. This research will be further expended in the future with a comparative analysis of different customer base segmentation approaches, taking into consideration the following aspects: costs, effort to implement, efficiency measured by key performance indicators such as activation rate, sales uplift and return on investment.

IV. Guidelines for performing customer base segmentations by small and medium-sized businesses

The result of the exploratory research performed consists in a model approach to the issue of customer base segmentation, which is intended to be at the same time effective, low-budget and fast so that it can be employed by small scale companies. The approach is based on principles related to computational data mining in general and cluster analysis in particular, but it can be applied in an empirical way, without the use of sophisticated software or data warehouses.

The end goal of the proposed method is to obtain a categorization of the customer base which facilitates addressing each group of customers with a customized offer, increases the success rate of the marketing campaign and makes business sense in terms of logistical and efficiency-related criteria. The method must also provide an easy way to incorporate new clients into the categorization and to adjust to the changes that take place with the customers that have already been assigned to a group. The most important issue is the selection of the criteria which will stand at the basis of the segmentation. In order to facilitate an empirical approach, the method proposes the recognition of 3 segmentation criteria which are most important. In order for a specific characteristic to be used, besides being relevant, the condition is that the company has and is further on able to collect the necessary data for estimating the value of the characteristic. The company will further decide whether or not to use all of the 3 criteria in performing the segmentation. However, the number of criteria should be limited to 3 in order to allow the graphical representation of the customers in a 3-dimensional space, having as axes the criteria identified as being the most important.

The next step involves the creation of "anchors", which will be defined as real or hypothetical clients which are representative for a whole group. For an established company, the selection of its "anchors", as a basis for the segmentation process, should capitalize on the Pareto principle (the 80–20 rule or the law of the vital few) that, applied in economy, states that roughly 80% of the sales come from 20% of the clients. Practically, the segmentation process starts with the graphical representation of the best clients. The number of customers which will be taken into consideration as "best clients" should be, for practical reasons, relatively small in order to facilitate performing the segmentation without the use of sophisticated computer software. The method can also be applied to a startup company, in which case the "anchors" can be based on theoretical (ideal) clients.

If collecting data on the 3 criteria selected as axes requires special efforts, the company should invest most of the resources in obtaining precise measurements about the most important clients. Data for the clients which are less important from a business point of view can be approximated without causing a great negative impact to the end result. If two or more of the best customers are considered to be situated graphically very close to one another, they will not form separate "anchors", but will be replaced by a single "anchor" whose coordinates will be calculated as an average of the coordinates belonging to the individuals. To increase the relevance of the

graphical model, the company can calculate a weighted average, considering as weights economic criteria related to the value of the customers.

After all the "anchors" have been established and graphically represented (Fig. 1), the 3-dimensional space will be divided in such a way as to obtain a distinct region surrounding each anchor. The division can be done in an approximate manner, based on business experience and intuition. If some "anchors" are considered more important than others, they can receive a larger space in the geometrical model. After the space has been divided, all customers belonging to the customer base can be graphically represented and assigned to a group (Fig. 2). However, it is no longer necessary to continue the graphical representation, as the classification can be further performed based on algebraic calculations involving coordinates. To speed up this process, the calculations and classifications can be automatically performed in a spreadsheet, with the aid of formulas.
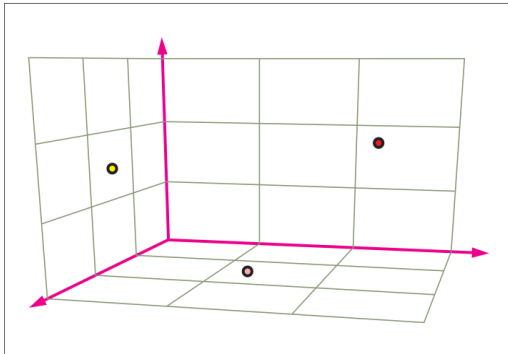

Fig. 1. Graphical representation of the
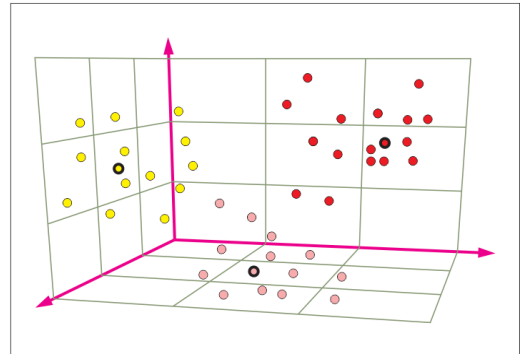
customer groups (created by the author)

Fig. 2. Graphical representation of the "anchors" (created by the author)

As a general rule, this whole process is designed as an iterative operation which involves trial and error and is being conducted, controlled and dynamically adjusted in strict correlation with the real feedback that is obtained from the market. The accuracy of the segmentation process is to be reevaluated periodically, whenever actual sales results or new sets of market data become available.

Companies that apply targeted marketing approaches need to pay attention to the following constraints:

- data set size: the selected target groups can only be used for marketing campaigns if they have an appropriate size; if a target group is too large for logistical reasons, it can be further divided into subgroups and if the size of a target group is insufficient in terms of the expected results of the campaign, it can be combined with other groups and addressed with an adjusted campaign message

- the identified target groups should be interpretable and actionable: the combination of characteristics based on which the groups have been defined should ideally be extremely relevant from a business logic point of view; the rationale behind the customer base segmentation should be intuitive and there should be a high probability that all the customers within a group would react positively and similarly to the campaign message

- if the customer base is segmented in different ways, according to different criteria, and the results of the segmentations are combined, special attention must be paid to overlapping groups, as it would be highly undesirable if some of the customers are included in more than one target group and addressed with many campaign offers, potentially conflicting, at the same point in time

- a balance must be obtained between the number of targeted segments and the corresponding campaign costs; the more customer groups are targeted, the higher the activation rate and, at the

same time, the higher the costs; when deciding which customer groups to target, the return on investment should be forecasted based on the expected activation rate and the decision should be based on trying to achieve the highest return on investment

- legislative constraints should be taken into consideration especially when having customers from different geographical regions or industries in the same customer group; the terms and conditions of the promotional offer targeted towards a group should comply with the legislation which affects all of the customers from that group

The customer base segmentation represents an important step in performing a targeted marketing campaign. The typical succession of steps can be described as follows: defining the marketing strategy; determining the available budget; performing the customer base segmentation; setting the planning parameters such as offer, discount value, promoted products; documenting the decisions made regarding the campaign and consolidating all data in the form of a campaign package containing the campaign objective, campaign message, campaign costs, available funds, and customer list including contact information; implementing the campaign based on the campaign plan; measuring the results of the campaign and collecting feedback; analyzing the results and drawing conclusions applicable in the future planning process.

V. Conclusions

Segmenting the customer base according to the proposed set of guidelines is not an automatic task, but rather an iterative process of knowledge discovery. The segmentation can be perfected over time by adjusting the parameters based on the feedback collected from the market. Even after a very good configuration of the model has been identified, changes still have to be made periodically to reflect the transformations that have happened to the customers. The proposed method is very effective assuming that a small number of customers generate a large percentage of the company's turnover, which is true for most small and medium-sized companies. In case of an atypical customer distribution, the model needs to be adjusted.

The original contribution of the model is the fact that it translates a scientific approach to customer base segmentation to an empirical method which can be employed with minimum resources by smaller scaled companies, without loosing much in terms of efficiency. The method applies the most important principles on which clustering algorithms are based and adapts the approach in such a way that it can be performed intuitively, without the use of specialized software, offering a guide for smaller companies to segment their customer base and perform targeted marketing activities.

The importance of this paper lies in its aspiration to draw attention to the fact that targeted marketing is a very important alternative for small and medium-sized businesses striving to invest their limited marketing resources in the most efficient manner available. Its role is both theoretical, as it aims to stretch out the concept of customer base segmentation to the small and medium-sized business environment and practical, as it provides an actionable set of guidelines for the use of smaller scaled companies.

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COMMUNICATION BY MEANS OF THE NEW SOCIAL NETWORKS

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Abstract:
In our days, the electronic communication media is important because the communication forms based on interactivity lead the participants in the act of sending and receiving information to become more than simply issuers, listeners or viewers, integrating them into a dynamic system.
In this approach, the study paper aims to prove the relationship between personal development and that of society determined by the new interactive communication instruments. At the individual level, training, education, health, interpersonal relationships are easier to be acquired and amplified Also, the local communities, companies, educational institutions or non-profit organizations increasingly approach themselves to the citizens, receive their problems and try to solve them efficiently. On the other hand, the expansion of the modern means of communication became possible by the steadily decreasing costs of information and of the appropriate management technologies.
Virtual communities may, however, only partially replace the traditional communities and the direct physical interaction between people, because online connections are made between people, not between places. Moreover, a high degree of interconnection involves the spreading of ideas, links and various discoveries or improvements of some already existing equipment and processes.
The content of this study paper is created using secondary sources of information – with limited and also limiting feature – in an office research, the areas of analysis being studied separately. The result of the study paper is to evidence the fact that the interest for the interactive electronic communication is increasing.
We support the idea that such communication contributes to business development in a particular field, in the social sector, but it is better to be aware of its less desirable effects from which we can notice the loss of privacy, the identity theft, the aggressive promotion etc.
In our opinion, in this study paper we only partially achieved to highlight the increasingly strong relationship between communication, interactivity and electronic media and, therefore, we hope that this demarche will be continued in other research.
Keywords: interactive communication, social networks, virtual communities, multimedia, target.
JEL classification: D83, L86

1. Introduction

The present period is expressed not only by the increasing quantity of information, but also by diversifying the ways in which it circulates. However, bear in mind that profound changes occur in the way information is required and provided, in the way the information providers are organized and in the one the information depositories are functioning and are being organized (Tran and Stănciugelu 2003: 17).

Regarding the multimedia communication of information, this is an interactive one, the user being able to intervene in requesting or changing what he receives. The new multimedia technologies prepare the conditions of communication in virtual worlds. Multimedia will suppress neither the content nor the traditional supports of information. They will complete, enrich and appreciate them instead.

2. Elements on the interactive communication by means of Internet

By means of interactivity, people learn how to faster and better communicate, their personal and professional concerns, traditions and customs, being in a permanent change. Thus:

- „virtual communities", based on common interests are formed or the contact and the collaboration between organizations are facilitated;
- contacts with people - individually or in group are initiated - in a more simple way, and new channels of collaboration can be developed;
- the access to information is made differently, it is important that they are received quickly, in various forms and from many sources.

Nevertheless, the most important aspect of the interactive communication is that it determines the participants in the act of sending and receiving information to become more than simply issuers, listeners or viewers, integrating them into a dynamic system. However, it is also a transformation of society and of many aspects of the human life which takes place. Local communities, businesses, educational institutions or non-profit organizations increasingly approach themselves to the citizens, receive their problems and try to solve them efficiently. At the individual level, training, education, health, interpersonal relationships are easier to be acquired and amplified.

On the other hand, the expansion of the modern means of communication became possible by the steadily decreasing costs of information and of the appropriate management technologies. Although many users still do not have enough money to benefit from the nowadays discoveries "at home", it is relatively easy and not too expensive to use them in some specially designed public places, such as educational institutions, citizens information centres, Internet cafés etc.

Individuals and groups with some connections or interests to the organization can maintain constant contact, with each other and with its management also; they can disseminate knowledge and experience to each other. Using the modern interactive communication, a user can contact his family, friends, colleagues by e-mail, social networking, forums; a reporter may be up-to-date by consulting the websites of organizations and receiving a newsletter or reading the corporate blogs.

The modern communication systems are able to be considered a factor in boosting the world, as they expand the cultural exchanges, reduce the physical distances and offer a different vision of life - an optimistic one, in terms of various interests. We can consider ourselves being involved in a fundamental change regarding: the way of dealing with reality, the access to information and their processing, the manifestation of purchasing and consumption behaviours in various fields etc.

The issues outlined above have formed the basis for the emergence of an integrated concept – „new media", which refers to the result of convergence between the traditional media system (television, radio, print), telecommunications, the digital technology and computer systems. These media are new both in terms of the technology development, and in those special features that require a different mindset on communication and society.

"New media" establish contacts between million people, in different regions, using computer networks connected to the Internet, telecommunications equipment etc. The computer performs, in this context, the function of receiving, storage and management of various information (text, sound, image) in digital form. It facilitates, subsequently, their transfer by digital telephone lines, optical fiber cables, communication satellites etc. (Manovich 2001: 19).

Thus, the online behaviour is determined by the way in which the virtual environment features interact with the features of those involved, so that we can refer to the users' traits such as: computer use skills, knowledge of the motivations for the Internet use and of the applications for which it provides support and information, demographic features (age, socio-economic status, occupation etc.).

Therefore, the Internet becomes an encouraging factor for interaction and success of the socio-economic plan because of its open standard for digital data transmission - voice, video and text - from one user to another, from one to many others remote.

Internet and World Wide Web are some extremely effective ways to accommodate and transport digital information around the world, presenting three important characteristics:

- *Global coverage*. The Internet and the Web sites have become the main platform for national and international contacts. They are landmarks for the educational institutions, which may present their offers of educational services to a world „market"; they give people from different countries an opportunity to exchange information and ideas and to learn about different cultures and social systems.

- *Convergence*. The Internet supports data transmission by electronic equipment used by the educational institutions, from the telephone to television systems for distance learning so that it creates a bridge between the continuous flow of information (TV model) and the facts oriented search (the website model).

- *Innovation*. Above all, the Internet has become the most powerful promoter of innovation. Due to its open and flexible protocol, many companies earn large amounts of money by developing new ways to use it. By means of the Internet, new ideas can be developed and launched quickly, the potential recipients can be found more easily, and the effects can be easily identified and tested. No other mechanism can provide such instant links between investors and their clients.

3. Research on the extension of social networks

Social networks are „maps" of relations between individuals indicating ways in which they are linked from casual knowledge to strong family ties. In the online environment, the social networks refer to a category of online applications that enable connection to friends, business partners and interest groups (Mitruţiu 2005: 5).

Thus, in these online communities, an initial set of founders send messages inviting members of their personal network of contacts to join the network. New members repeat the same process and help increase membership and ensure some global links. The sites provide services such as the online business cards updating which contain the email addresses of their acquaintances, the viewing of the members' profiles, the creating of some new contacts by providing services (Mitruţiu 2005: 27).

As the social interaction is increasing in the online environment, it was taking into account the question of an adequate management of virtual relations, such networks being more efficient as the number of participants increases. Individuals can become members of many different online communities based on the diversity of interests manifested in personal and professional life.

Statistics show that the number of the users of social networking sites internationally soared in the recent years, and their influence was confirmed in every major event, by benefiting from the continuous Internet access by means of wireless Internet and smart phones. For example, according to www.ziare.com the largest social networks have a total of over one billion users, the most popular being Facebook (845 million), which is followed by LinkedIn, with 150 million and Twitter, with 127 million.

Virtual communities may, however, only partially replace the traditional communities and the direct physical interaction between people, because online connections are made between people and not between places. Moreover, a high degree of interconnection involves the spreading of

ideas, links and various discoveries or improvements of some already existing equipment and processes.

We can notice that a growing role in media is supported by users - as producers of audio, video or text, while the Internet provides platforms underlying the change on patterns of behaviour in this area. The new culture on the Internet is a consumer content creation, consisting of things such as the 30 million blogs existing today or the about 80 million photos available on Flickr.com. Thus, the audience itself (estimated to one billion users) creates a new type of social media.

The phenomenon under review already led to the creation of a more promising „business" for the next period Internet, such as YouTube, Facebook, Twitter and MySpace, Hi5, Pininterest - to name just a few sites with the most growth rates on the Internet. They provide daily information, propose millions of photos and videos (some made by a user) for viewing and bring many people together. All these sites are free of charge, just a few generating profits. Their goal is to create communities and draw their attention to them and when they turn into companies, most of them will be purchased by the current „giants". And the phenomenon is expanding, Google competing, recently, with the social networks by adding to its email service, Gmail, some functions that allow users to change their status and share content with friends online (Google +).

Moreover, the expanding of the social networks has led many consumers to try to use them for promoting their business. The web technologies as well as the mass attraction offered by the opportunity to create online connections transform, thus, the social networks into some attractive means for businesses seeking to increase their popularity, credibility and influence (Radu 2010).

The social networks are growing not only in economics but also in health care - Sickweather will be a social networking service to monitor diseases in the circle of users' friends and to predict epidemics. Basically, the service collects public data from social networks like Twitter and Facebook as well as from the users, in order to provide information on trends in the disease. People can use the information to decide if their symptoms fall into the patterns of a certain disease and deserve a more attention or to prepare a healthy diet (Dulămiţă 2011).

In its turn, Microsoft has launched a social network called So.cl (read „social") which is available only to few people, but the representatives of the company have said that So.cl will be a social network for students, to help them to share information quickly, to build pages or to obtain information quickly, to transform the existing social networks in a large classroom (Nedelcu 2011).

4. Effects of the social networks extending - the appearance of Pinterest

The examples given above on the extending of the social networks are not unique; a proof of it being another social network that constantly attracts users, but also creates social media discussions. We refer to Pinterest, which already attracted 11 million unique visitors (according to compete.com) only in the United States by January 2012, increasing 9200% over the same period of 2011, when there were about 120,000 unique visitors (Crăciunescu 2012).

The idea of this network came in 2009 and belonged to a Google employee, who wanted to create a virtual environment where people could upload photos, where they could exchange recipes and advice regarding raising children and organizing weddings (Serghescu, 2012). But, with the passage of time, it has become increasingly obvious that Pinterest working tools can be used both for the personal use and for supporting companies, evidenced by the brands that are already present on this social network.

Specifically, Pinterest is a virtual panel which allows users to share pictures and links that they find interesting and inspirational, with others. After being transferred to other users, these images become "pins" which can be arranged on themed "boards" that can be customized according to any theme. If something was "pinned", then it may be repined by other Pinterest users. If the account was created, traffic can be made on a page of a product on its own website and its

Pinterest users are allowed to transmit these „pins” on Facebook and Twitter. This network slogan is „Organize and share things you love.”

Considering the analysis of comScore - a company that measures the digital world, Pinterest created a great stir in the United States and it seems to be growing ever more on the large markets in Europe. Thus, on our continent, the market with the largest growth in May 2011 - January 2012 was Germany, where the number of the unique visitors to the site increased by 2956%, and in January 2012 reached 67,000 visitors. Spain ranked second with an increase of 1348% over the same period and with 62,000 visitors reached this year in January. Pinterest increased by almost 80% in the UK, which has become the largest market for this social network with 245,000 unique visitors in January 2012. Dividing by gender shows that the majority of the Pinterest users are women, with 68.2%, half of them having family or having reached the middle-age (Crăciunescu 2012). The concerns of these users are directed towards the interior desing, cooking, child care, but also towards their physical appearance, different from that of girls.

In order to become a member of the network, there is needed an invitation, which can be requested from the Pinterest or may be received from a person who already has an account on the site. After receiving the invitation, the user can register either via Facebook or Twitter.

Among the sections of the network website they may find one for businesses, with suggestions of best practices for brands as well as a section where they are taught how to add the button „pin it” or how to give, if they wish, „pin” to the images on their own website or any other site. By pressing the „repin” button the interaction with others is allowed, each user being able to create his network of followers also.

Also, users can define as many panels covering a wider range of interests of the target audience, in order to avoid uploading images belonging to different themes only on one panel. This is important when you want to highlight the lesser known aspects of the life of an organization, but which may point out the target audience.

In order to make a brand better known, in the Pinterest network it was accomplished a staging of the actions required by the members of the „Mashable” social media platform (Nicholls 2012):

- reservation of space - ensuring the user name even if there it did not yet move to posting the content on the profile;
- using the brand values as an element of inspiration with the help of the pictures and promotional catalogues;
- using themes in the promoting of the products and in the interests grouping, by creating mood boards (state boards) relevant to a particular brand as well as its style and values;
- permanent including and updating of prices - that help customers identify certain items which are for sale;
- using hash tags - that offer support in organization, becoming important as the network expands;
- adding the „pin it” button on the e-commerce website of the brand, next to the "Facebook Like" button;
- interaction with the community - brands have to allow community members to post, on their boards, some content appropriate to the message that the organizations are trying to convey;
- focusing the brands attention on the copyright for the used photos.

However, the popularity and fast increasing of the Pinterest network use led to the emergence of some security threats specifically created for this. One of the weaknesses of the network is related to the use of some tools that promise an artificial increase in traffic by using robots that automatically post and re-post a series of images. In this case, the Pinterest users could increase their notoriety and, thus, earn money from advertising in this social network (Nedelcu, 2012).

Sometimes, some gift-cards issued by famous companies (Visa, Ikea and so on) are forcibly promoted, so that when people click to get the offer and agree to post notice on the gift-cards in their own account, the users are attracted to complete a set of questionnaires, without ever

reaching the promised card. Moreover, the completed details can be later used for more complex attacks.

5. Conclusions

The presence on Pinterest is not, especially for companies, a guarantee of the turnover growth, but is at least necessary as an additional test to enable consumers to increase their interest in this social network because of the many advantages it offers.

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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 executants' level, thus outlining accurate responsibilites, 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 şi 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*.
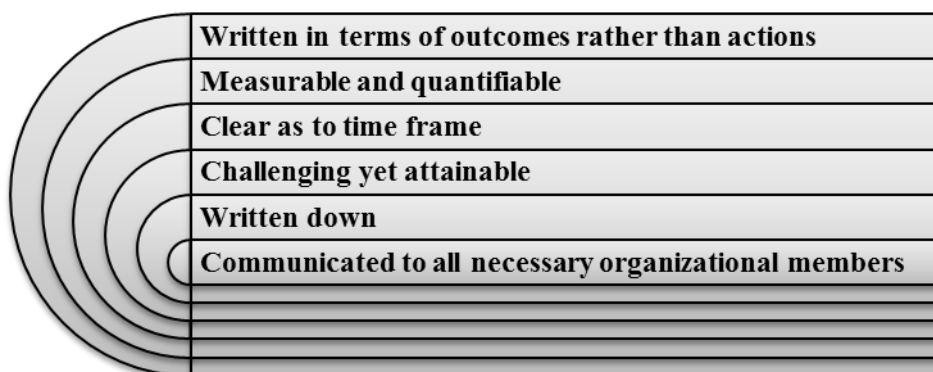

Figure no. 1. Characteristics of Well-Designed Objectives

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.
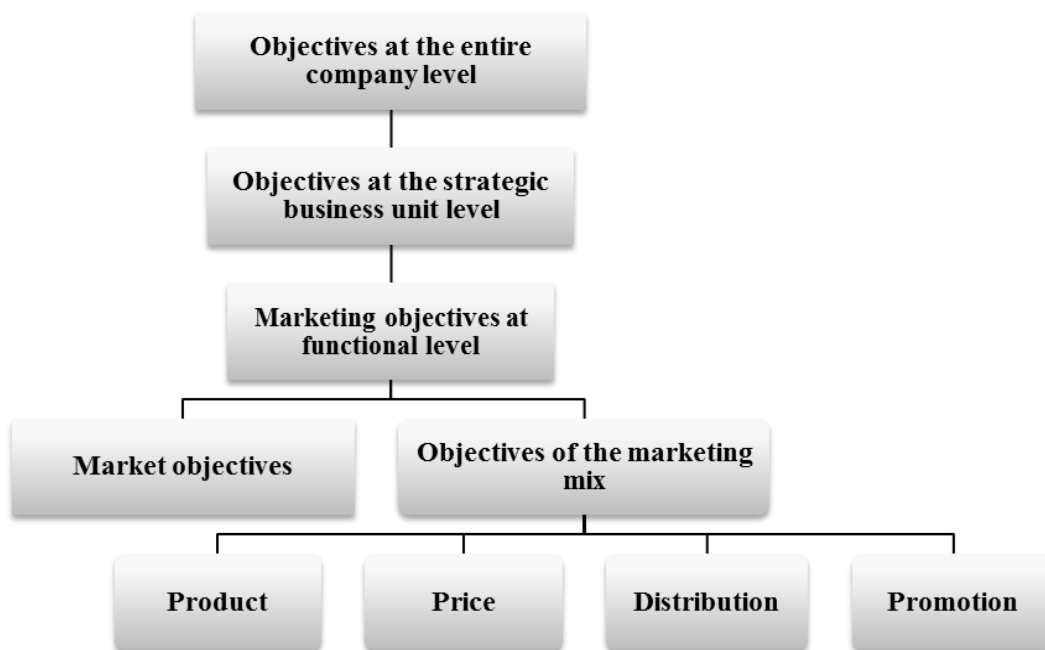

Figure no. 2. The system of objectives within the strategic planning

Source: Adapted from Olteanu, Valerică. *Management – Marketing*. Bucureşti: 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 m*anagement 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 delimitated 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 assuimg 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 enitre 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 bugets' 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
JEL Classification: M31, M21, O33, N70, L11, Q55

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 proinovative 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 proinovative 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.
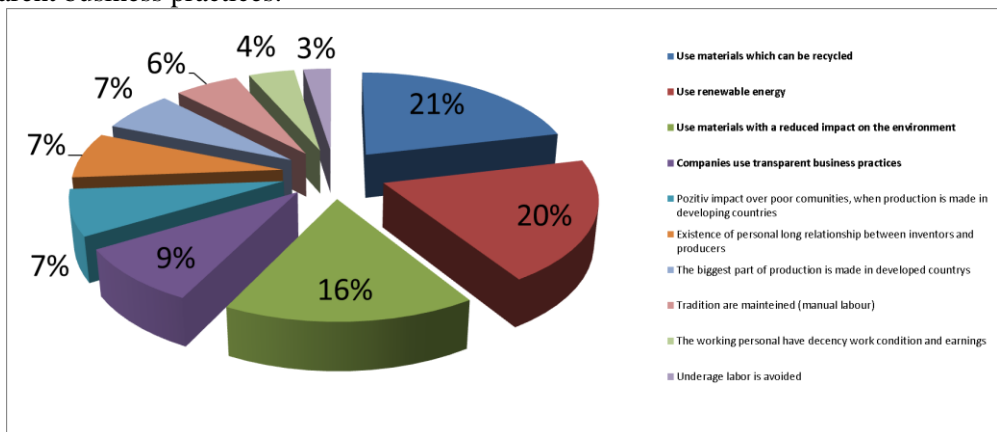

Figure 3: The sense of the concept of innovation
Source: own research

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.
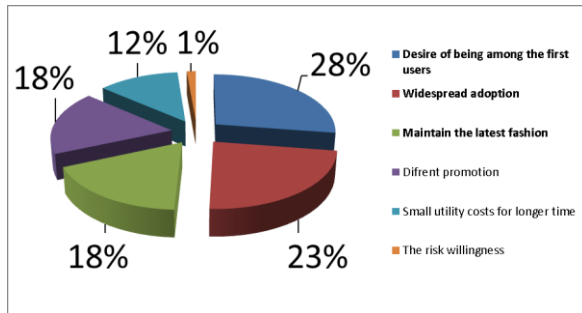

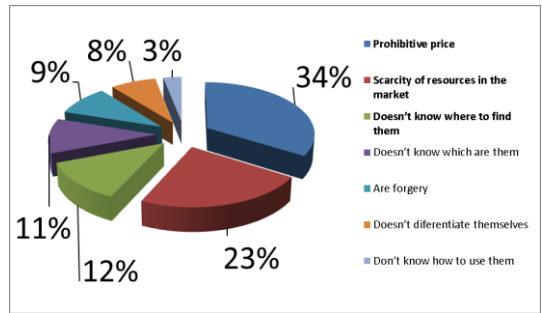Figure 4: Proinovative motivations
Source: own research

Figure 5: Proinovative 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.
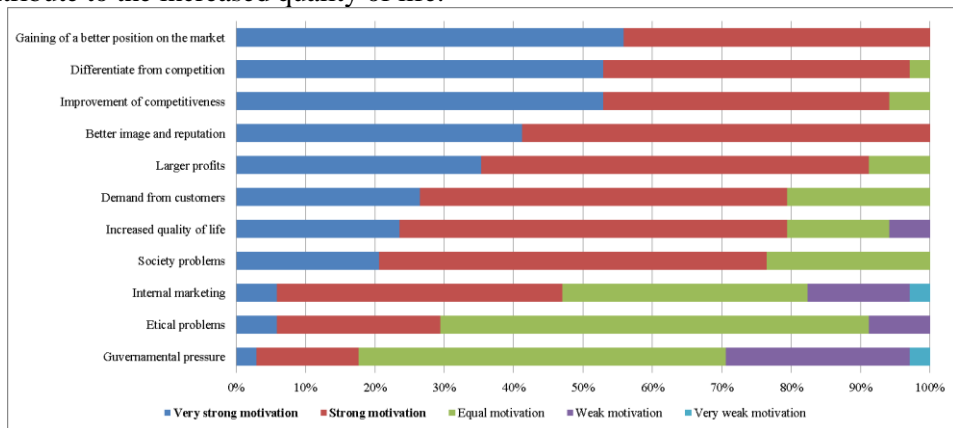

Figure 6: Motivations of open to innovation companies
Source: own research

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 proinovative companies (Figure no. 8).
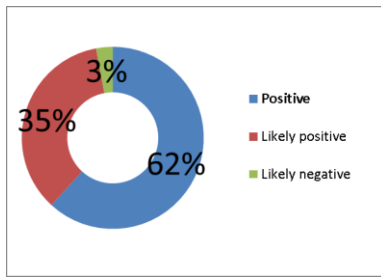
Figure 7: Image of open
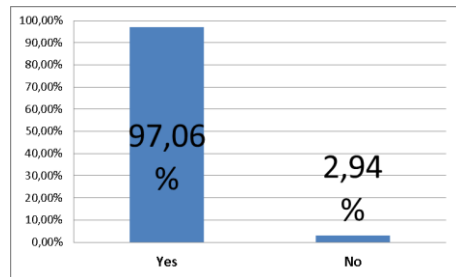to innovation companies
Source: own research

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.
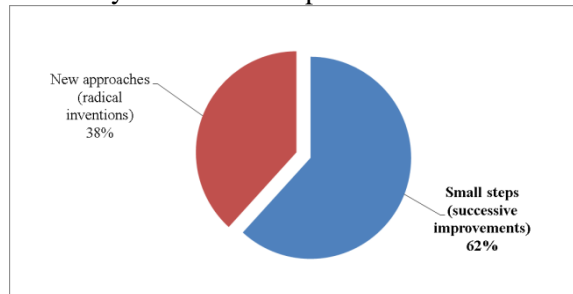

Figure 9: Bringing innovative solutions on the market
Source: own research

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

	2,94		5,88
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;

- proinovative 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 INTERDEPENDECY 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 trough 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 indentifies 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, stabilizators, 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 trough 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 familly'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).
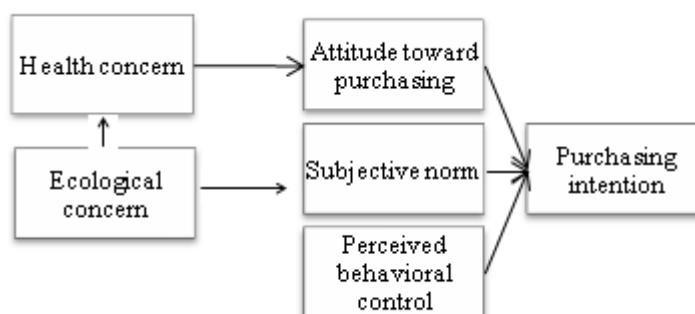

Fig. 1. The proposed model for TPB toward organic foods
Source: own construction based on Ajzen (1985)

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 trough 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 intensions and increase customer loyalty (Lewin 2009: 283).

Only a limited number of studies have deled 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, asses its reliability, asses 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 researches in their studies (Woo and Ennew 2005: 1183; Lewin 2008: 288). A 5-point Likert scale was employed for their measurement.

We have included thee more items concerning the perceived sacrifice referring to monetary cost, time and effort spend by the customer when dealing to 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 be 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 got 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 Bartlet 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 (Nunally 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.
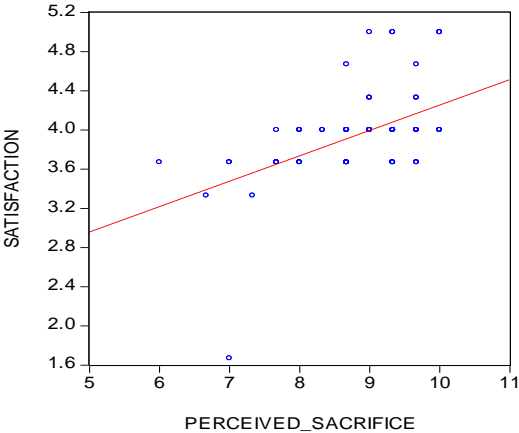

Fig. 1.The scatter with regression line
Made by the authors

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 R^2 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' – DYI 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 DYI 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 şi 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

'shads 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 DYI 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 DYI commercial format. This study - which is the *subject of this paper* - analyses how innovation as 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 [Cătoiu (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: *manufacturer - distributor - customer*	- 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)	- constructive; - functional; - esthetical.
c. Innovations in presentation/display and offer 'activation' at the point of sales	- 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	- 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	- 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	- 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 DYI 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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ROMANIAN CUSTOMER-BASED EMPIRICAL RESEARCH ON AMBIANCE IN RETAILING

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A special role in increasing customer satisfaction and contentment with any retail store is played by ambiance or in-store management. Store ambiance is closely related to all decisions taken concerning the manner in which the management can organise the store, arrange gondolas and shelves, resort to lighting and specific scents (smells) or set temperature in different departments. For consumers, ambiance also means enjoying pleasant atmosphere during shopping, conveying a sense of adventure, arousing positive feelings which make the customer return to the store, increase the volume of purchase and even recommend the unit to other people.
 The present study attempts to highlight the methods whereby a retailer manages to influence the customer by means on in-store management tools with a view to creating a favourable image in his/her mind. The research conducted on about 1800 customers in the Romanian food and non-food retailing reveals, through pertinent interpretation, the management strategies and actions that the enterprises of different retail formats should adopt in order to approach customers with beneficial results.
Keywords: in-store-management, ambiance, retail formats, physical evidence, food and non-food retailing
JEL Classification: M3, M31

Introduction

The policy of physical evidence as material part of a service corresponds in retailing to interior design policy also called ambiance policy or in-store management policy. Physical evidence includes the space inside the store, the arrangement of shelves and gondolas, the manner in which items are exhibited and the unit's working hours (Oehme, 2001: 122). Ambience policy is concerned not only with standardizing the building and its interior but also with spatial layout, arrangement of gondolas, systematization of decoration, ensuring a constant and pleasant music or using lighting (play of light). Delicate scents or attractive colours also make an essential contribution as they create a convivial shopping atmosphere, bring customers enjoyment or convey them a sense of adventure and ensure a secure and relaxing purchasing environment. Furthermore, through the elements of the ambience policy, the retailer will seek to extend the customer's pleasant stay in the store. At the same time, ambiance policy will seek to strengthen the retailer's image in the public's mind, increase the retailer's chances of development and achieve comparative competitive advantages (Severin & Louvière & Finn, 2001: 185-202).

Objectives of ambiance policy

Creating a pleasant shopping atmosphere and conveying a feeling of pleasant spending of time seem to be one of the most important objectives of ambiance policy (Liebmann & Zentes & Swoboda, 2008: 596). These objectives stand as grounds for recording higher turnover per area unit as well as custom increase and higher expenditure per customer. A pleasant atmosphere favours purchases made in the heat of the moment, ensures ease of purchase and prolongs the time spent by the customer in the store. This may thus lead to an increase in customer loyalty toward the retailer or the entire chain which, in turn, allows a better consolidation of the unit's image in the consumer's mind (Diller & Kusterer, 1987: 105-123).

The conveyance of feelings of pleasant spending of time during shopping or the sense of adventure or novelty is made through the assortment as well as the communication or service policies. A very attractive package, a unique design or just a simple board trying to stimulate consumption through emotional appeal, all these are nothing else but subtle ways of influencing consumer behaviour and improving some economic indicators.

Characteristics of ambiance policy

For the purpose of ensuring a proper in-store management the retailer has the possibility to choose from a vast array of methods, techniques and tools whereby the customer is determined to spend a longer period of time in the store, being surrounded by a pleasant, enticing atmosphere, perfectly fit for making purchases. Thus, the retailer's decision-makers will first and foremost a careful and clear delineation of the floor space into areas for merchandise display, areas for personal advising, for traffic flow (stairs, aisles), checkouts or fitting rooms. Additionally, the retailer will seek to make a proper arrangement of gondolas and aisles between them to ensure a smooth flow of customers, a logic display of assortment and items on shelves and gondolas so that they may be visible and facilitate the access of customers. This will further contribute to creating synergies and positive effects which will prompt customers to remain in the store for a longer time and increase their trust in it (Birker & Voss, 2000: 58; Kroeber-Riel & Weinberg, 2003: 437).

In-store arrangement will have to be made by likewise taking into account items display. Items display is usually done depending on how useful it is to potential customers, on the satisfied need (organic food products), a special event (Christmas or Easter items), the provenance of articles (from the X or Y manufacturer, items from Germany etc.) and the height of gondolas. Gondolas are generally divided into four height levels according to which items are exhibited. The space between the ground level and 80 centimeters above it shall be filled with heavier items that do not sell very well and items that make a smaller contribution to the store's turnover. The items sold at discount prices are also placed in this space as a means to promote sales. Whereas the first level is thought of as a „bend down" space, the next level, between 81 and 120 centimeters, is thought of as a „grasping" space. This level is designed for items of average price, specialties and items that generate massive sales as well as other marketable items. The space between 120 and 160 centimeters above the ground represents the "aiming" level where premium and impulse items are exhibited along with items that generate increased sales. The "stretching out" level, from 160 centimeters upwards, mainly contains light and very light items up to 1.5 kg and attention-drawing items (Liebmann & Zentes & Swoboda, 2008, p.603).

Another aspect of in-store management is the proper and attractive decoration of departments, equipping the sales area with adequate lighting and the use of visual communication. Whereas yellow is used to convey appeal or enjoyment, red may be used to stimulate consumers and capture their attention. Green may evoke quietness and blue may convey relaxation. By resorting to different colours, the retailer will seek to emphasize the psychological effects they produce and thus better influence consumers (Birker & Voss, 2000: 58; Chebat & Morrin, 2007: 189-196, Alt, 2009: 5-20).

In order that consumers may enjoy a more pleasant stay in the store, retailers may resort to acoustic communication by playing ambient music or broadcasting advertisements, promotions and various special offers by the store's radio. One may also appeal to the senses, particularly the scents (fresh bread at the bakery), fragrance (different combinations at the beverage departments, detergents, fruits), breezes (mountain-like cold wind in the milk sector) or set some temperatures peculiar to certain departments (low temperature for meat, vegetables and fruits and high temperature for recreation areas) (Theiß, 2007: 683).

Due consideration will certainly be given to the manner of organizing the storefront to ensure proper in-store arrangement. The competent, clean and informative display of items in storefronts contributes to capturing the consumer's attention and to evoking pleasant feelings (care exercised by the retailer for each person). Last but not least, storefront display contributes to the presentation of present and future offers and helps customers to take buying decisions. Other significant elements that the retailer's management should include in the organization of the sales area are: information kiosks and screens, barcode scanners for indicating the correct price, terminals where commands are sent, machines for collecting returnable or reusale packaging, film-developing stands or computers with access to internet, various promotional spots, softwares or music tracks (Liebmann & Zentes & Swoboda, 2008: 598-605; Kroeber-Riel & Weinberg, 2003: 437; Birker & Voss, 2000: 58; Chebat & Morrin, 2007: 189-196).

It is compulsory that in-store management should be customer-oriented. For the customer it is very important that his/her purchases should be made within a reasonable time period without long searches for the needed goods. Whenever s/he wishes to feel the complete satisfaction of a pleasant purchase, s/he will likely expect that the store's ambience should be different from that of competitors, should motivate and prompt him/her to action, please him/her and suit his/her lifestyle (Gröppel-Klein, 2006: 676).

Research operationalisation

In order to establish the extent to which consumers in food and non-food retailing manage to perceive the Romanian retailers' in-store management policy, we have operationalised the above-mentioned concepts using similar studies. Proper store management/arrangement makes a full contribution to influencing customers and attracting them to the retail unit. Every time the customer enjoys the store, s/he will be eager to return, purchase again, increase his/her purchase frequency and the amount of goods bought and will recommend the store to friends, acquaintances, relatives or any other persons (Dabholkar, 2000: 139-173).

Various empirical studies highlight the facets by means of which retail in-store management policy may be perceived and assessed by the consumer. No matter what elements are taken into account (the overall in-store ambiance, the customers' easy orientation toward the needed sections/departments, the pleasant and carefully maintained atmosphere or the unit's cleanness and orderliness), the sales area management policy features significant elements that fully contribute to building the customer's image about a particular retail store, chain or brand. Table 1 shows the dimensions whereby the in-store management policy has been measured with the aid of the statements included in a field research that was conducted by the authors in the food and non-food retailing.

Table 1—Indicators used to quantify in-store management from the customer's perspective

The analysed store...	Quantified dimension
… has created a relaxing ambiance.	General ambiance
…has divided the floor space in a way that allows easy orientation.	Simplicity of orientation
… provides simple and comfortable purchases.	Purchasing comfort/ease
… has created a pleasant shopping atmosphere.	Pleasant atmosphere

| … is always clean, neat and tidy. | Cleanness of the unit |

Sources: Anselmsson, 2006: 122; Arnold & Oum & Tigert, 1983: 153; Baker & Parasuraman & Grewal & Voss, 2002: 131; Léo & Philippe, 2002: 137; Sirdeshmkh & Singh & Sabol, 2002: 34.

Research methodology

In order to check in a suitable way the theoretical concepts previously described, the method employed was the survey. The questionnaire referred to Romanian consumers' perception of food and non food retail units present in one of the most important and relevant economic regions of the country. The data collection phase took place in 2011 under the coordination of one of the authors (Dabija). More than one hundred interview operators have been used and the number of collected questionnaires has reached almost 2.000.

The specific and original research undertook was carried on 732 randomly selected Romanian consumers in non-food retailing, and on 1.048 randomly selected Romanian consumers in food retailing. A quota sampling on age and sex was utilized, according to demographic data from the Annual Romanian Statistics Report (2010). The face-to-face interviews were conducted in the second largest city in Romania, were the majority of the 30 identified food retailers, respectively more than 100 non-food retailers are subsidiaries of Western Europe large retailers. These have penetrated the Romanian market 16 years ago, due to the growth opportunity in this sector.

Two pieces of research were actually conducted simultaneously, similar questionnaires being used and customized both for the food and non-food retailing. It was not our intention to focus on a specific retail format, thus the number of questionnaires varied among the formats (hypermarket, supermarket, DIY...). Classification on retail formats (hypermarket, supermarket, discount, etc.) has not been introduced to respondents, but it has been carried out by the authors (Barth, 1999: 88; Dabija, 2010: 77; Liebmann & Zentes & Swoboda, 2008: 394-419).

Of the 1048 questionnaires administered in the food retailing, 41 dealt with the cash & carry units (Metro and Selgros) which operate to a great extent on the Romanian market as retail units despite the fact that they should operate solely as wholesale units. 152 questionnaires dealt with discounters (Lidl, Penny), 345 with hypermarkets (Auchan, Carrefour), 112 with proximity stores (mic.ro, CBA), 200 with supermarkets (Carrefour Express, Unicarm) and 198 with the "category killers". Only Kaufland was included in the last category because the unit markets items at low prices (a characteristic of discounters) on large areas (characteristic of super and hypermarkets). According to the literature, "the category killers" will most likely lead in time to the disappearance of discounters, hyper and supermarkets (Gilbert, 2003: 248).

In non-food retailing the research focused on the following retail formats: 43 retail centers and markets (Iulius Center, Piaţa Mărăşti), 54 DIY units (Praktiker, Hornbach), 16 furniture stores (Mobexpert, Obi), 79 electrical and household appliances units (Altex, Domo, Media Galaxy), 14 computer stores (Intend, Intel), 248 clothes stores (Bershka, Zara, H&M), 44 sports stores (Hervis, Decathlon), 74 shoe stores (Leonardo, Deichmann), 39 bookstores (Diverta, Humanitas), jewelry and watches stores (Meli Melo, Mango touch), 9 cosmetics and perfume stores (Douglas, L'Occitante), 27 interior decoration stores (Bam Boo, King Art), 10 units marketing mobile phones and accessories (Germanos, Cosmote) and 34 pharmacies and drugstores (Catena, Sensiblu, DM).

In order to test the trustworthiness and correctness of the operationalised statements, the research resorted to Cronbach's alpha coefficient and the "item-to-total" correlation (Hälsig, 2008: 120). Cronbach's α quantifies the internal consistency of the analysed variables and takes on the average value of all possible correlations established between any combination of two items. In order that the variables to which Cronbach's α is applied should be trustworthy, the value of alpha must be as close to 1 as possible. The "item-to-total" correlation measures the degree to which an item belonging to a particular model is (in)consistent with the average behaviour of the

items belonging to the same model. This actually helps to discard those variables which lead to higher values of Cronbach's alpha (Peterson, 1994: 381-391).

The application of the two tests to all variables of a retailer's ambiance policy revealed an alpha coefficient of 0.902 (a relatively great trust). Moreover, it has been ascertained that by discarding any of the variables, Cronbach's α does not take on a greater value.

Average findings

Overall, the research conducted both in food and non-food retailing revealed that, regardless of the retail format, ambiance is perceived in a positive light. On average, all variables indicated relatively favourable appreciations (the assessment was made on scale from 1 to 7).

However, as Table 2 indicates, slight differences were noticed between the two types of retailing in terms of consumers' perception of ambiance. From the respondents' perspective, non-food retailing scored higher than food retailing in terms of ambiance. This was particularly so for the cleanliness variable which was more carefully monitored in the case of non-food stores.

Table 2 – Respondents' average answers for the overall sample as well as for the two sub-samples

Characteristic No. of stores	Non-food retailing 732	Food retailing 1.048	Total Sample 1.780
General ambiance	5,34	5,24	5,28
Simplicity of orientation	5,52	5,56	5,54
Purchasing comfort/ease	5,48	5,52	5,50
Pleasant atmosphere	5,47	5,41	5,44
Cleanness of the unit	5,59	5,41	5,49

Source: own research.

With regard to the perception of ambience in units marketing universal products, we have to pinpoint, although not unsurprisingly, the very good image, far above the average, of the big units belonging to international retail chains, despite the fact that one would expect in this case, at least theoretically, possible problems related to the unit's appearance. A very weak perception of ambiance was recorded in the case of proximity stores and some local supermarket chains, the most likely reason being the lack of performance in displaying merchandise and organizing departments which, in the case of bigger units, are more visible and more spaced out. It is crystal clear that respondents approved of the tendency exhibited by the managers of these bigger units to "surpass themselves" and display merchandise in a way that makes visitors feel relaxed.

Table 3 – Average answers according to food retail formats

Characteristic	Retail format					
	Cash & carry	Discounter	Hiper-market	Proximi-ty	Super-market	Category Killer
General ambiance	5,71	5,40	5,38	5,05	4,85	5,28
Simplicity of orientation	6,20	5,72	5,63	5,31	5,20	5,70
Purchasing comfort/ease	5,85	5,74	5,57	5,28	5,20	5,66
Pleasant atmosphere	5,80	5,58	5,51	5,29	5,08	5,43
Cleanness of the unit	5,59	5,55	5,50	5,34	5,11	5,46

Source: own research.

Table 4 – Average answers according to non-food retail formats

Caracteristică	... store							
	Clothes	Sports	Shoes	DIY	Electrical	Pharmacy	Interior decoration	Book
General ambiance	5,43	5,34	5,38	5,35	5,03	5,00	5,67	5,71
Simplicity of orientation	5,58	5,52	5,64	5,57	5,34	5,09	5,48	5,74
Purchasing comfort/ease	5,61	5,48	5,38	5,54	5,22	4,91	5,56	5,63
Pleasant atmosphere	5,60	5,45	5,31	5,43	5,23	4,82	5,85	5,79
Cleanness of the unit	5,67	5,66	5,57	5,54	5,35	5,32	5,78	6,03

Source: own research.

The respondents' attitude in non-food retailing seems to be closely related to the store's profile, their perception taking on surprisingly low values for electrical stores, retail centres and pharmacies/drugstores. A possible explanation to this phenomenon could be the heterogeneity of the current design of these retail formats, both in terms of their organization and the offer provided to visitors. To a certain extent, this phenomenon mirrors the attitude of supermarket managers who focus excessively on exploiting each square metre to the full.

Conclusions, perspectives and research limits

Naturally, some of the stores under examination were not sufficiently represented in the research. Being aware of this major limit which may lead to erroneous interpretations, we propose to conduct a follow-up empirical study in order to obtain a larger number of answers from the customers of cosmetics, pharmacies and computer stores, particularly because in these stores some negative perceptions were confirmed.

Another limit is, in our opinion, the result of the Romanian consumer's lack of experience with modern retailing, cross-selling and the much more extended and complex self-service process in the current retailing.

Mention must be made, however, of the visible progress made by the current customer and the fact that s/he has become increasingly demanding over the quality of in-store performance and physical evidence of the retail units.

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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 all 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
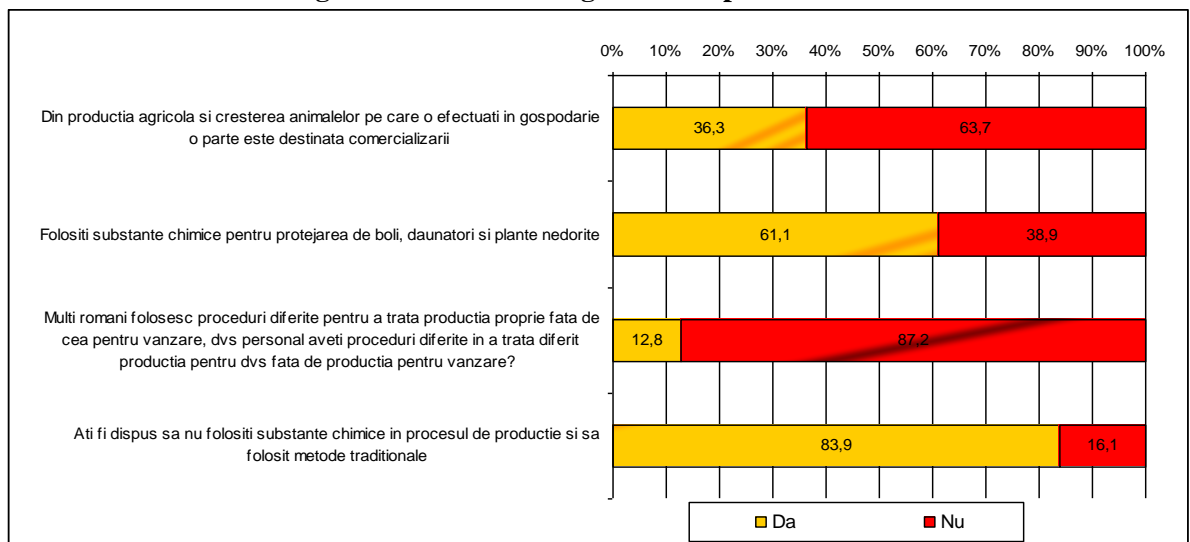
Realized by e author

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 Topliţa 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 Topliţa 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.

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MARKETING ACTIVITY IN
ROMANIAN MICROCREDIT ORGANIZATIONS

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Microfinance is the solution that ensures the provision of loans and other basic financial services to those entrepreneurs who have limited access to the banking sector. These financial services provided by microfinance institutions allow small business owners to take advantage of their entrepreneurship skills by developing small businesses capable of generating additional income. As they mature, Romanian microcredit organizations become gradually aware of the importance of marketing in their current activities. The paper presents the results of a qualitative research on the experience and marketing practices in major microfinance institutions in Romania, highlighting at the same time the factors influencing decisions to invest resources in this area. The conclusions of the research reveal that microcredit organizations have a limited institutional capacity to develop complex marketing programs that drive marketing activities and resources to achieve the objectives of the organization. The approach here is one of a reactive management, the situations that pushes microcredit organizations into engaging in some marketing activities and using various instruments being determined by changes in the structure and level of market development and competition or by the availability of funds for current activity. Although marketing interventions should be considered important on all markets, the truth is that different types of markets (emerging, developing, mature markets) require certain marketing activities. The proposed marketing mix contains 8 elements ("8 P") that ought to be optimally combined within the marketing strategy, in order to get the expected response from the target group: product, price, placement, promotion, processes, procedures, personnel, partnership.
The topic chosen for this paper answers a need for know-how in the Romanian microcredit organizations, in terms of their marketing activity. From a scientific point of view, the paper has a pioneering role, representing the first steps taken in Romania towards the in-depth study of the field of microfinance and of marketing in the microcredit industry.
Key Words: marketing, microfinance, microcredit organizations, marketing mix, market.
JEL Codes – M31

I. Introduction

Microfinance is the solution that ensures the provision of loans and other basic financial services to those entrepreneurs who have a limited access to the banking sector. These financial services provided by microfinance institutions allow small business owners to take advantage of their entrepreneurship skills by developing small businesses capable of generating additional income. The formal microcredit activity in Romania is carried out by credit institutions (commercial banks which have the microcredits part of their loan portfolio, a specialized bank - ProCredit Bank and a network of credit unions - Credit Coop) or non-bank financial institutions (NBFIs). Since the subject of this paper is related to microcredit organizations, the following lines will refer only to the NBFIs specialized in micro-lending.

II. Literature Review

In 1999, The United States Agency for International Development (USAID) sponsored a global study, *Marketing in Microfinance: the State of the Practice*, regarding the marketing activities practiced by various types of microfinance institutions. This study is apparently the only one of this kind that has ever been done and made available to the public. It provides information on the stage of the practice of marketing in various microfinance institutions worldwide.

On the national level, scientific concerns about the microfinance in Romania in general and about marketing in the field of microfinance, in particular, are almost non-existent. This paper is an extract of the author's PhD thesis.

III. Research Methodology

The paper presents the results of an exploratory marketing research about the marketing activity performed by Romanian microfinance institutions within 2008-2009. The specific objectives of this research have been: a) to identify the characteristics of marketing programs run by Romanian microfinance institutions; b) to identify the determinants (internal and external) of marketing practices.

As the research goal was to obtain accurate and abundant information about the marketing activity practiced by microfinance institutions, the research methodology consisted of a primary-source research - qualitative research - in the form of in-depth interviews conducted with persons involved in marketing from the 8 "traditional" Romanian microcredit organizations (1).

IV. Research Results

The Romanian microfinance institutions are becoming involved in various marketing activities and use different tools, depending on the characteristics of the external environment and on the maturity degree of the institution.

The decision to invest in marketing depends on the access of microcredit institutions to sources of funds for the lending activity.

The activity of microcredit institutions is highly dependent on foreign funds attracted (2). In these circumstances, attracting the funds necessary for running the business is a priority in the microcredit organization's development strategy. As long as this issue is not solved, the management's interest in the marketing activity is minimal. The financial performance is critical to the success of the institution's fundraising strategy. To achieve positive financial results, the microcredit organization must have appropriate products and methodology to ensure a good quality of the loan portfolio.

Romanian microfinance institutions have a limited capacity to develop marketing programs.

Currently, the institutional capacity of microfinance companies in Romania to develop marketing programs is at an intermediate level. The following facts resulted from the conducted research care coming to support this statement:

- the financial ratios reflecting the sustainability and profitability of microfinance institutions are revealing their current priorities: reducing costs by developing methodologies to improve the quality of the loan portfolio;

- the microcredit organizations have begun to develop an organizational culture that supports future investments in marketing. But both customer service and internal communication are developed in an informal, unsystematic way; the systems that are transmitting and processing the information are not very much used in marketing;

- the human resources involved in marketing are usually the loan officers and general manager / credit manager, who are performing this activity along with the lending activity. There is no marketing department and no well-defined marketing strategy.

The development level of the microfinance market has a significant impact on the level of development of a marketing program in a microcredit organization.

Depending on its dynamics in time, the microcredit market in Romania can be divided into three segments: emerging markets (new markets or underdeveloped markets), developing markets (growing markets) and mature markets (developed markets). As the participation in the

microfinance sector increases, both from the demand side (more customers, more diversified needs) and the supply side (several microfinance programs, many microcredit products), the markets evolve from one level to another.

Emerging markets (new markets or underdeveloped markets)

This category includes those geographical areas where there have been no microcredit programs or where, although they existed, they have not obtained favourable results. In these markets, potential customers have limited knowledge (even no knowledge at all) about financial services in general, as these products and services either have never been available or they were not fit to their real needs and possibilities. These emerging markets can be found both in rural areas (in small communes and villages) and in urban areas (various market niches among disadvantaged groups – unemployed, Roma population etc.). In many cases, these areas are isolated communities where the access and communicational infrastructure is underdeveloped. The economic opportunities often have an impact on the initial demand for financial services and on the speed with which the population adopts them.

The challenge for the microfinance institution wishing to enter such a market is to accurately assess the potential demand and then to develop a sustainable model to transform this potential demand into effective demand. This takes time and energy to understand customer needs and to develop (or improve) an appropriate lending methodology. Undeveloped markets are areas of interest for the international donors involved in social development projects. In these circumstances, microfinance companies accessing funds from the international market must develop innovative lending models to ensure the long-term sustainability of the program. In this case, the elements of the marketing mix that require special attention are those related to: distribution (what distribution systems are optimal in approaching these markets?, where must the local office be placed?); promotion (what communication channels must be chosen to inform potential consumers about the availability of products on the market?); personal (can current employees be used or should additional staff be hired to serve a new market?); processes (what changes are internal processes suffering by extending the work on a new market?); partnerships (how should the client be "educated" about the financial behaviour he/she must adopt and the financial discipline he/she must obey to). The other marketing mix elements relating to products, pricing and procedures can be reproduced from the experience already accumulated on other markets.

Developing markets (growing markets)

Developing markets can be found in rural areas (bigger communes) and small towns (<50,000 inhabitants) that have economic potential for development. These markets are characterized by an increasing demand for microcredit, which is and will be met by existing or future microfinance programs. This demand comes from existing customers and potential customers who have heard of the available microcredit products and see their effect on customers who have accessed them. In many cases, there is only one microcredit supplier operating in the area. The challenge in this situation is to develop appropriate internal systems to manage growth. Attracting customers is relatively easy and the lack of competitive environment offers these customers few options, so the microcredit organization has a high retention rate. As a developing market proves to be profitable, it gradually attracts the attention of other microfinance and credit institutions (banks). The introduction of a microcredit program in a growing market is relatively easy. The stages of market research and product development - which are difficult and expensive components - have already been made. The awareness of the products among customers is high, so new microfinance institutions would only have to simply reproduce the existing experience. The size of the population and the economic potential of the area play an important role in the market growth rate. As the market matures and there is more competition between microcredit organizations, the clients portfolio growth rate decreases and customer retention becomes more difficult. On a developing market, the elements of the marketing mix that require attention are

(3): promotion (on what elements must the communicational strategy be built and what communication channels should be used?); staff (what incentive must be used so that the staff is motivated to manage a growing demand?); processes (how can the internal processes be optimized, in particular those related to documents and information flow?); procedures (what are elements that can be optimized so that the customers are served very fast?); partnerships (is there a maximum customer satisfaction?). On developing markets, the microcredit organizations are not investing resources in developing new products, but in diversifying the existing range of products by improving the some attributes of existing products, often as a response to competitors' actions.

Mature markets (developed markets)
Mature markets (developed markets) are usually found in bigger cities (> 50,000 inhabitants). In a developed market, a higher percentage of potential demand has been transformed into effective demand, customers already being extensively using various financial services. Microfinance institution's efforts are focused now on keeping the clients and increasing the productive loan portfolio (disbursing bigger loans), taking care that this is done by keeping a high quality of the lending activity. Increased competition is a characteristic of mature markets. Many suppliers mean that customers have more options to choose from. At the same time, competitive forces put pressure on the price to be charged to customers (effective interest rate). In these conditions microfinance institutions must improve their operational efficiency. The marketing mix elements that deserve attention in this case are: product (what new products have to be developed to meet the customers' increasingly diversified needs?); price (what price strategy should be applied to ensure the maintenance of customer relationships?); promotion (what promotion techniques must be developed?; does the real image of the institution correspond to the desired one?); procedures (what procedures should accompany the new products?); personnel (how must the sales force be managed so as to avoid "downtime" in work and to motivate of employees?); partnerships (how to optimized customer service?).

The challenge to invest in marketing is given by an increasing competition on the market.
The development of the competitive environment often takes place in parallel with the market development. On emerging markets, competition is very low, often nonexistent. It increases on developing markets and is very strong on mature markets. Once competition becomes more intense, microcredit organizations feel the threatened that they might lose the market share they have, and they start to invest resources in marketing activities to help them maintain their market position. In urban areas (cities), the main competitors are other microfinance institutions. Also banks, with the consumer loans are major competitors. The rural market (small cities and towns/villages) is relatively divided geographically between microcredit organizations. Here, banks have just started to open small local offices.

In the effort to craft an effective marketing program, particular attention should be paid to develop a marketing information system and to manage the sales force.
Microcredit organizations that started to develop marketing programs have realized that they need financial, human and information resources to make them work. Loan officers being the first line contact with customers, their activity is critical for the success of the institution. However, as the organization develops, it feels more acutely the need to develop internal systems to streamline the flow of information throughout the institution. Small institutions are able to closely monitor customer behaviour through informal meetings or occasional discussions between management and loan officers. Larger institutions with multiple branches in the territory and large portfolio of clients need formal information systems and a marketing department.

Most microfinance institutions in Romania haven't developed complex marketing programs to guide the marketing activities and resources in order to achieve the goals of the organization. The dominant practice is the reactive management.

So far, the marketing effort in microfinance institutions was a spin-off of specific market problems to which the institution has sought solutions (increased competition, pressure from customers etc.). There was no organized effort, able to anticipate problems that may later prove to be opportunities or threats to the institution. None of the institutions started its activity with an advanced marketing program, some of them have just entered into this phase, learning from experience.

V. Conclusions and Implications

In conclusion, it can be said that, having a limited institutional capacity, Romanian microcredit organizations began to develop marketing strategies and practices that other industries have been applying for a long time. The first step to design successful strategies is to realize and understand the value and strategic role that marketing is playing in developing the institution. Then, the challenge is to develop internal capabilities to successfully apply these techniques. Although marketing interventions should be considered important in all types of markets, the reality is that different types of markets require certain marketing activities. Table 1 shows the characteristics of the marketing mix elements, depending on the level of market development.

Table no. 1 Characteristics of marketing mix, depending on the degree of market development

Marketing mix	Emerging markets	Developing markets	Mature markets
Product	• Copying the products from on similar markets	• Improving existing products	• Developing new products
Price	• High price, in terms of a risk management policy (loans in small amounts)	• Maintaining the price	• Decreasing the price for repeated loans, as a strategy of customer relationship
Placement	• Developing innovative distribution systems	• Keeping the existing distribution systems	• Optimizing the distribution systems
Promotion	• Commercial promotion techniques with the purpose of informing	• Commercial promotion techniques with the purpose of persuading • Corporative promotion techniques with the purpose of defining the organization's image	• Commercial promotion techniques with the purpose of reminding • Corporative promotion techniques with the purpose of consolidating the organization's image
Personnel	• Recruiting and training the new and old staff / training the old staff	• Stimulating and training	• Stimulating and training
Procedures	• Coping the procedures existing on similar markets	• Improving existing procedures	• Keeping existing procedures / developing new procedures
Processes	• Developing the processes	• Optimizing the processes	• Keeping the processes
Partnerships	• Initiating the relationship and educating the client	• Developing the relationship with the client	• Improving the relationship with the client

Source: developed by author

It is obvious that most marketing interventions are required on new markets and mature markets compared with developing markets. The type of marketing instruments needed by microfinance institutions in each of these types of markets depends on the maturity (level of development) of the institution, the importance that management is paying to a customer-oriented strategy and the availability of funds for lending.

VI. Notes
(1) Romanian microfinance institutions subjects of these marketing research are: ROMCOM IFN S.A. – Oradea, INTEGRA IFN S.A. – Oradea, Capa Finance IFN S.A. – Cluj Napoca, Opportunity Microcredit România IFN S.A. – Târgu Mureş, Centrul pentru Dezvoltare Economică – Bucureşti, FAER IFN S.A. – Reghin, LAM IFN S.A. – Ilieni, MicroImo IFN S.A. – Cluj Napoca.
(2) National legislation does not allow microfinance companies to mobilize savings or other repayable funds from the public (except public "microcredit" funds provided by government agencies). In these circumstances, the financial resources of a microcredit organization consist of internal resources (own resources) and external resources (loans from the various national or international donors). Between 75% and 90% of total assets of mature Romanian microfinance institutions are financed with external resources – loans from international donors.
(3) The marketing mix proposed by the author in the field of microfinance services is adding particular elements (partnerships, procedures, processes, people) to the classical "4 P" elements of the marketing mix (product, price, placement, promotion).

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RECOMMENDATIONS REGARDING THE INSTITUTIONALIZATION OF MARKETING RESEARCH ACTIVITY IN ROMANIAN MICROCREDIT ORGANIZATIONS

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As they mature, microcredit organizations in Romania are becoming aware of the importance of marketing in their current activities. Although marketing interventions should be considered important on all types of markets, the reality is that micro-credit companies in Romania have a limited institutional capacity to develop and implement marketing programs. This implies that marketing efforts should be focused and marketing needs should be prioritized, according to the appropriate level of market development (developing markets, growth markets and mature markets). The paper presents the results of an exploratory marketing research study regarding the marketing activity performed by microfinance institutions in Romania. The purpose of the research was to identify courses of action to institutionalize marketing research in the current activity of the subjects analyzed. It has been our intention to give a very practical dimension to the recommendations regarding the marketing information useful for microcredit organizations and categories of marketing research needing to be conducted regularly, making them applicable within the specific Romanian environment.

Given the fact that on a national level scientific concerns about microfinance in Romania, in general or about marketing in the field of microfinance in particular are almost nonexistent, this thesis can be regarded as an innovation. This conclusion comes both from the investigation of existing literature and from the author's interviews with managers of microfinance institutions who have argued that this was the first time when Romanian academic institutions got interested in this sector. Potential beneficiaries of the results of this study are: managers of microcredit organizations interested in the development and sustainability of the institutions they manage; various national and international organizations interested in designing technical assistance programs in the areas identified as being necessary; academic institutions, interested in improving the offer of educational services in the field of microfinance; researchers, interested in developing practical tools for the development of the microfinance sector, in general; the general public, who comes in contact with an area less or not at all known until now.

Key words: marketing, marketing research, microfinance, microcredit organizations, market.
JEL Codes – M31

I. Introduction

Microfinance is the solution that ensures the provision of loans and other basic financial services to entrepreneurs who have limited access to banking sector. These services allow them to take advantage of their entrepreneurship abilities by supporting the development of small businesses that generate additional income. Microfinance institutions are organized under various legal forms (microcredit organizations, non-governmental organizations, commercial banks, non-bank financial institutions, credit unions, microfinance programs etc.) and act almost similar to banks. They differ from banks through quick service and simplified lending procedures, working closely with the client and the community to which he/she belongs, focusing less on collateral and more on the potential of the business, the entrepreneur's character and his/her image in the community. While developing their activity, microcredit organizations become aware of the importance of marketing in their current activities. The next challenge is to institutionalize the process of marketing research inside the organization, in order to develop strategies in line with the market conditions and institutional characteristics.

II. Literature Review

In 1999, The United States Agency for International Development (USAID) sponsored a global study, *Marketing in Microfinance: the State of the Practice*, regarding the marketing activities practiced by various types of microfinance institutions. This study is apparently the only one of this kind that has ever been done and was made available to the public. It provides information on the state of the practice of marketing in various microfinance institutions worldwide.

On the national level, scientific concerns about the microfinance in Romania, in general or marketing in the field of microfinance, in particular, are almost non-existent. This conclusion comes both from the investigation of existing literature and from the author's interviews with managers of microfinance institutions who have argued that this was the first time when Romanian academic institutions got interested in this economic sector. This paper is an extract of the author's PhD thesis entitled *Enhancing Competitiveness in Romanian Microfinance Institutions through the Direct Use of Marketing Research Techniques.*

III. Research Methodology

The paper presents the results of an exploratory marketing research about the marketing activity performed by Romanian microfinance institutions within 2008-2009. The purpose of this research was to identify the types of marketing studies that can assist Romanian microcredit organizations in their marketing plans. The specific objectives have been:

- to identify the characteristics of marketing programs run by Romanian microfinance institutions;
- to identify the determinants (internal and external) of marketing practices.

As the research goal was to obtain accurate and plentiful information about the marketing activity practiced by microfinance institutions, the research methodology consisted of a primary source research - qualitative research - in the form of in-depth interviews conducted with persons involved in marketing from the 8 "traditional" Romanian microcredit organizations (1).

IV. Results of the Research

In outlining the categories of marketing research recommended to Romanian microfinance institutions, the following aspects have been taken into account:

- external environmental factors, characterized by frequent fluctuations, may favor or hinder the development of microfinance industry in a specific period of time. Therefore it is difficult to craft a long-term strategy;
- microcredit organizations have a limited institutional capacity to design and implement marketing strategies and programs (limited human, financial and information resources);
- the national microfinance market is characterized by the existence of specific regional markets in terms of stages of development: emerging markets, developing markets and mature markets. Thus, the required marketing information varies depending on the level of market development.

Marketing research for emerging markets

Emerging markets are geographical regions where microcredit programs have never existed or, if they existed, they have not obtained favorable results. In these markets, potential customers have limited knowledge (or no knowledge at all) about financial services in general, because these products and services have either never been available or, although available, have not met their real needs and possibilities. These emerging markets can be found both in rural areas (in small communes and villages) and in urban areas (various market niches among disadvantaged groups – unemployed, Roma population etc.). In many cases, these areas are isolated communities where access and communicational infrastructure is underdeveloped. The marketing objective on emerging markets is to create a market for the products. Because of their limited institutional

capacity, microcredit organizations should address the new emerging markets that have features similar to those currently underserved. The scope of marketing research in this situation is:

- external environment analysis (macro-environment and local external environment) in order to identify the factors with a positive / negative influence on the microcredit program;
- demand analysis, market segmentation, assessment of the market segments and profiling the microcredit consumer; studying the characteristics of the local consumer's financial behavior in terms of income, expenses, savings and loans;
- analysis of the microcredit product supply existing in the local environment, particularly the informal microfinance systems.

Marketing research for developing markets

Developing markets can be found in rural areas (bigger communes) and small towns (<50,000 inhabitants) that have economic potential for development. These markets are characterized by an increasing demand for microcredits, demand that is and will be met by existing or future microfinance programs. This demand comes from existing customers and potential customers who have heard of the available microcredit products and see their effect on customers who have accessed them. In many cases, there is only one microcredit supplier operating in the area. On a developing market, the microcredit organization is investing in the development of the internal systems in order to manage the demand growth. At the same time, on a growing market, the need for cash to meet the increased demand is acute. In these conditions, the purposes of the market research studies that a microcredit organization should conduct are:

- external environment analysis (macro-environment and local external environment) in order to identify the factors with a positive / negative influence on the microcredit program;
- competitive analysis and competitor monitoring in order to identify strengths and weaknesses;
- identification of the criteria used by the consumers in their choices of microfinance products and microcredit providers;
- identification of customers' perceptions on products and services offered by microfinance institution and its competitors (perceived image);
- consumers' satisfaction level concerning the products and services offered;
- identification of the reasons why some clients have delays in reimbursements;
- identification of the reasons why some customers leave the microfinance program after a while;
- social performance assessment by analyzing the impact of microcredit program on its clients, their businesses, their families and community, in general.

Marketing research for mature markets

Mature markets (developed markets) are usually found in bigger cities (> 50,000 inhabitants). In a developed market, a higher percentage of potential demand has been transformed into effective demand, the customers already using various financial services extensively. On a mature market, the microcredit organization's marketing investments are directed mainly to maintaining as much as possible the relationship with the customer. Market research studies that should be carried out by microcredit organizations operating in mature markets are:

- external environment analysis (macro-environment and local external environment) in order to identify the factors with a positive / negative influence on the microcredit program;
- competitive analysis and competitor monitoring in order to identify strengths and weaknesses;
- microfinance products' usage (the way clients use the products);
- customers' perceptions on products and services offered by microfinance institution and its competitors (perceived image);
- level of consumers' satisfaction regarding the products and services offered;
- identification of the reasons why some clients have delays in reimbursements;
- identification of the reasons why some customers leave the microfinance program after a while;

- social performance assessment by analyzing the impact of microcredit program on its clients, their businesses, their families and community, in general.

V. Conclusions and Implications

Table 1 presents the marketing information needed by Romanian microcredit organizations, according to the nature of the market in which they operate. It can be noticed that there are four areas of investigation where marketing research can be applied: macro-environment, competition, potential market and effective market (current customers and ex-customers). In addition, microcredit organizations must carry out some ad-hoc market studies in order to meet occasional needs (eg donors' needs).

Table no. 1 - Marketing information needed by Romanian microcredit organizations, according to the nature of the market in which they operate

| Emerging Markets	Developing (growing) markets	Developed (mature) markets
• Macro-environment Potential market: market segments and local demand for microcredits • Potential market: local supply of microcredits (especially informal supply)	• Macro-environment • Competitive environment • Clients: profile and segments • Clients: criteria used in selection of products / suppliers • Clients: perceptions on products and services offered by institution and competitors • Clients: level of satisfaction for products and services • Clients: reasons of delays in reimbursements • Ex-clients: profile and reasons of leaving the program • Effective market (clients) and potential markets: social performance and impact of the program	• Macro-environment • Competitive environment • Clients: profile and segments • Clients: usage of microcredits • Clients: criteria used in selection of products / suppliers • Clients: perceptions on products and services offered by institution and competitors • Clients: level of satisfaction for products and services • Clients: reasons of delays in reimbursements • Ex-clients: profile and reasons of leaving the program • Effective market (clients) and potential markets: social performance and impact of the program

Source: developed by author

The analysis of the marketing information identified as necessary and its positioning according to its availability in the institution as well as its usefulness to the organization provides an overview of the priorities in terms of market research studies to be implemented. Table 2 presents a general model of an **availability-utility analysis** for microfinance institutions, noting that this analysis should be customized from institution to institution and from branch to branch.

Table no. 2 – Marketing information, according to its availability and utility

Areas of investigation	Information needed	Availability (2)	Utility (3)
Macro-environment	State and evolution of macro-environment factors	5	5
Competition	Analysis and monitoring of formal and informal competition	3	5
Potential market	Demand for similar products on other markets	1	5
	Demand for new products on other markets	2	2
Effective market (clients and ex-clients)	Monitoring the loan portfolio and portfolio of clients	4	5
	Demand for new products on current markets	3	4
	Clients' satisfaction and loyalty	2	5
	Reasons for delays in reimbursements	5	5
	Reasons for leaving the program	1	4
	Criteria used in selection of products / suppliers	2	4
	Perceptions on products and services offered by institution and competitors	3	3
Ad-hoc studies	Social performance and impact of the microcredit program	4	4

Source: developed by author

The types of market research studies needed by microcredit organizations can be prioritized by placing on a chart the information presented in the above table (Figure 1).
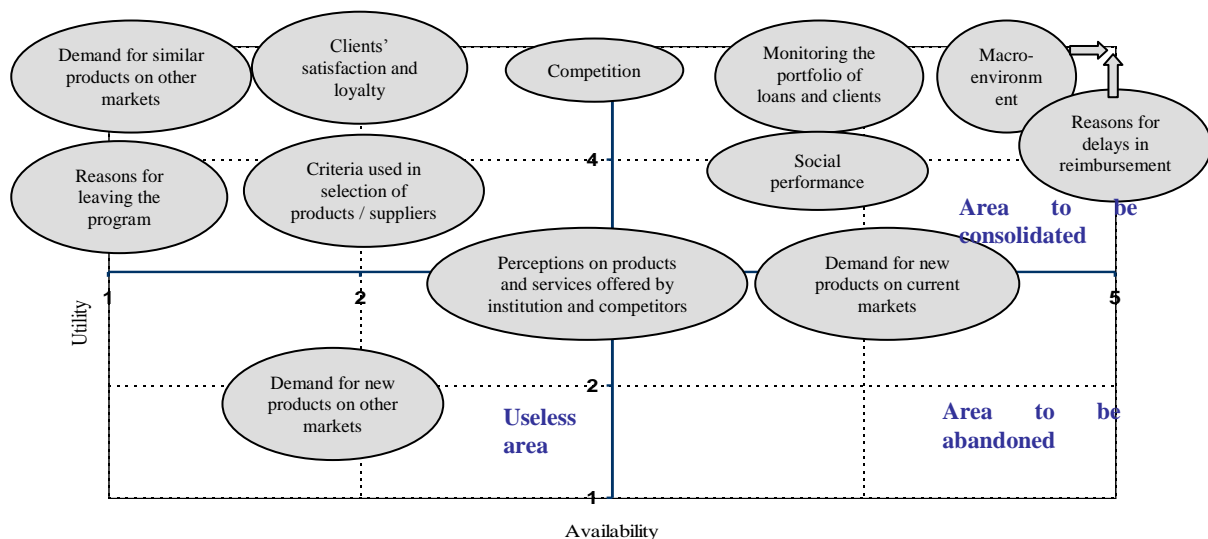

Area to be developed
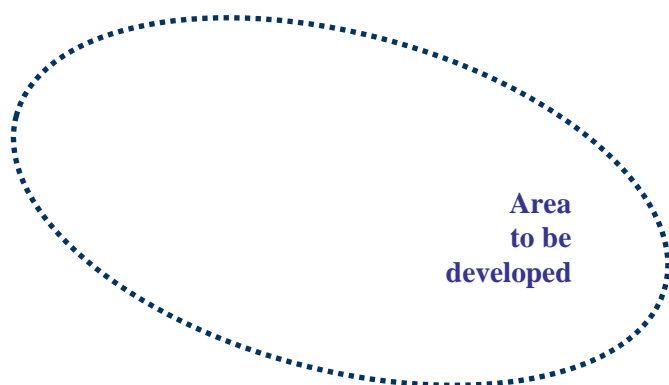
Fig. no. 1 - Prioritization of market research studies required by Romanian microfinance companies, according to their utility and availability of marketing information (source: developed by author)

Thus, four areas corresponding to the four quadrants of Figure 1 can be seen:

- **area to be developed**: includes the category of information that is not available, but is important for achieving short and medium term goals. To obtain this information, microcredit organizations can perform various market research studies: Demand assessment for similar products on other markets, customers' satisfaction and loyalty studies, competitive analysis, identification of reasons why clients are leaving the program, analysis of criteria used by customers when selecting the products and suppliers, research on perception of micro products and micro-credit providers;

- area to be consolidated: includes the category of information that are useful to the microcredit organizations and are largely available. In this case, marketing research activity should be strengthened, in terms of: continuous monitoring of clients and loan portfolio, monitoring of macro-environment factors, monitoring of loan repayment behavior, ongoing assessment of social performance and generating ideas for new products on existing markets;

- **area to be abandoned**: the marketing research area in which the microcredit organization should stop investing, as the information already exists but is not useful for achieving short and medium term goals;

- **useless area**: includes the category of information that do not deserve any attention, being both unavailable and unnecessary for the microcredit organizations (demand for new products in other markets).

Prioritizing the marketing information useful and market research studies needed to be conducted is absolutely necessary, due to limited institutional capacity of most microfinance institutions (especially in terms of financial and human resources). In conclusion, using marketing research in order to understand the external environment, the markets and the customers and developing products and services that meet consumer demand, has an undeniable benefit on the microfinance institution. Depending on its institutional capacity and characteristics of the market, each microcredit organization should identify the appropriate techniques, the situations in which they can be used, their level of complexity and the sources of information that can be used in marketing research.

VI. Notes

(1) Romanian microfinance institutions subjects of these marketing research are: ROMCOM IFN S.A. – Oradea, INTEGRA IFN S.A. – Oradea, Capa Finance IFN S.A. – Cluj Napoca, Opportunity Microcredit România IFN S.A. – Târgu Mureş, Centrul pentru Dezvoltare Economică – Bucureşti, FAER IFN S.A. – Reghin, LAM IFN S.A. – Ilieni, MicroImo IFN S.A. – Cluj Napoca.

(2) Availability refers to the existence of complex information of high quality. Measurement scale is from 1 to 5, where 1 = information not available, 2 = few information available, 3 = information partially available, 4 = much information available, 5 = fully available information.

(3) Utility refers to the way information supports the short and medium term strategy and interests of the microcredit organization. Measurement scale is from 1 to 5, where 1 = useless information, 2 = information less useful, 3 = average utility information, 4 = useful information, 5 = extremely useful information.

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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 says 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 agribusines 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, myscanthus 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 interval**s 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_09 112010.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 Pleşcoi 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/publictopics.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 ($n_{2010}=78$; $n_{2012}=153$; 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 ($n_{2010}=78$; $n_{2012}=153$; 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 ($n_{2010}=78$; $n_{2012}=153$; 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 on 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

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, sustenability, 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 internation community, starting from the first UNO environment Conference (Stockholm, 1972) and was materialized in the works of the World Comussion for the Environment and Development, established in 1985. This Comission's report, presented in 1987 by G. H. Bruntdland 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).
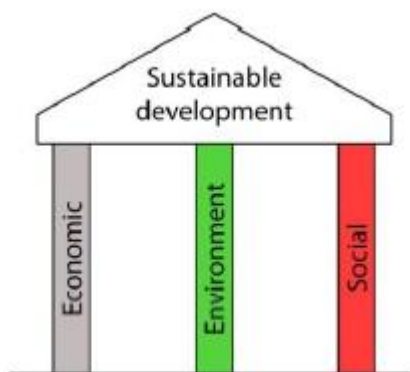

Figure nr.1 The three pillars of sustainability development
(source: Zetterlund (2011)

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 competitivity 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.
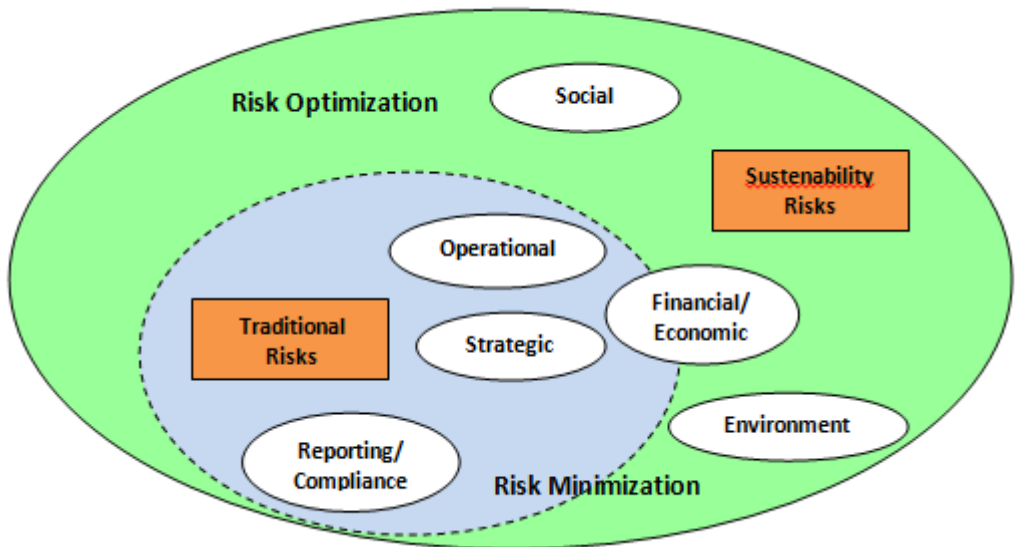
Figure nr.2 Risk management in the context of sustainable development
(source: AON (2007)

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).
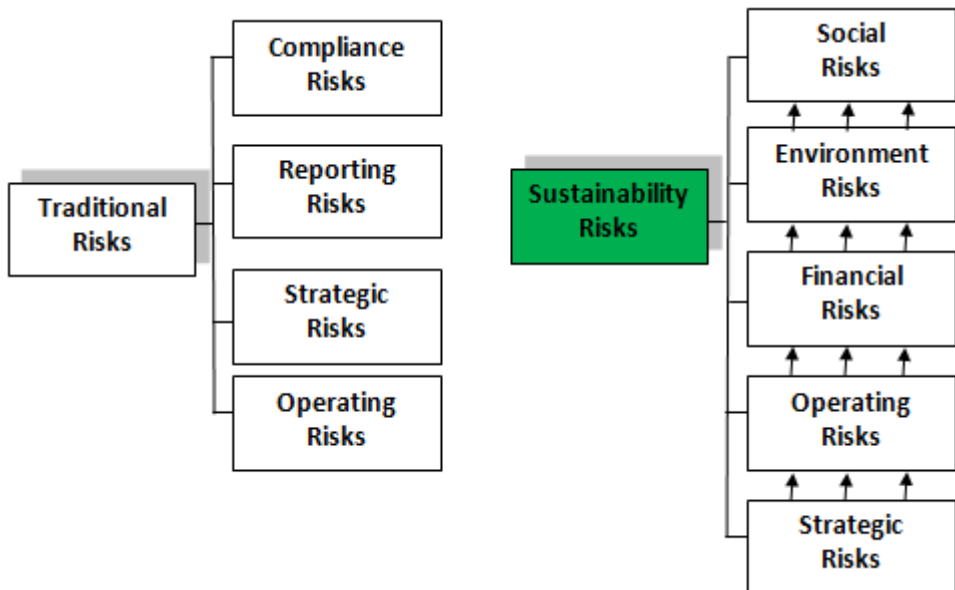
Figure nr. 3 Traditional risks versus risks in the context of sustainable development
(Source: AON (2007)

Total risk= Σ Rstrategic+ Σ Rfinancial + Σ Roperational+ Σ Rsocial + Σ Renvironment

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):

-Organizational environment and risk factors analysis;

-Risk identification;

-Risk hierarchy and assessment;

-Establishing risk response strategies;

-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 COMMUNICATIONS INFRASTRUCTURE OF THE INFORMATION SOCIETY

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This paper aims to briefly present the term of „information society", term used since the beginning of the 90's, which implies the usage of new information technology both to the individual and organizational level with high ease, in all spheres of activities with a significant economic and social impact, making changes in social, cultural, educational, economic, environmental, political, administrative and judicial dimensions, changes that influence the work, study and life conditions of all citizens.
The more and more widely usage of ICT makes any economy become more efficient, more transparent, ensuring increased competitiveness and sustainable development. In terms of how ICT influences economic growth, Romania ranks 47 of the 70 countries analyzed in the Digital economy rankings 2010: Beyond e-readiness. Based on a synthetic indicator, defined by 24 variables in four categories, in order to determine the status of the information society, proposed by Marius Guran, and using the statistical data provided by ANCOM, the paper analyzes the current situation in Romania, answering the question: How digital is Romania in terms of communication infrastructure? Thus the paper presents the communication infrastructure from the point of view of: fixed telephony and its penetration rate per 100 inhabitants and per 100 households, a stagnant rate in the last few years; mobile telephony which reached saturation in recent years; cable TV which shows us that the penetration rate is quite low in Romanian households, mainly due to the low number of subscribers in rural areas, and also that the usage of DTH technology is growing.
Keywords: Information society, communications, telecommunications ICT, measuring
JEL: L96

Introduction

"The information society is the communication society based on ICT" (Dascălu 2001). The information society is based on the main activity of production and consumption of information using ICT. "Essentially the information society is based on the Internet" (Drăgănescu 2002) using the information technology in a creative and productive way, "in all spheres of human existence and activities, with a significant economic and social impact" (Stoica 2000), "the information society brought the Internet market. The new role of information in terms of the Internet opened an era of a more transparent and efficient economy" (Drăgănescu 2002).

"One of the current requirements for the information society to develop, in the context of globalization of the processes and contemporary phenomenon, is the access to information of citizens" (ADR Vest 2012). The development of the information society, through the convergence of the three key factors: information technology, communications technology and multimedia production (Stoica 2000), creates the necessary conditions for ensuring citizens with the access to information that concern them or that influence their work, study or life conditions.

The term of information society refers to a society and an economy where creating, accessing, acquiring, storing, processing, transmitting, distributing and using knowledge and information plays a decisive role (Ghilic 2002). The machine tools of the Information Society are computers and telecommunications, rather than lathes or ploughs. From an economic point of view, the most significant aspect of this new society is a shift in the majority of the labor force from agricultural and manufacturing sectors to the information sector.

The information society is characterized by an explosive growth of digital information, "which has a central economic and social value, value that can profoundly affect both companies and human life" (Ivan 2001), available through ICT products. For the public administrations, both local and central, but also for the governments, this means public services which are more efficient, transparent, faster, closer to the citizens needs and less expensive.

"Businesses are transforming their supply and demand chains, as well as their internal organization to fully exploit ICT. Governments are restructuring their internal functions and the way they deliver services and generally interact with citizens and businesses. People are modifying their consumption and spending patterns, as well as their behavior. In the process, nearly every economic variable of interest is affected" (OECD 2011).

Knowledge based information society means more than the progress of information and communication technology and applications, integrating also the following dimensions: *social* (with impact on the health care, solidarity and social protection, employment and labor market, education and continuous training etc. – *telemedicine, teleactivities, teleworking, teleelections, teleensurance),* ***environmental*** (with impact on the resource utilization and environmental protection), ***cultural*** (with impact on the preservation and development of the national and international cultural heritage, promoting cultural pluralism, the need for child protection, the development of the multimedia industry and the production of information content – *museums, art galleries on the internet, digitizing information: digitized manuals, national and international heritage digitization*), ***educational*** – (*develops the competence of conception and work under computerized conditions, the intelligent process management, education and distance learning, virtual libraries, e-Teaching, e-Learning),* ***economic*** (with the development of new digital economy paradigms and of new knowledge based economy, innovation, entrepreneurial and management culture, citizen and consumer education - *e-Comerţ, e-Banking, e-Learning, e-Money, e-Trading, internet online payment, internet businesses*), ***political and administrative*** (concerning electronic government – *e-Government, virtual desk, online car licenses, e-Auction, online tax returns),* ***Legal*** (with impact on current legislation regarding the security of transactions, intellectual property rights, protection of Internet competition, computer crime resulting in specific legislation, information society law) (Romanian Academy).

Measuring the Information Society

From a statistical point of view, there is no agreed comprehensive statistical framework of the information society. One possible conceptual model is presented by the OECD and encompasses the widely agreed elements of ICT supply, ICT demand, ICT infrastructure, ICT products and "content" based on the International Standard Industrial Classification (ISIC) Rev. 4.

Digital economy rankings 2010: Beyond e-readiness realized by The Economist Intelligence Unit, is an annual benchmarking directory which reflects the influence of ICT growth in the economy, comprising 70 countries, with over 100 qualitative and quantitative criteria, designed to help the governments of the studied countries to see the differences between them and to take the appropriate measures, but also to present to the interested companies which would be the most promising location for investing in ITC.

The 100 or more criteria are grouped into 39 indicators and 82 sub-indicators, consisting of 6 categories, the score being calculated as a weighted average, as follows: **1. Connectivity and technology infrastructure** (representing 20% of the score); **2. Business environment** (15%); **3. Social and cultural environment** (15%); **4. Legal environment** (10%); **5. Government policy and vision** (15%); **6. Consumer and business adoption** (25%). In this ranking, the first place is occupied by Sweden, with a 8.49 score, which beat Denmark, Romania being on the 47th place (last of the 27 European Union countries), with a 5.04 score, behind Bulgaria (45th, score 5.05), Hungary (35th, score 6.06) or Slovakia (38th, score 5.78) (Economist Intelligence Unit 2010).

Based on a synthetic indicator that defines the state of the information society in a country, proposed by Marius Guran, defined by 24 variables, grouped into four categories: Socio-educational category; ***Informational category*** (informational infrastructure: telephony, radio, TV); Computer category (automated data, information and knowledge processing and storage infrastructure: PCs, Software/hardware, Internet service providers – ISP, "Host computers" Internet); Economic category (Guran 2002), and also based on the 10 core indicators on ICT

infrastructure, we will briefly present the ***informational infrastructure*** trying to grasp the current situation in Romania.

The informational infrastructure facilitates the revolution of human communications, making it to be more and more cheaper and at more and more greater distances, the realization of the condition for the production of new products, services and even entirely new markets for a sustainable economic development, "the support for the development of new trends and technologies which allow the evolution of society by ensuring digital services (anywhere, at any time), an intelligent environment (at home, at work etc.), making knowledge an asset used in decision and innovation process, as a condition for development" (Guran 2002).

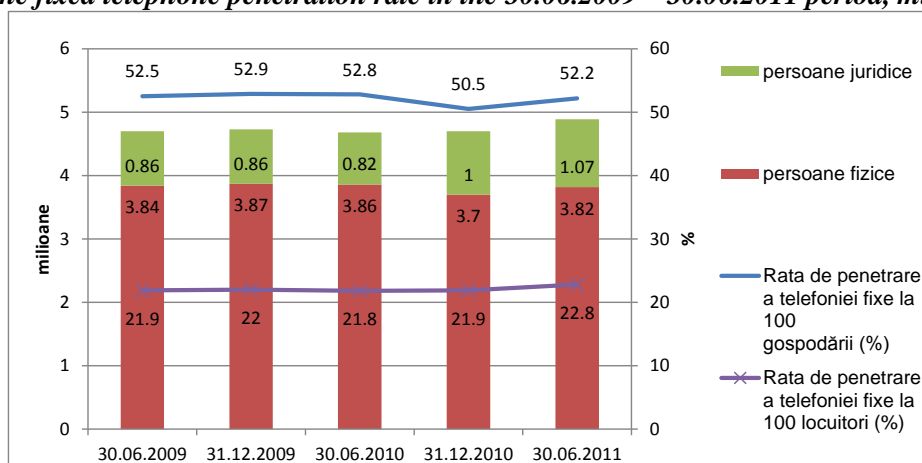**The communications Infrastructure**

1. Fixed telephony

The number of electronic communication services and network providers in Romania increased from January 1st, 2003 when the monopoly held by Romtelecom, company owned initially by the Romanian government, ended.

The most important providers of fixed telephony services are, according to a report made by Gallup for The National Authority for Management and Regulation in Communications (ANCOM) in April 2010: Romtelecom with 87% of the fixed telephony market, still remaining the leader for the *legal persons* segment of the market, followed by RCS&RDS 21%, Vodafone 4%, UPC 3%, Orange 1%, other providers 2%. However we can notice a decreasing trend of the number of fixed telephony subscriptions for Romtelecom provider, starting with 2003 when Romtelecom had 100%, to 2005-2006 when they only had 57% of the market and then 2009-2010, to 37%. 61% of the households of Romania have fixed telephone services, 72% in urban areas, while in rural areas only 47% of the households have and use a fixed telephone, of whom 66% use Romtelecom, 33% RCS&RDS, 4% UPS, of the above mentioned, 94% use a single separate phone line.

Similar to the case of corporate or legal persons subscribers, also for the households, the number of fixed telephony subscriptions acquired in the last few years from the Romtelecom provider is decreasing from 100% in 2003, to 39% in 2005-2006, 18% in 2009-2010, the highest share being held by the competitor RCS&RDS with 65%.

Fig. nr. 1. The dynamics of the number of access lines / subscribers to fixed telephone services and the fixed telephone penetration rate in the 30.06.2009 – 30.06.2011 period, millions.

Source: http://www.ancom.org.ro/

One of the most important indicators of the telecommunication infrastructure is the fixed telephony penetration rate per 100 inhabitants and also the penetration rate per 100 households, rate that in our country did not increase significantly in recent years, being much lower than the rate for mobile telephony. *The low penetration rate is due to the high costs of fixed telephony*

compared to the average population income, and also to the reduced investments in rural telephony infrastructure.

2. Mobile telephony

The main authorized mobile telephony providers in Romania are: Cosmote, Orange România, RCS & RDS, Vodafone România, Telemobil - Zapp. The number of the mobile telephony users *Similar to the case of the fixed telephony, the most relevant indicator is the penetration rate for the mobile telephony services per 100 inhabitants, rate that is calculated as the ratio between the number of the mobile users and the total country population * 100.*

More and more users prefer a package / an integrated solution to pay only one bill for, the bill not being broken down per services, fixed/mobile telephony, fixe/mobile internet, TV services, data transmission, due to lower costs of packed services, and also due to a much easier use of the services, cost control and contract terms.

Fig. nr. 2. *The total number of mobile users and the mobile penetration rate in the 30.06.2009 – 30.06.2011 period, millions*


Source: http://www.ancom.org.ro/
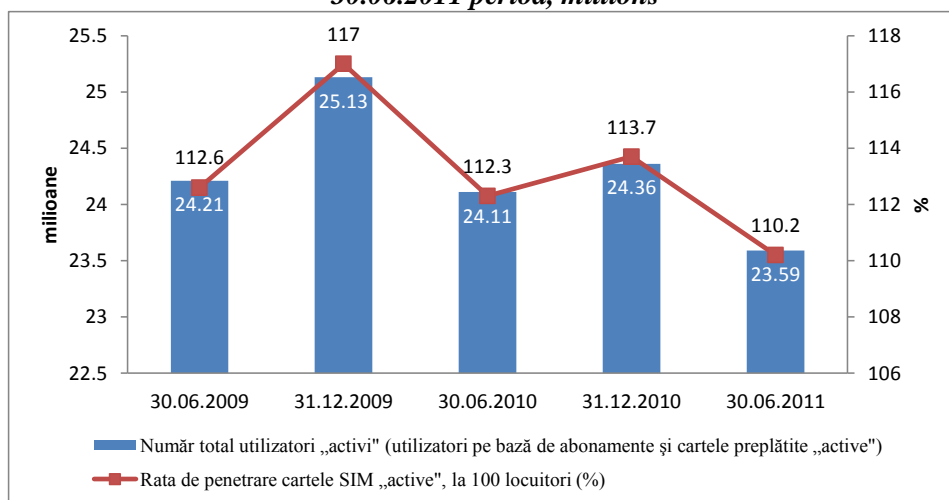
3. Cable television

Unlike the television broadcasts that use electromagnetic waves, cable television represents the distribution of TV channels to the final consumer through an optical or coaxial cable.

Fig. nr. 3. *The dynamics of the number of subscriptions to services providing retransmission of television broadcasts received via cable networks in the 30.06.2009 – 30.06.2011 period*
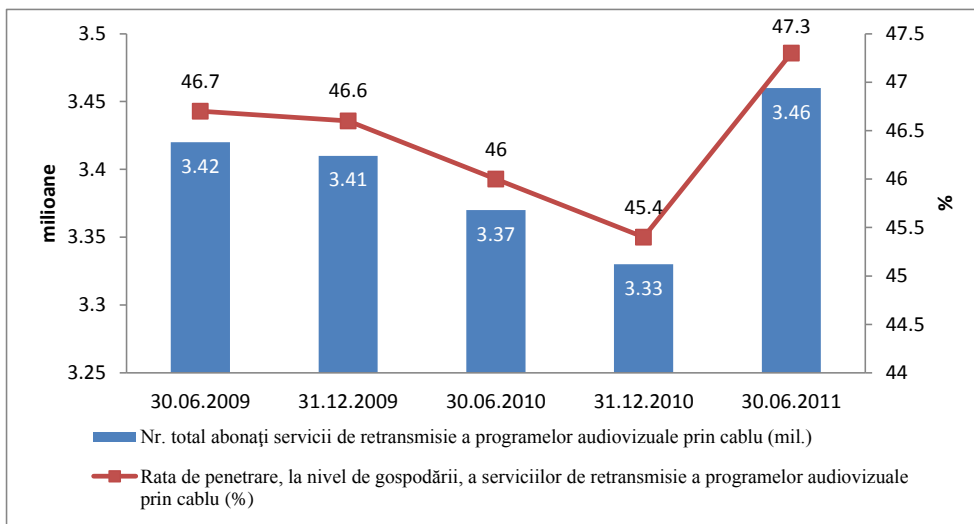
The total number of subscribers has not increased significantly in recent years, the penetration rate being relatively low mainly due to the small number of subscribers in rural area, with a penetration rate of only 23,1% in 30.06.2011.

Since 2005 new technologies have emerged such as IP technology and digital satellite television (DTH) used especially for hard to reach locations where cable installation costs would be very high, so the number of subscribers receiving digital programs is constantly growing. At the beginning of 2006 cable networks had 91% of the subscribers and DTH had only 9%, while in 2011, cable networks had 60,7% of the subscribers and DTH raised to 38,6%.

IPTV services means not only online television, but it represents transmitting high image and sound quality programs, through IP internet protocols, offering the user a higher level of control over TV programs, enabling the users to select, record and watch their favorite programs anytime they want. Currently, Romtelecom offers this type of service in 21 counties, being available in three packages: iMaxim, iExtra şi iVariat (Romtelecom).

Fig. nr. 4. *The structure of the number of subscribers to services providing retransmission of television broadcasts on 30.06.2011, according to the type of networks*
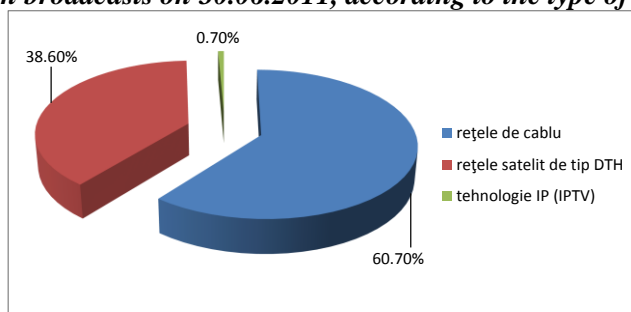
Conclusions

As the report "Measuring the Information Society ITU" shows us, fixed telephony continues to decline from 2005, when market saturation was taken over by mobile telephony, not only in developed but in developing countries to. In Romania mobile-cellular telephony has reached saturation level, penetration rates is over 100% with 10%, from 2009 we are noticing a slight decrease. According to a Digital Agenda study, Europeans prefer complete packages of internet, telephony and television (European Commission).

The fixed and mobile telephony providers offer more and more minutes included in the subscription in order to attract a higher number of customers, including minutes/reductions in the subscription or as an extra feature for calls made, in the same fixed network, or to other fixed networks, in the same mobile network or to other mobile networks, or minutes to make international calls.

For countries to obtain maximum economic and social benefits from using digital technology, they have to make sure that the population has access and can afford fixed and mobile phone connections, that there are investments in infrastructure made to increase the penetration rate for fixed telephony especially in the rural area.

Digital Agenda for Europe is one of the seven flagship initiatives of Europe 2020 Strategy and aims to define the role that using the communication and information technology will have to play in achieving the objectives of Europe 2020 Strategy.

In the context of the Digital Agenda, *Action 101. Roaming,* in order to increase the competition on the roaming services market they made a preliminary agreement for a sustainable solution for the mobile telephony users, Bruxelles, March 28th 2012, so roaming services would be cheaper due to competition, the consumers having the opportunity to choose the network before they leave or when they are already abroad, they would also be informed about the roaming charges when travelling to countries outside EU (European Commission). It is intended that the difference between domestic and roaming charges to approach zero by 2015.

Telecoms networks and services are the backbone of Europe's developing information Society and the digital economy. To improve innovation, investment and competition and increase efficiency in the telecommunications sector, the European Union promotes increased competition and protect user rights in order to ensure a choice of high-quality broadcast services for consumers (European Commission). Regarding broadcasts, EU encourages rapid switchover to digital television. The rollout of digital television across Europe further expands consumer choice, giving people access to more programmes of higher picture and sound quality as well as the possibility to benefit from interactive services (European Commission).

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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 been 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.
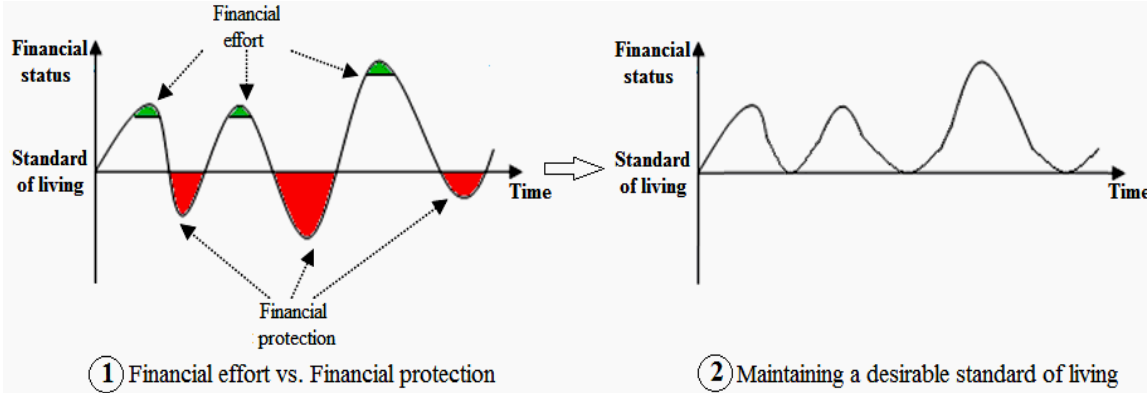

Fig. nr.1 Financial evolution depending on possession / lack of life insurance

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 (1asig.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 funcţionale

| Commercials, promotional activities |
| Distribution |
| Outlook |
| Reasearch and marketing |
| Developing new products |
| Price determination |
| Product planning |
| Sales ⟶ |

Activity subsystems

| 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).
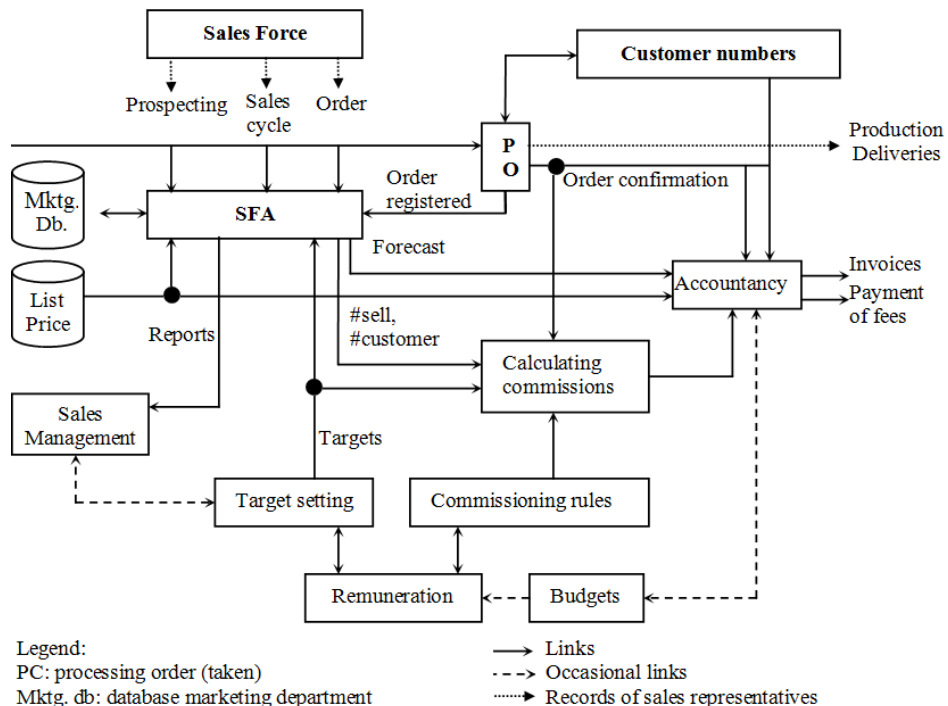
Fig. nr. 3: Example of implementing a management program to sales force.
Source: De Preville 2010: 214

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.

VI. Acknowledgements

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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				

Company data	No.	Percentage	No.	Percentage
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

Websites	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 dossilved comapnies. They continue to exist because withdrawal of the website is omitted when they decide to withdrawal 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, risulting 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 competitiors 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. Conpanies 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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