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**SECTION: INTERNATIONAL BUSINESS, EUROPEAN
INTEGRATION, FOREIGN LANGUAGES AND
BUSINESS ENVIRONMENT**

SUB-SECTION: INTERNATIONAL BUSINESS

PAKISTAN MEASURES IN CONTROLLING NARCOTICS TRADE

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Abstract: *Pakistan is one of the world's top producers of narcotics. Pakistan neighbors Afghanistan, the world's top producer of opium. Pakistan faces a task of controlling, cultivating, producing and trafficking narcotics within its territory (World Drug Report, 2005). Riddled with corruption, poverty, high unemployment rate amongst its population, the government of Pakistan has invested much resource in the fight to the social vice inflicting its population (Niazi et al, 2009). This paper seeks to identify and analyze the measures the Pakistan government has been implementing in curbing the problem. Strategies implemented by the government of Pakistan such as supply reduction by eradicating cultivation of opium poppy, reducing the demand through mass awareness campaigns, and cooperation with the international community in the fight against drugs. The effectiveness and challenges faced in the process have also been well analyzed, revealing whether any advancement is being made or not. Various agencies and departments put in place by the Pakistan's' government have also been reviewed, together with their responsibilities. The causes of such extensive abuse of narcotics in a society are reviewed, revealing in a way the susceptibility of Pakistan as a country to narcotics (Drug Abuse Control Master Plan, 2008). The usefulness of the information contained in this paper cannot be overemphasized. Governments facing a similar problem, or willing to install preventive mechanisms can benefit a lot from the information herein. The various agencies involved in narcotics control within Pakistan can also benefit from the information by getting an outsiders viewpoint of the conditions influencing Pakistan's case. The paper information is based on empirical data collected by various agencies in relation to abuse of narcotics in the world and specifically in Pakistan, and its neighbor Afghanistan. In conclusion, a review of the whole Pakistan case in regard to narcotics production, abuse, and trafficking has been done. Recommendations and improvements, and corrective measures to identified weaknesses have been presented for consideration.*

Keywords: *Narcotics; Trafficking; Drug; Opium; Cultivation; Abuse; Pakistan; UNDOC.*

JEL classification; *A19*

1.0 Introduction: Background to Narcotics in Pakistan.

Narcotics refer to any psychoactive compound or addictive drug that induces a morphine-like effect, that is, reduction of pain, behavioral and mood alteration, and usually induces stupor or sleep. The use of narcotics, especially opium has been practiced for a long time in Pakistan (UNDC Pakistan, 2008). The online Merriam Webster Dictionary defines narcotic as "a drug (as opium or morphine) that in moderate doses dulls the senses, relieves pain, and induces profound sleep but in excessive doses causes stupor, coma, or convulsions" (Merriam Webster Dictionary, Narcotic, 2013). According to Pakistan Institute of Legislative Development and Transparency (PILDAT), Opium is not new in Pakistan, but its

use and export went on even during the reign of the Mughal and British empires. Since 1979, opium was produced in large scale in Pakistan, however, following Hadd Ordinance enforcement in 1979 the production decreased until 1980s (Anwar, 2006).

Afghanistan is one of the causes of the extensive production and abuse of illicit opium in Pakistan's. Pakistan's closeness to Afghanistan, the largest producer of illicit opium in the world facilitates the drug trafficking and abuse in the country (UNODC, 2009). The global security organization adds that in the late 1980s, Afghanistan and Pakistan supplied almost half of the entire world's heroin (Global Security Organization, 2013). Today, Afghanistan's and Pakistan's share of the drug market has decreased although they remain among the top producers of narcotics in the world. Despite the local production of narcotics in Pakistan, the problem is primarily because Pakistan serves as the primary transit route for opiates produced in Afghanistan. Also, most of the region's growing poppy in Afghanistan share the border with Pakistan. For instance, according to a 2009 Afghanistan poppy survey by the United Nations Office on Drugs and Crime (UNODC), 74% of the poppy cultivated in Afghanistan covered five provinces bordering Pakistan (UNODC Pakistan. 2008).

However, in the 1990s, opium poppy cultivation in Pakistan dropped to almost zero nearing the year 2000. The Pakistan government had committed itself to fighting the vice by implementing measures aimed at eliminating the cultivation of opium poppy in the country. Alternative development projects also, funded by the international community as well as local government led to decreased poppy cultivation though this trend did not continue for long (UNODC Pakistan, 2008). The prohibition of poppy cultivation in Afghanistan by the Taliban's in the year 2001 led to increased opium prices in the world market, and hence re-emergence of large scale cultivation of poppy in Pakistan. According to the Global Security Organization, the main problematic areas in relation to poppy cultivation are the Federally Administered Tribal Areas (FATA). The problem in these areas persists due to lack of enough security forces to concentrate on limiting poppy cultivation and due to the persistent counter terrorism activities being carried out in the Pakistan-Afghanistan border by the government of Pakistan (Pakistan Institute of Legislative Development, 2010).

The following table shows the extent of opium cultivation, eradication and potential harvest in Pakistan from the years 2003 to 2007 in hectares.

Table 1: Opium cultivation, eradication and potential harvest in Pakistan between years 2003 to 2007.

All the values are in hectares.

Year	Cultivation	Eradication	Harvest
2003	6,702	4,181	2,521
2004	6,694	5,199	1,495
2005	3,145	706	2,439
2006	1,909	356	1,553
2007	2,306	608	1,698
2008	1,956	56	1,900
2009	1,779	16	1,763

Source: United Nations Office on Drugs and Crime. County Office Pakistan

The figures above indicate that the gravity and extent has fluctuated over the period of time indicated. The values indicate a decline in the harvest of poppy from the peak of 9,441 ha seen in 1992 to poppy free in the years 2000-01. The year 2003 indicated an increase in poppy cultivation. The rate of cultivation and eradication has been declining since the year 2003 but a rise was seen in 2007. It is suspected that unless proper efforts are applied by the Pakistan authorities, cultivation will continue to go up. Anti-poppy campaigns are being made by provincial and federal authorities by means of fines, forced eradication and arrests. The rate of eradication is going down showing how the government is losing the battle against the cultivation of poppy.

2.0 Individual and Social Effects of Narcotics Abuse in Pakistan

Narcotics abuse has overwhelming negative effects in the societies involved. Pakistan has been long exposed to the consequences resulting from unlawful cultivation, trafficking and abuse of opium (Ryan, 2008). The commonly abused drugs in Pakistan include hashish, cocaine, heroin, opium, and cannabis (Kazmi, 2005). A survey conducted by the UNODC that ended in the year 2000 revealed that more than half a million Pakistanis are chronic users of heroin. A National Assessment Report on the Problem of Drug Abuse in Pakistan estimated an approximate of 628,000 users of opium. Among this, 77% (482,000 peoples) of these users were found to abuse heroin. The number of users who injected the drugs in 2006 was estimated to be 125,008, which was double the number documented in the year 2000.

Despite declaration that Pakistan is a poppy-free state in the year 2011, problems of addiction and drug abuse exacerbate along the routes of trafficking and imminent spread of HIV. One of the major concerns is the rate of HIV/AIDS transmission, especially considering the large number of injecting drug users in Pakistan. The Joint United Nations Program on HIV/AIDS (UNAIDS) estimated that HIV cases in Pakistan are between 46,000 and 210,000 in adults. The Pakistan National AIDS Control Program (PNACP) estimates 3,328 HIV cases within Pakistan with 27% of these cases amongst the injecting drug users. Narcotics users are also characterized by indulging in riskier sexual behaviors hence increasing the risks of contracting the virus. The other common problem in relation to the narcotics abuse and trafficking in Pakistan is the drug related crimes and offenses (Trends in Organized Crime, 1995). These cases increased tremendously such that, in 2000 and 2001, the Pakistan government sets up five courts dedicated to drug related crimes and offenses.

The abuse of the narcotics has profound and severe implications on the health of the users. The individuals' proper functioning is impaired by poor health as well as loss of income to the indulgence at the expense of basic needs (Narcotics in Pakistan, 2013). The families of the users also are largely affected, as they watch a member of their own struggle with addiction and other consequences related to the abuse. On the other side, the society loses largely since it has to put up from the unemployed users and idlers who could be productive and beneficial to the society. Finally, the fight against the production, usage, and trafficking of these narcotics has immensely sapped vast resources from the government of Pakistan, and also the loss of personnel (The Social Impact of Drug Abuse, 1995).

2.1 Causes of the Extensive Abuse of Narcotics in Pakistan

Based on the extensive cultivation, production, and trafficking of narcotics in Pakistan, it is vital to familiarize with some of the causes and or reasons behind the phenomena. Although ranging from pharmacological, social, psychological and environmental factors, some outstanding cases are apparent in Pakistan (World Drug Report, 2006). One of the factors behind the trend as earlier mentioned is the relative closeness of Pakistan to Afghanistan, the leading producer of opium in the world (Taylor, Dr. L, 2009). The poor control of the Western border coupled with the traffickers' ability to evade the authorities has resulted to the too much trafficking of the drug through Pakistan (Norman, 1959). However, the commonest causes of abuse of the drugs, also apparent in Pakistan, include:-

- The economic imbalance in Pakistan. Poverty is highly prevalent in Pakistan, especially due to joblessness. Poverty has led people to involve themselves in the narcotics trade to raise money for their needs (Economic Survey of Pakistan, 2007).
- The ineffective legal system in Pakistan facilitates the ease of access to the drugs, therefore promoting the continuity of the vice.
- The false pleasure derived from the use of the narcotics.
- The social media also plays a critical role in promoting narcotics use.
- Peer pressure, especially among the younger generation facilitates the abuse (Niaz U. et al., 2005).
- Social-Political disruption, common in Pakistan especially due to terrorism and anti-terrorism activities create the environment suitable for the narcotic trade (Niklas, 2007).
- The religious values are being gradually eroded, leaving a liberal society eager to indulge in everything available.
- The teaching methods and curriculum are outdated; hence it does not help in curbing the vice.
- Prescription pain relievers in some cases lead to addictions, and hence the abuse of the drugs (Brown, 2002).

3.0 Narcotics Control Measures by the Government of Pakistan

Despite the relative shortage of resources in the government of Pakistan, much effort and commitment has been invested in fighting narcotic production, trafficking, and abuse. The international community and for instance the United States have contributed hugely in controlling the vice. In battling the social menace, the government of Pakistan came up with a strategy intended to address the narcotics problem (Rensselaer, 1991). The Narcotics Control Strategy as it was known aimed at reducing both the narcotics demand and supply using law enforcement mechanisms and agencies, as well as developing alternative projects for people to engage. The strategy also involved cooperating with the international community in the global fight against drugs and substance abuse (Ministry of narcotics control, 2009). Pakistan's President Zardari has shown the importance of curbing the drug menace both locally and globally. During his United Nations General Assembly speech in September 2012, the leader said that unrestricted cultivation and sale of illegal drug funds illegal groups such as terrorists not only in Pakistan but also globally. He stated that the country was on an agenda to control the vice.

In the year 2010, the Government of Pakistan developed the Anti-Narcotics Policy 2010. The policy was made to address the prevailing situation and global narcotic environment changes. The Drug Control master Plan 2010-2014 was initiated to reduce social, economic and health problems associated with substance abuse and drug trafficking in Pakistan. In the regional ministerial conference attended by various leaders such as from Afghanistan, India, china and many others aimed to enhance regional cooperation leading to an integral way of fighting narcotics. The policy consists of four main features namely:-

- Drug supply reduction: This involves poppy cultivation elimination in the country, effectively checking trafficking of the narcotics, building the capacity of Anti-Narcotics forces among others.
- Prevention of the Narcotics demand: This involves the creation of mass awareness campaigns to the entire population, treatment, and enhancement rehabilitation services hence facilitating a society which is drug free (United Nations Office for Drug Control and Crime Prevention, 2000).
- Promoting and enhancement of cooperation with the international community in fighting drug and substance abuse.
- Formation of the parliamentary committee tasked with monitoring and reviewing the policy, as well as the National Anti-Narcotics Council (NANC).

According to the UNODC, the Government of Pakistan and the Government of the United States signed a five year agreement on September 2007. The agreement was to see a \$750 million US aid package incorporated under a \$2.3 billion FATA Sustainable Development Plan. The aim of the aid was to facilitate capacity building programs, promote agriculture, development of alternative venture such as small and medium enterprises, infrastructure development, and livelihood improvements among others. Through these activities, livelihoods would be improved hence leading to the elimination of cultivation of opium poppy (Rydell and Everingham, 1994).

The government of Pakistan also established several agencies and narcotics control departments, as a measure of curbing the vice. These bodies play an extremely crucial role in controlling production through cultivation, narcotics flow by trafficking, as well as an abuse of the drug in the country.

The law enforcement agencies include:-

- *The Anti-Narcotics Force (ANF)*

This is the primary drug law enforcement agency in Pakistan, tasked with collecting drug related intelligence, arresting offenders with drug related offenses and crimes. The Task Force is also tasked with investigating and prosecuting the offenders. The demand reduction program is charged to this body, which also delegates its mandate to the Pakistan Rangers and Coast Guards (Narcotics Control Division, 2000).

- *Frontier Corps (FC).*

This body is commissioned with the primary responsibility of guarding the Afghanistan and the Iran borders, as well as carrying out operations involving counter drug trafficking. Members of this body are primarily drawn from the tribal areas, but they are led by the Pakistan Army.

- *The Pakistan Coast Guards.*

The coast guards are tasked with the responsibility of securing the coastline of Pakistan, covering an axis of 30 to 120 km inland.

- *The Airport Security Force (ASF).*

Apart from performing other airport duties, the ASF is charged with countering trafficking of the narcotics by screening baggage as well as using other mechanisms at the airport.

- *Pakistan Rangers.*

The rangers' duties include maintaining internal security in Punjab and Sindh provinces, as well as covering the border with India. Their responsibilities include interdicting psychotropic substances, as well as narcotic drugs.

- *Police.*

The police force duties and responsibilities in regards to the control of the narcotics involve checking internal trafficking and distribution, mostly to the consumers.

- *The Pakistan Customs.*

Divided into Pakistan Customs Collectorate and the Intelligence and Investigation Division, both arms are mandated with narcotics control responsibilities.

- *Federal Investigation Agency.*

Under the Federal Investigation Agency, the Anti-Corruption and Economic Crime Wing is assigned with the function of monitoring production of spurious drugs. The wing has taken up the task of fighting illicit drug trades, and made numerous commendable recoveries (The United Nations International Drug Control Program, 1994).

- *The Narcotics Interdiction Committee.*

The committee was established in 1997, with the mandate to ensure proper coordination of narcotics control by various enforcement agencies and ensuring that the federal government roles are more effective.

In 2000 - 2001, the Government of Pakistan set up five courts, which were dedicated to hearing of narcotics cases. This was in accordance with the Control of Narcotics Substances Act (CNS) of the year 1997 (International Narcotic Control Board, 2001). The courts were set up to speed up handling of the cases and also to facilitate effective use of the judicial manpower. Following this, number of registered narcotic cases and convictions increased from 2002.

3.1 Effectiveness of the Control Measures Implemented by the Government of Pakistan

The efforts of the Government of Pakistan in the "Anti-Narcotics" war have been bearing fruits, although much still remains to be done (Hussain and Naqvi, 2007). The highest success seen so far is in the grasp of the narcotics. However, despite the reduction in the production and cultivation of the narcotics in Pakistan, indications are that trafficking has gained more strength. The growth of trafficking has, however, been countered by an equal strength in the counter narcotics agencies as shown by the number of seizures in the country (Trends in Organized Crime, 1995).

The following table shows the seizures of the common narcotics in Pakistan between the years 2003 to the year 2009.

Table 2: Annual Seizures of Narcotics in Pakistan in metric tones

Year	Opium	Morphine Base	Heroin	Hashish
2003	5785.710	27777.550	6363.931	99123.245
2004	2495.112	21256.000	3487.550	135638.674
2005	6447.682	22196.800	2144.497	93994.402
2006	8997.380	32657.600	2819.072	115443.699
2007	15368.594	10989.000	2873.857	109530.453
2008	27242.620	7324.890	1896.465	134620.525
2009	6081.322	1353.000	433.531	124000.295

Source: Ministry of Narcotics Control Yearbook 2008-2009, Government of Pakistan.

The control strategy targets to reduce supply and demand through enforcing law. The control trend shows inconsistency in the drug control. Since the year 2003, Pakistan indicated the greatest number of seizures of morphine base/heroin values compared to Afghanistan. This indicates that the control agency is not as effective as it was projected because the drug abuse keeps on changing inconsistently.

4.0 Conclusion

Despite the relative progress Pakistan has achieved in fighting cultivation, production, and trafficking of narcotics, the government of Pakistan dedicates itself in the fight of the vice though; still much needs to be done. The country is likely to continue serving as a primary narcotics transit option country, due to the continuous production of the narcotics in Afghanistan, its neighbor. The volatile border between Pakistan and Afghanistan remains one of the biggest challenges in controlling the narcotics flow through Pakistan. Pakistan is a country already struggling with poverty and internal security problems, the narcotic problem notwithstanding (Zinberg, 1974).

The other threat and challenge to the narcotics control issue is the widespread corruption in the country. Corruption poses as one of the biggest challenges to law enforcement agencies, due to some untrustworthy senior officials. Despite the executive branch agencies and the oversight committee's persistent work against corruption, effectiveness cannot be assured due to their involvement in the vice. Judicial systems serially investigated and exposed corruption, but with little or no action being taken against the culprits. Bribery to officials is apparent posing a challenge to fight against the menace in Pakistan's societies. For instance, many of the strongest cases with regard to narcotics have been witnessed to be appealed often and reversed. This does not mean that narcotics control in Pakistan is a lost course. On the other side, policies and agencies commissioned to fight the menace seem to be gaining strength as time erupts. In anticipation, stability within Afghanistan with the development of a functional government, coupled with Pakistan's anti-narcotics mechanisms, better results may be realized in the near future.

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THE PECULIARITIES OF GERMAN NEGOTIATING STYLE

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Abstract: *The paper is about how Germans think about negotiations, and how they use negotiation in promoting their goals. Of course, the German cultural traits play a crucial role in determining German behavior and German negotiating style. We try to present the importance of understanding German negotiating style both because these people are quite fascinating, and because this peculiar culture pushed Germany to the best positions in global economic environment. Their determination, aiming at a precise goal made German companies fearful competitors at global stage. But exactly these qualities are to be identified by someone who enters a negotiation with Germans. They are determined, precise, purposeful, well documented and informed; as their products are: they are: they are durable, powerful, and useful. Both, the negotiation peculiarities and the characteristics of the products share the same German cultural roots. In the same time the precision and lack of flexibility are to be found even when there is a business negotiation, followed by a meal. Each are distinct elements of the same relationship, but they are very separated in time and space. Negotiations and meals are two very distinct social activities. There could be seen how Germans try to use their national food and drinks to create good atmosphere in a relationship, but how different they use food in comparison with Americans, and especially French. If Americans use meals as occasions for business debates (for they time is money), the French would try the best to use French cuisine to create a special mood through impressing the foreigner with their national food and drinks. Germans try to do the best with what they have in culture, and in cuisine, and they do it very well. In the same time the presentation of the Gesamtkonzept has a peculiar space in the paper. Its role in a negotiation is a crucial one, and it is presented in this light. Everything spring from it: it is the conceptual idea which moves the German before, during, and after a negotiation process.*

Keywords: *German behavior; German culture; German negotiation style.*

JEL classification: *F00; F23; F44.*

It is easy to see that peoples are different; even if they have quite similar shape, they differ in character and personal traits. The same is true for nations: each nation has its character. It is called national character. It is hard to identify it, but its existence has so powerful influence, that it manifests itself in the identifiable forms such as types of social organizations, technical means for space control, rewarding and punishing of people for their actions, popular art, language, and religion. If technical and social aspects belong to civilization area, art, language, and religion belong to cultural area. They are inseparable elements helping man to survive in global society.

But cultural traits can be more facile connected to national character traits. People belonging to the same nation share quite similar behavior, rooted in the common

cultural base, where language, religion, and popular art and history play important roles. And even people belonging to a peculiar nation are different from religious point of view they share common language, which is the vital ingredient for smoothly functioning of social activities. One nation cultural traits are distinguishable especially when there are face to face people belonging to two different culture (they have different national character).

It's easy to see that German art, music, literature, even cuisine are thick and dense to understand that some robustness is peculiar to German national character. This is an advantage; but this can impede interaction especially with people belonging to very flexible cultures, such as Greeks or Italians, for example. But the advantage of robustness which could be identified in technical emanations which spring from German "hands" can create favorable moods in foreigners' souls for accepting those technical things. German technical products are among the best in the world, and sometimes even *the best*.

Here we can mention that German negotiating style – an emanation from German culture – has some peculiarities giving it uniqueness. It is a cultural-psychological dimension which influences behavior, and this in its turn influences negotiation process. Psychological factors are pervasive in international relations and psychological process at the individual and collective levels constitute and mediate much of the behavior of nations, as mentioned by Kelman (in Zartman and Rasmusen, eds., 2003: 192). And individuals act within organized social structures, which are influenced by a nation's geography, history, and as a consequence by its culture.

Germans think about themselves that they must have a honorable place among the nations of the world, and what Germany failed to accomplish through other means, it searches assiduously to arrive at using diplomacy and negotiations. German *Kultur* came to represent a general theory of mastery, of effort constantly renewed, of some mystical union between the German people and the elemental forces of nature (Nicolson, 1955: 146). And even the conception of negotiation by German diplomatists is a military conception. Germans find in physical unity – and as a consequence – in physical power the sense of solidarity which they lack as individuals (Nicolson, 1955: 145). And this is a deep rooted reason which is the base of the German behavior regarding the search for technical and social "products" which create for them the sense of safety. And always Germans are interested not only in which their place in the world is, but how the world sees them, the context in which they act and live having a great impact upon their actions and intentions.

Furthermore *the German negotiating style* has the same peculiarities which one could find in other areas of German activities. It is very careful prepared process, and purposeful. But here it is important to mention that the context in which they live and act, and how Germans could use it to bring benefits to them is the starting point in any action regarding a future negotiation. It is the base for *Gesamtkonzept's* construction, which is a central idea; the preparation for negotiations are headed to this comprehensive/governing concept, and this contains the roots and the fundamental aim that Germans wish to achieve during and after negotiations. It provides Germans intellectual coherence, and all detailed proposals came out from it, and express it (Smyser, 2003: 60).

In the following lines, there are presented the main peculiarities of negotiating with Germans.

As in the technical area, where the German products embrace perfection, so it is the case in preparing for negotiation. Germans prepare for negotiations very carefully, perhaps more carefully than any other nation.

But being the *Das Land der Mitte* – The Land in the middle – German geography impels Germans to always look at the world, trying to identify what there is going on, and especially what are the roots and reasons for those things. They place a crucial importance to the *context*. They were always in the middle of other states, and this geographic aspect influenced their history, and as a consequence their philosophy, and culture. They hadn't had a place to escape, because they were in the middle, and promoting their interests in such a context made negotiation a very important ingredient for their survival. Always the context has played a very important role in their actions, and negotiations. And in that context Germans want to position themselves within a consensus.

Germans note and keep detailed records regarding the views other states/companies expressed on a subject. After that, they try to identify what position could have other prospective interested parties in pending negotiations. After that they analyze very, very careful what these positions really mean. They will look for allays to rally and support the future German position, and which parties/states could block the desired result.

Even if in the past Germans wanted to shape the world, today they don't expect anymore to do it; instead they use diplomacy in order to work and develop within existing environment. That for the Germans will almost always expect to hear and see the others' position, and after that they would define their own position and the goals to be achieved in that peculiar negotiation; they look carefully to their interests and objectives, will frame the *Gesamtkonzept* and the negotiations position, trying to calculate as precise as possible the best way to advance and attain German interests in that peculiar context. If Americans start a negotiation presenting their position, at the opposite side, the Germans would expect the other part/parts position to be presented, and they would look on the context; and after that they create the *Gesamtkonzept*, and under its umbrella they establish the goals, and the best ways for achieving them. And they prepare their positions methodically and thoroughly, to the most detailed aspect, as argued by Smyser (2003), justifying each element of their position intellectually; after that, they present arguments in a logical manner, and purposeful, having in mind other part's interests, but without neglecting theirs. But always they are looking at what kind of relationship could be develop over time with their counterparts, and for that reason, nothing in German preparation for negotiations and during negotiations themselves happens by accident.

After this careful preparation, and *Gesamtkonzept* identification, there follows the proper negotiations, which commence with the *presentation*, which Germans regard as the most important part of their negotiating process (Smyser, 2003: 72).

This part is presented in a logical manner, following a methodical path, and it can take quite long time, because first Germans want to show their philosophical basis of their position – the *Gesamtkonzept* – which reflects one peculiarity of German culture, where the Idea is the most important element.

That idea constitutes the fundamental ingredient in German position's construction; it is the philosophical framework from which would spring the detailed points during the negotiation. It includes what a German negotiator (or a German company) sees as the most important issue to be resolved through that peculiar negotiation. Because of the great importance granted to this general idea, Germans want this concept being understood by other side/s, and agreed, too; it sustains the whole structure of the German negotiating position, and even of events which could take place in the aftermath. One diplomat involved in negotiations with German counterparts once said that they "come at you like a moving wall. They give you a total and unified presentation that covers everything."

During the negotiation process, Germans look at different elements in their position in accordance with the degree to which one element is closer to the *Gesamtkonzept* framework; and they can be flexible on some points with the aim of getting to their general objective. They speak directly relating to issues which they are interested in, but this doesn't mean that they are rude, even if they can appear in a foreigner's eyes as a little insulting.

But entering a negotiation mean that Germans wants result. They have a very well defined purpose in their mind, and they try to get to it. But they seek both: to get to agreement, and to use the negotiating process as a way to establish a new relationship or to deep an old one.

It is noteworthy to be mentioned that a peculiarity of German national character is to strengthen their connections in all directions. *They* – in contrast to French – *fear isolation*. This is rooted in their desire for a community based on good relations, and they are ready to make concessions in order to get to it; but all concessions must "push" them closer to their *Gesamtkonzept's* fulfilling. When Germans attain the governing idea they had at the beginning of negotiating process, they can regard with a relaxed view other elements.

But they do not negotiate and concede in a manner peculiar to Oriental cultures, trying to identify a compromise for its own sake; they calculate carefully each concession having the *Gesamtkonzept* in their mind.

Even it can be a painful process – it is difficult to negotiate with Germans – it is purposeful process, which can bring fruits over the long run. The coming to agreement can sometimes take place *long* after a deal should have been arrived at.

Regarding the aspects which were negotiated, Germans take pride in being as good in implementing them, as they were during the negotiating process. They are truthful persons, and they carry out their agreements fully, and to the minute detail. Germans don't try to constantly reinterpret the agreements in a manner which is intended in fact to reopen the negotiations, or even to invalidate previous negotiations.

In their words as well as in their deeds, Germans are very precise and they have a very *formal* negotiating style. They discourage informality, especially in the beginning of a relationship (or a negotiation); and even after they know a man for a long time and address him on a first name basis, they keep the politeness formula *Sie* always present in their form of addressing to the other one. Furthermore, they avoid (even distaste) humor in their presentation and they do not welcome a joke in a reply!

But when entering a negotiation with a German, be patient; Germans usually work slowly, strongly avoiding rushing a negotiation, because they want to reassure themselves that they got what they intended to get, and that it is the mood of the *Gesamtkonzept*. They don't practice delay for its own sake, as others use to, and do not use time as a tactical tool in a negotiation in order to get psychological advantage over an opponent. The reason for moving quite slowly is that they are very careful, analytical, and logical persons, and because they are thorough.

But they always will reduce the pace of a negotiation when they understand that their *Gesamtkonzept* cannot be reached through those negotiations.

Until the strong relations are developed, there is recommended not to discuss business during meals; Germans create a very clear distinction between eating and having fun, and working. And the change of behavior is so great that it can be astonishing for an unaccustomed person.

And as in other cases, Germans want to show what they have. In case a negotiation takes place in Germany, after a negotiation sequence, or after the negotiation is finished, they are very good and careful hosts. They are proud of their cuisine, and especially their beer, but they use it with smaller influence, in comparison with French (Cogan, 2003: 146).

The Germans intend to use their food and their drinks in order to create a positive atmosphere, not to impress and seduce.

The chosen place could be a traditional restaurant, where it could be eaten German sausages (*Weisswurst*) or traditional desserts (*Rote Grütze*), but especially a wind tavern (*Weinstube*), where one can delight himself drinking German white wine (Riesling or Sylvaner), and especially German beer.

But after there is a strong and old relation between a German and a foreigner, there could be discussed business during meals and entertainment, but it is recommended to do it with care.

As we can see, the negotiations with Germans can be quite long and difficult, but when a German enters a negotiation, the other part could be quite sure that if the *Gesamtkonzept* is arrived at during negotiations, the Germans can be quite flexible on details, in order to get to agreement, and to implement it scrupulously.

But the period over which there will be harvested the fruits is long, bringing mutual benefits, and a durable and trustful relation, too.

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GERMAN NEGOTIATING AND COMMUNICATION STYLES, AND THEIR CULTURAL BIAS

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Abstract: *The paper is about how cultural roots influence language and behavior. The people which it is focused are Germans, which – due to their culture have logical goals and are capable in finding extremely practical solutions. In a rapidly globalizing business environment, it is a keystone to understand other people think, and as a consequence how they act. Here cultural traits play the most important role in defining peoples' behavior. But language is a part of a people's culture; it is a social coagulant, which facilitates social interaction. One could not enter a society if he/she cannot speak the language of those with which he/she interacts. Furthermore, language is a soft element of the cultural tools and traits of a people; it expresses the way the people belonging to a peculiar culture, and which speak a peculiar language see the world, their relation to the environment in which they live and act, the way they use that environment, the way they use time, space, and social relations. The research is both theoretical, and empirical, looking at the cultural traits of the Germans both from inductive and from deductive perspectives. It is a qualitative research aiming at helping understand the roots of German negotiating behavior and the way Germans communicate in negotiations, and in their normal life. Furthermore, the paper will present some examples of the reasons for German behavior and negotiating style, and how the German language expresses their most peculiar characteristics: precision, and parsimony. The role of the "idea" in German thinking is presented, too; and connected to this how they see the Gesamtkonzept of a peculiar negotiation, and how they relate to it all what they are looking in that peculiar negotiation. Of course, the roots of these peculiar traits of German language and negotiation style are to be found in Germany's history, geography, economy, and philosophy, all of them being explained in a manner which is aimed to the reader's enlightenment.*

Keywords: *German culture; German language; German negotiation style.*

JEL classification: *F00; F23; F44; F51.*

Culture and civilization, are two vague concepts and they lack precision; both belong to imprecise concepts such as democracy, progress, happiness, emancipation... Its vague character results from the very great number of culture's definition; one study found 164 definitions of culture.

What is culture depends on who defines it, but there can be accepted a broad definition which can illuminate us regarding what it is. "Culture consists of the derivatives of experience, more or less organized, learned or created by the individuals of a population, including those images or encodements and their interpretations (meanings) transmitted from past generations, from contemporaries,

or formed by individuals themselves”, as specified by Schwartz (in Schwartz et al., 1992: 324). As mentioned by Avruch (1998), culture is psychologically distributed within a population.

Culture satisfies the belonging needs which is opposed to loneliness; it has a vital function for human society (Malița, 1998: 37). Cultures are exclusivist, and they underscore differentiation; they are belief-systems (Malița, 1998: 14), and their most visible elements are language, religion, and customs. They are hardly transferable; it is quite hard at 50 years age for example, to accustom at professional level a foreign language, after you learned another language and you became accustomed with a particular world vision and self vision (from one culture), as a child. As such, language means not only words; it is much more. Any specific language has particular sounds, and when the words are spelled, they have a particular order, meaning, and precision. This depends about the history of people which share such common language, their historical root and the historical interaction with another peoples from which they “borrowed” and/or adapted peculiar words.

Related to German culture, its vision of the world is very different from French one, even they shared the same continent, being even neighbors. But in this case, geographical proximity had no created similar histories; of course, these two European peoples interacted intensively during last two millenniums, but their history is very different from one another. Language, if one is accustomed enough with one, and has the capacity to see beyond the words, is an important guide for understanding the way of thinking of a particular people.

In French language for example, civilization contains culture; all actions are acts of civilization, and inside it the culture blossoms, and which regards the creations in literature, philosophy, and art fields (Malița, 1998: 23). Whereas in Germany, there is a contrary situation: culture has a larger sphere, the thinkers and writers being the central elements, while the civilization works inside the culture, being oriented to material, technical, and economical things. Culture is, for the Germans, the big sphere which contains everything, while the civilization covers a much little sphere (Elias, 1974: 60-64). For the Germans, the civilization points to something very useful, with practical uses, but which has a secondary importance; when a German wants to define himself, when he intends to show his main achievements, and his essence, he uses the word culture. As an example of the importance Germans attach to the cultural element, a German Nobel Prize writer, analyzing the way Roman Empire achieved such a power, in comparison with the Greeks, presents the importance of idea, which is, and which is opposed to image (which could be seen, having a material form), in creating the base for building power by the Romans (Mommsen, 1987).

In order to better understand how Germans think and act, it is recommendable to compare them with the French; they have maintained a clear distinction between civilization and culture, have given them different meanings, placing them one in another, but in different ways. The values in these two cultures are very different: if Frenchman prefers finite things, Germans are inclined to infinite, the first likes forms, while the second prefers opaque deeps; the music creates divertimento for French, while in Germans, it uncovers the unconscious feelings. Furthermore, French works upon nature (a short visit to Jardin des Tuileries can be illustrating in

this regard), while Germans like to let the nature as it is, and to preserve it as much as they can.

Ask someone about the peculiarities of German national character and almost all responses would mention that Germans are logic persons, being in the same time very precise. Maybe someone could respond even that they are obsessed with precision. As mentioned by Morgenthau (1973), the Germans have discipline and thoroughness, national character traits which manifest themselves in all the individual and collective activities in which they engage. And these traits are to be found in their negotiating style, too: Invariably, careful intellectual and substantive preparation has remained the hallmark of German negotiating style.

But what makes Germans to be like this, and which are main traits of German national character, and the roots of their culture?

As in all cases, multiple elements have impact upon a people's culture, in some cases some of them having a capital importance, while in others, their role being more moderate. In case of Germany, and of Germans, there are four elements which in their interaction have generated a peculiar style, which regarded as unique: geography, history, philosophy, and economics. Among all of these, German history has shaped the culture of German diplomatic policy and behavior more than any other single factor (Smyser, 2003: 13).

The German theory of policy, and therefore of diplomacy and negotiations is "heroic" or "warrior" conception, and it displays remarkable continuity (Nicolson, 1955: 144). Underneath all the solid and magnificent virtues of the German race lies a layer of nervous uncertainty, simply defined as "spiritual homelessness", because of missing any sharp geographical or historical definition or underscoring. And all this began when Augustus withdrew the Roman limes from the Elbe to the Danube, dividing Germany in two parts: one civilized, the other barbarian (Nicolson, 1955: 145). And this trait was only reemphasized by the Reformation, and the feeling that northern Germany was only a colony of the Holy Roman Empire.

There appeared the desire to look for and finally to find a real focus which impelled Germans to regard the conception of "unity" as expressed by the State, as something mystical and almost religious. It has also led them to find in physical unity, and therefore in physical power, that sense of solidarity which they lack as individuals (Nicolson, 1955: 144). Because of these peculiarities, and in order to reduce their sense of uncertainty, German Kultur came to represent a general theory of mastery, an effort constantly renewed, of some mystical union between the German people and the elemental forces of nature.

And German policy and its way in conducting negotiations have been deeply affected by these philosophical characteristics, Germany becoming a "destiny, not a way of life." And what distinguish Germans from other nations are the bounds the Germans set to the instinct of self-preservation. They look for overcome their weakness through discipline, and through the use of natural elements, thus creating instruments which make them sure, and powerful. The German products are worldwide renowned for their quality and performance in time, but they are only the expression of their lack of certitude and feeling of vulnerability and weakness.

Furthermore, lack of moderation is one fatal weakness on the German national character (Morgenthau, 1973: 135), which could be combined with the instinct of

self-preservation. Both these traits create in every German a seed of a suicidal mania (Nicolson, 1955: 146).

As under the virtues of German national character there is a layer of nervous uncertainty, they try hard to overcome this negative feeling, through the elements which belong to civilization area, especially in technical world. They create technical elements which help them to overcome the weakness which they feel to have as individuals, and the results are to be found in various technical, and even in artistic fields: let's remember Krupp canons, Solingen steel, Daimler-Benz, Audi, BMW, BASF, and others... All of them create exceptional products, which enables Germany to "conquer" the world.

Connected to this is the old thirteen-century ideals of the Teutonic Order of the German Knights, inherited by Prussia, which came to represent the ideal of German force, her yearning for political dominion (Nicolson, 1955: 145-146). The Germans want a respectable place in the world, and since the World War II, they have been looking for its attainment, using economic, technical, and financial means. The German Deutsche Mark currency had been the most stable currency since Bretton Woods Conference, which means that their most valued thing was its stability (we point here shortly that the idea of stability was the reason for this performance)!

Today Germans are remarkable players on global stage, but they are on the best position to become global leaders in the most important problem humanity faces: climate change. Because of their national character, they use with parsimony all natural resources, while preserving the environment; but these traits are core elements of policy which is intended to fight climate changes. In this area, their companies are global players, precisely the best global players. Siemens sells all over the world its wind turbines, and Germany is on the forefront of green technology worldwide. German companies have the biggest market share, representing 15,4% share of world trade in 2009 (REE/2011: 9). During 2006-2008 production of environmental goods in Germany displayed well above average growth to reach new record levels in 2008, with a volume of nearly 76 billion EUR, and nearly 2 million people employed in Germany in the environmental sector (REE/2011: 9). And these are only a few examples which prove that their character pushes them to a position of leadership; this is an innate desire of them. And they deserve that position.

But as we see these traits of German national character, emanating in their products, and the type of products they create, we can go further and check how they use language, and bring to the forefront some examples which underscore once more these national peculiarities.

Using politeness expressions only underscore this trait. As negotiations, Germans are very formal, they don't like jokes during negotiations; and they use always politeness form of dialogue. Even if after long period of time, when negotiations speak to each other on first name base, the Germans retain the polite form of addressing Sie, when they speak to the other negotiator.

As language, a basic cultural product, it is in the same time a major instrument in cognitive activities; language is a cultural output that may help elucidate how cultural elements influence social action. We must be careful regarding the labeling of common objects, and how are constructed different concepts.

The proclivity of Germans for using natural things in order to rise their power, in this way making them feel more secure, push them to express things which they see in the world based on the utility they see in using them.

For example, the being octopus is described in Anglo-Saxon and French cultures by its shape (octopus, or eight feet, or many feet); in the Chinese culture, it is called "spider with long legs", proving a way of thinking using comparison; in dialectical Arabic it means "cunning"; while the Germans put the accent on one of its functions: it is "ink fish" (*der Tintenfisch*), or in the colloquial German, it is "the one that grasps." Faure (in Kremenyuk et al., 2002: 396)

Furthermore, the way Germans see the world is reflected in the way people from different culture seek solution in a conflict situation; if there is a conflict between two departments in one institution, the solutions presented are strongly influenced by the culture of those which are asked for to intervene.

For example the Frenchman sees a reduced role for those directly involved in a dispute, and the solution is looked for at the highest hierarchical level of decision. The Englishman offers the solution looking for ways to improve the communication between those concerned (preferably between/among their leaders), while the Germans suggest establishing written rules defining precisely the scope and the prerogatives of each one of the departments. Faure (in Kremenyuk et al., 2002: 394).

Even the European people share the same basic elements – Roman law and Greek philosophy - these quite different answers are a proof of different national characteristics of the people belonging to these three nations. But these particular traits are due to their culture, and philosophy, connected to their particular history, religion, and geography.

Frenchman sees France as a centralized state, Paris being the political center around which everything is rotating. France has a long history of centralized authority, due to Catholic religion, and state's history. France is first and foremost an administration. It is a republic, not a democracy, and the republic is a pyramidal decision structure: the president of the republic decides. It is normal for the Frenchman to see the problem's solving through presenting it to the highest level of decision and responsibility in the company. This solution is emulated on his historical traits, and its philosophical way of seeing the world. The Englishman with his spirit of freedom, and a distaste for state's power over society wants to have free hand in his actions; but these actions take place in a peculiar context, which could change over time, thus adaptation measures being needed. Quick changes need quick communication, based upon the same principles, which permit adaptation of details, without affecting principles. United Kingdom doesn't have a written constitution, as other nations in Europe have, but a series of principles for governing. Even they lack the constitution, their state works smoothly, even better than other European states which have one. But they place the principle of free communication to the highest level of importance; as such, Englishman sees problem solving through communication between those involved in a dispute.

In case of Germans, they want establishing written rules defining precisely the scope and the prerogatives of each one of the parties involved in the dispute. They negotiate hard in order to find the best solution, they divide the responsibilities and spheres of action, and after that they respect with great care what there was convened. In their case it is hard and it takes (a lot of) time to find these points, but

after that, they learn exactly what they must do, and respect it with the greatest precision.

Ask peoples which belong to different national cultures “*How are you?*”, and a closer look to the answer can illuminate us regarding their cultural traits. An Englishman can answer this question “*It’s all right*”, an American “*It’s OK*”, a Frenchman “*Tout va bien*”, while a German will say “*Alles in Ordnung*”, meaning that each thing is at its place, and “knows” its place, and its role there. German is a logical and a precise language.

In the German language, there is specified the even the position a thing has; for example in English we can say that he *puts* the *book* on the table, he *puts* the *bottle* on the table, he *puts* the *coat* in the wardrobe, or he *puts* the *newspaper* in the bag. While in German, there are very different words for each of these cases: er *legt* das *Buch* auf den Tisch (*horizontal position*), er *stellt* die *Flasche* auf den Tisch (*vertical position*), er *hangt* den *Mantel* in den Schrank (*it is hanged*), er *steckt* die *Zeitung* in der Tasche (*it is inside*).

There is another difference between what the words mean in different cultures; from this point of view, there are two types of cultures: the high-context culture, and the low-context culture. Context has to do with how much you have to know before effective communication can occur. Low-context cultures are adaptable and flexible, while high-context cultures are rich and subtle. (Trompenaars, 1993: 82)

The distinction between high-context and low-context cultures can be expanded to the difference between form and content, which follows the distinction between Latin and Catholic, on the one hand, and Protestant Germanic/Anglo-Saxon, on the other. Frenchman emphasizes form at the expense of content, this being in fact a Latin way of looking at things... Furthermore, a Frenchman invited to dinner will bring flowers and will take care over the presentation of the flowers, what surrounds them, that is emballage, while a German will bring also flowers for the hostess, but he will take the flowers out of the wrapping and present them straightaway to her. In French case, hostess tend to exclaim first and foremost on the beauty of the emballage, and only later on the flowers themselves. For the Latins, the appearance is important, as in women’s clothing, perfumes; while for Germanic people, there is important the content. (Cogan, 2003: 127-128). “Germans never see the outside” stated Tacitus, and it seems that nothing has changed since Roman times... Even in the case of nature, Germans prefer to see things in their original state; the French style is typified by the trimmed gardens and trees of Versailles: “Nature has to be cultivated”. (Cogan, 2003: 128)

There is a big difference between France and Germany cuisines; if the meatballs of the Black Forest are heavy, thick and massive like German thought, literature, and art, there is in quiche Lorraine, in the liver of Perigord, or in the bouillabaisse of Marseilles all the refined richness of France. (Rouff, 1984)

But what makes Germans different from all other European nations?

Their cultural particularities, and as a consequence, their negotiation style, are rooted in their history, geography, and as a resultant of these two elements, in their philosophy, and economy. (Smyser, 2003: 12-26)

Geography – Germany is das Land der Mitte; being located at the center of European continent, with only one easy defensible frontier (the Alps in the southern part), geography pushes Germany to look constantly at least in two directions: East and West, seeing dangers and looking for opportunities in both directions. Its

location constrains German nation; it cannot escape on a periphery due to its size and location. It is too large to lose itself easily in the crowded Central Europe, and yet too small to dominate its neighbors altogether... These geographical traits compel Germany toward interaction with all its neighbors; and as in the past Germany used war to serve its purposes, after 1945 it uses with great skill the diplomacy and negotiations.

History – this is the most important factor which frames German policy, diplomacy, and negotiating behavior. Germany has a history characterized in its greatest part by division. German nation created a state only after other nations realized this key-objective for their national policy. They even called themselves in late nineteenth century as the delayed nation – die verspatete Nation. Their history of division commenced when Augustus divided Germany in two parts, aspect underscored by the Reformation.

The territory which forms today Germany was composed during Middle Ages of a hundreds of jigsaw puzzle of aristocratic and ecclesiastical holdings, reunited in the Holy Roman Empire. In this hard to understand local and international context, since each prince, aristocrat, or other ruler had obligations toward others, even towards citizens, while they had obligations toward him. Due to this political and geographical context, all these entities had to protect themselves against potential enemies on all sides. They were permanently besieged. Permanent contact became the key-norm for survival, and constant negotiation, the main instrument.

Nobody could withdraw, there was no place to go to, and they had to make their points and interests known clearly in order to avoid misunderstandings. The perception of being permanently besieged, and the need to clarify their views are the main elements in which is rooted the much renowned German precision, in their general behavior, and in their way of life, and particularly in conducting negotiations, and in using words.

During the existence of the Holy Roman Empire, Germans functioned within a multitude of associations, between states and ecclesiastical realms, reuniting farmers, traders, merchants, silversmiths; every profession or any form of social activity had its association, and each such an association had bonds with others. In these circumstances, there was present another element: hierarchy, Germans becoming aware of hierarchy. Each knew where he belonged to, and in order to underscore this trait, each addressed to others on a formal basis, linking names with titles, in this manner reassuring themselves and the others where they stood, and where the others might stand. Using “Herr Doktor” formula in usual conversation (if there is the case), even by those which are close to someone, only highlights this trait.

It is easy to see that Germans lived in a jumble of contradictions; they had their personal, communal, and hierarchical associations and relations; they had been constantly caught up in the internal and external struggles of the Holy Roman Empire, and other states, whether they wanted or not...

As a consequence of these historical traits, Germans became tough. They don't surrender quickly in war or in negotiations; they are tenacious negotiators, being purposeful, determined, assertive, haughty, and unbending. They have come to believe in the prosperity of the fittest, in politics, negotiations, and economics. And this cultural trait makes their technical products highly competitive on every economic market.

Philosophy – German philosophy focused on the internal process of mind, on the logical rationalism underscored by Leibnitz. Fichte asserted that the idea was more important than the thing (elements which comes out from Mommsen explanation of history, with Roman Empire as example), and that subjective thought could lead to truth better than objective observation. But the writer which had the greatest impact upon German way of thinking, and as a consequence, on German negotiating behavior was Georg Hegel. Hegel saw the movement of Geist (Spirit) and the whole progression of history as an advance dominated by dialectic – the notion that every idea (thesis) contains within itself the seeds of its own contradictions (antithesis), and this contradiction could be reconciled and transcended at a higher level, the synthesis, while arguing that “the real is rational.”

Hegel and German history fitted for the best; they reinforced one another. In Hegelian philosophy, and in German history, all things were both related and opposite. Even that each German belonged to some association, which in its turn belonged to a myriad of associations, all of them could remain distinct and separate individuals, while being part of a common political logic that sanctioned distinctiveness and community alike.

As a consequence, the dialectical method remains at the unconscious core of German culture. This method stress dialectical logic, not linear one (as in the case of French), placing deductive reasoning on a higher plane than inductive reasoning (peculiar to English). In this world, Germans see opposites not as contradicting, but as complementing each another. Under the influence of Hegel, German negotiating style has developed a strong attachment to logical method: nothing can be real without a concept to make it real and make it pertinent. Germans don't argue in immediate and specific terms, seizing principally on the details of any particular issue or any particular solution. Germans insist that any proposal must have a through foundation in logic and abstract reasoning.

Economy – despite its tumultuous history, Germany didn't remain an economic backwater. Always, they have encouraged and fostered a standard of high manufacturing quality that remains a peculiarity of German output to this day... They have put the concept of quality in the forefront of their economic and industrial activities, and their technical inventions only supported these; they influenced other people's communication. Even in the Romanian language – which is a Latin language – technical terms have their roots in German language.

As a conclusion, in the light of *comparative analysis* made by Jeswald Salacuse (2003):

- *The negotiation goal* is getting to a contract, but under an umbrella of *Gesamtkonzept*, which implies the construction of a relationship;
- *The negotiation attitude*: they are tough negotiators, but they look to the other side interests, too, their attitude toward negotiation *being a win-win* one;
- *Personal style* is formal;
- *Communication*: they communicate *indirectly* the *Gesamtkonzept*, but the details which spring from it, *they communicate quite directly*;
- *Sensitivity to time* is low sensitivity to time;
- *Emotionalism*: they are logic negotiators, showing *low emotionalism* (probably the lowest in the world);

- *Form of agreement*: they like detailed contracts, each thing, right and obligation being presented in the most detailed manner;
- *Building of agreement*: they build the agreement from top-down. Thinking in a deductive manner, Germans are looking for finding a *Gesamtkonzept*, and after that all things must be within the framework of that *Gesamtkonzept*, to the minute details;
- *Team organization*: they have a leader, but put a peculiar value on group consensus of their team;
- *Risk taking*: and even they are very calculated, they are risk takers.

In negotiations, as in other economic or productive activities, Germans must create *Gesamtkonzept* (a general concept), and only after they found it, they would start production, or *negotiations*. But everything they do is within the framework of this *Gesamtkonzept*, be it a product or service, or a position in a peculiar negotiation. For examples, they do not sale a Mercedes automobile for its own sake, they promote a concept instead. When you buy such a car, you drive much more than a car; you belong to a concept, and you promote it... Mercedes is a full brand, being more than a complex symbol. It has all the six elements which makes it a full brand; it has quality, it brings advantages, it shows peculiar values, is sustained by German conception (which means organization, efficiency, high quality), it promotes a peculiar personality and it is used by a peculiar user. (Kotler, 1998) As always in German actions, the idea cumulated in this brand is more important than the thing.

The same is happening in a negotiation. Germans prepare their positions methodically and thoroughly, to the most detailed thing; but in preparing their logical argument, one must serve their central idea, aiming their preparation toward a comprehensive/governing concept, the *Gesamtkonzept*. It contains the roots and the fundamental aim that Germans wish to achieve during the negotiations, and thereafter. Nothing in German preparations and negotiations happens by accident; the *Gesamtkonzept* provides intellectual coherence, while detailed negotiations proposals spring from it and seek to express it (Smyser, 2003).

Put shortly, due to their geography, history, philosophy, and economic traditions, Germans have a unique culture which creates a peculiar negotiating style.

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THE GLOBALIZATION INDEX. CONSIDERATIONS REGARDING THE POSITIONING OF ROMANIAN'S AND BULGARIAN'S ECONOMIES IN INTERNATIONAL RANKINGS

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Abstract: *Despite the current uncertain economic times, the globalization has continued to perform. One can see the interconnection between the economies around the world in the levels of developing the cross-border trade. The globalization has become an irremovable process, which was developed with a floating speed, but sometimes quite high, including within its sphere in a direct or indirect way the set of the world states. This paper carries out an analysis and compares the effects of the economic openings in Romania and Bulgaria. The results have indicated the idea according to which, the level of economic opening has had a higher impact over the economy in Romania, as comparing to Bulgaria. The defining feature of this paper is related to the use of economic globalization index. The objective evaluation of both causes and consequences on globalization has represented a priority for the contemporaneous societies. The economic, social and political analysis has needed information, and the globalization index has represented an important tool in order to provide the realistic data. The globalization indexes have been used in various ways. Besides the academic analysis, these have been used in the analysis of the economic activity, in the mass-media, as well as in the political groups. This paper emphasizes the assessment of the level of globalization by assessing the importance given to the globalization index. The paper underline that a proper understanding of the globalization process requires interdisciplinary action. Despite some various methodologies, of the variables set or weights in order to study and measure the globalization in a significant way, new cooperation frames have proven to be necessary.*

Keywords: *globalization; globalization index; globalization index's methodology; economic development.*

JEL classification: *F62 - Macroeconomic Impacts; F63 - Economic Development; O11 - Macroeconomic Analyses of Economic Development*

1. Introduction

The globalization index is based on the economic development level of a country, the level of the trading activities, of technological connection, of employment and of political integration of the states in different international groups and/ or organizations etc. In this way, the globalization index has included more variables, such as: political commitments, economic integration, population, technological connections, which are calculated every year, thus following the progress of a country as related to all what the globalization processes assume.

The current paper has in view the globalization measuring, in order to achieve a

better understanding of the globalization indexes, thus supervising if the globalization measuring might guide us to a better understanding of it. Obviously, the indexes should bring a significant contribution and transparency in debates, having in view the fields where the globalization indexes can be used. Forwards, the authors will present the most important indexes of globalization.

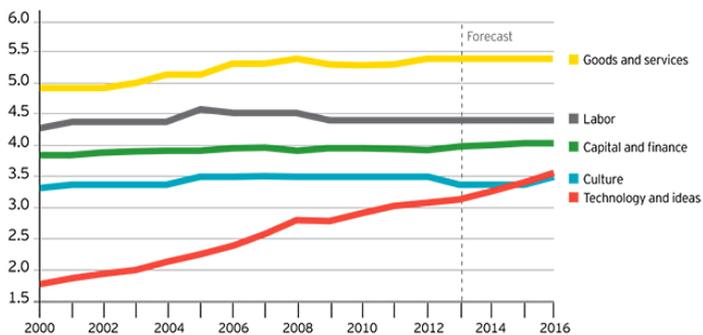
2. The globalization indexes

Although it has become difficult to measure the globalization level of countries, the Foreign Policy Magazine published in 1999 the Kearney synthetic index of the economic growth, which signifies a composite index, underlying on four essential elements: the economic integration level, the life standards, the technological development level and political performance. The FP Magazine has published every year the classification of the 62 countries included into the index, countries that carry out the percentage of 96 of the world GDP and include 84% of the world population. The index has four dimensions: the economic, political, technological and individual dimensions. The level of economic globalization is measured by the trade opening and the relative significance of the direct foreign investments in a country. The use of telephone, the travels and the remitters have aimed towards the individual size of the globalization. The level of technological connection has been estimated by means of the Internet users' number and of housing them, as well as by the secured servers' number. Lastly, the political employment on the world level is given by the adhesion to the international organizations, the involvements into the UNO missions on maintaining the peace, on accepting the treats and the governmental transfers. This measure of globalization has not been obviously perfect, but, at least, it included not only the economic issues of globalization, as in the situation of the indexes previously calculated. The Foreign Policy Magazine also published in 2004 an index of cultural globalization, which included a list with the most globalized cities for 2010 (Heshmati, 2006).

A new index of globalization was published by the Economic Atlantic Journal, including 70 countries and using 21 variables in order to measure the globalization level in these countries. This included more variables, needed to underline the multiple phases of the globalization, such as: the variable representing the international mobility ratio of students. Moreover, this index made more difficult the measure of trade flows, by the distance between the transaction countries, thus admitting that many small countries are underlying a lot on their neighbors, when it comes about trade, but are less globalized in their assembly. As result of such change, many small European countries disappeared from the list of the first 10 globalized nations (Vujakovic, 2010).

Another index issued by the Joint Research Center in Switzerland is represented by the KOF globalization index, which measures the three main dimensions of the globalization: the economic, social and political. The economic dimension of the KOF index measures the effective trade and the volumes of investments on one hand, as well as the measure by which countries apply trade and circulation restrictions on capital, in order to protect the own economies, on the other hand. The social dimension of globalization reflects the level of data and ideas dissemination, while the political dimension shows the level of political cooperation between countries.

The KOF index can be used in order to analyze the changes produced by the globalization on the level of a high number of countries, during a long period of time. The KOF index of globalization was published for the first time in 2002 (Dreher, 2006) and included 123 countries and 23 variables. The KOF index was updated periodically, and for the time being, this index was also valid for 187 countries, as regards the 1970-2010 period of time. The index measured the globalization on a scale from 1 to 100, and the variables expression, which is underlying its calculation, will be expressed in percentages. This fact will reduce the impact of extreme reference points, which has as result fewer fluctuations in time. The most recent index is represented by the Ernst & Young annual index, which was developed for the first time in 2009, in cooperation to the Economist Intelligence Unit. The globalization index measured the performance of the highest 60 economies in international level, taking into account the 20 indicators that evaluate the key issues on the cross-border integration on economic activities. These indicators have been registered in five larger categories, the change of ideas and technologies, the mobility of labor force and the cultural integration.



Graphic 1: Components of the globalization index

Source: Ernst & Young, 2013, *Looking beyond the obvious: globalization and new opportunities for growth*

Note: Basis = the highest 60 countries depending on GDP

As can be seen in the above graphic, the globalization ratio was slowing down, and its characteristics were different. As the trade on goods and services returns on the level before the financial crisis launching, and the capital flow registered a constant growth, the technology and cross-border changes of ideas will continue to influence the extension and character of the globalization. The technology has always been the today's world ground, more and more connected and more digital, having a profound impact over the level of each country. Taking into account the conditions where the trade integration has continued to become steady, a position changing between the importer and exporter countries was estimated. The economies of fast growing have become consumption markets more and more powerful, and the developed markets have own a higher strength in the production and export of goods and services.

Within the context where most of prognosis, related to the global GDP, have foreseen a growth included within the interval of 3% up to 3.5%, and a modest growth for the years to come, the Ernst & Young index estimated that globalization

will continue to extend, and the technology and the cross-borders changes on ideas will establish the main levers on development.

The globalization index measured the relative, and not absolute, level of globalization, which signifies that indicators are taken into account as related to the GDP of each country, and the index will reflect the measure by which the global integration of a country can be noticeable or sensed within its internal part.

As the globalization has progressed, and new better sets of information became available, it has become necessary to review the information as regards the index and the methodology on reflecting precisely these evolutions. In 2012, a review on the score system of the globalization index was carried out, included more secondary indicators, in order to better reflect the current situation into the global economy, technology and markets. The new calculation system has used a dynamic normalization technique. Moreover, the following variables were influenced into the globalization index, calculated for 2012:

- The weight of the main trade partners within the total trade, as GDP percentage;
- The trade within information and communications technology, as percentage of GDP;
- Foreign direct investments (FDI), in stocks, as GDP percentage;
- Total of the international traffic on fix telephony.

The weights on such indicators, as regards the index above mentioned, were redistributed in order to reflect the changes in variables. The aim of such changes consists in capturing better the country's relative efficiency and the performance in time of the five main engines of globalization. The changes are reflected in some reviews higher than those normal and historical, calculated in 2012, and the updated methodology of the index illustrated at best the nuances of the nowadays globalization process, thus offering us a better ability on analysis.

In accordance to the annual report as regards the globalization, report carried out by Ernst & Young, this process has continued to advance the main 60 economies in the world, despite the weak growth in 2012, and of the uncertain economic perspectives for 2013, concerning most of countries. The study was carried out by the evaluation of 60 of the highest economies in the world, thus following their globalization level, as reported to their GDP, and by means of a poll, which analyzed the opinions on globalization for 750 senior executives; they are leading the top management organizations on the global level. The classification on 2012 for the previous years was emphasized as follows:

Table 1: Classification of the most globalized countries, related to the globalization index

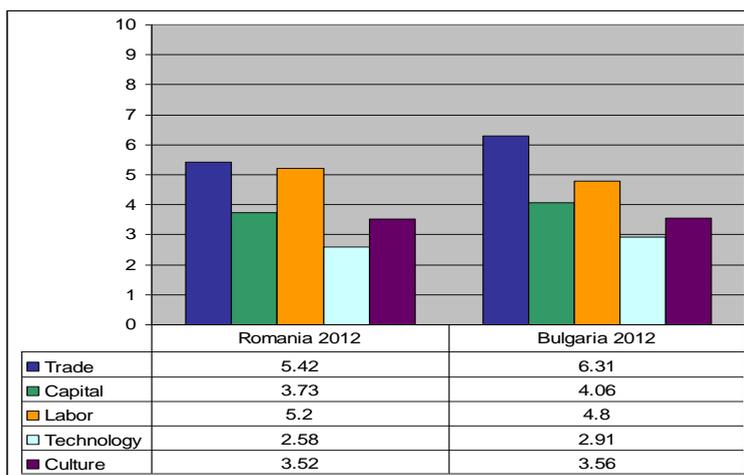
Position (2012)	Country	Year			
		2012	2011	2010	2009
1.	Hong Kong	7,81	7,42	7,48	6,90
2.	Singapore	6,31	6,88	6,78	7,29
3.	Ireland	5,63	7,24	7,43	6,87

4.	Belgium	5,49	5,81	5,82	5,82
5.	Switzerland	5,30	5,46	5,86	5,62
6.	Netherlands	5,19	5,58	5,59	5,45
7.	Sweden	4,96	5,72	5,90	5,77
8.	Denmark	4,94	5,70	5,93	5,77
9.	Hungary	4,75	5,19	5,35	4,88
10.	United Kingdom	4,74	4,95	5,00	4,76
11.	Germany	4,72	4,88	4,89	4,71
12.	Slovakia	4,66	4,84	5,16	4,34
13.	Finland	4,62	5,39	5,29	5,14
14.	France	4,58	4,49	4,71	4,51
15.	Canada	4,55	4,83	4,89	4,87
22.	Bulgaria	4,37	4,25	4,48	4,03
31.	Romania	4,10	4,05	4,32	4,00

Source: Carried out by authors upon basis of data gathered from the annual reports of Ernst & Young during 2010-2013

As can be noticed in the above illustrated table, Romania occupied position 31 in the globalization index for 2012, thus maintaining at the half of classification for those 60 analyzed countries. Bulgaria has 9 positions above Romania, and the first three positions were occupied by Hong Kong, Singapore and Ireland. The Romania's progress is forthright with the global average, and the especial results can be noticed at the "labor force movement" paragraph (+0.77 points above the global average). There are also values registered under the global average level, as mentioned in the paragraphs "changes on technology and ideas", where the value is of -0.51 points under the average, as well as in "the movement of capital and finances" paragraph, with a value of -0.25 points under the average.

Romania has an opened economy, which has beneficiated a lot by the access to the new markets, especially for those within European Union. It will beneficiate forwards by the step by step liberalization of the world trade and of the trade integration, more and more connected to European Union. A part of the goods trade impediments within European Union, which still persists currently, might bring benefits to Romania, and will continue, even if this is done in a slower rhythm, as comparing to that previously estimated.



Graphic 2: Components of the globalization index

Source: Carried out by authors, upon basis of Ernst & Young data, 2013, *Looking beyond the obvious: globalization and new opportunities for growth*

For both Romania and Bulgaria, the five categories that form the index will occupy the same positions, and respectively, the trade occupies the first place, followed by the labor force mobility, and the capital movements, where the last two positions were occupied by the cultural integration and the change of ideas and technologies. Data emphasized here shows us that the globalization index related to Romania has a superior value as comparing to Bulgaria, but only as regards the labor force mobility (5.2 as comparing to 4.8); for all the other categories, Romania registered lower values for 2012. Moreover, during 2009-2012, Romania held every year an inferior position as related to Bulgaria, starting from a differentiation of only two positions in 2009, and thus reaching for the time being at 9 positions distance, as can be seen in the following table.

Table 2: Position occupied by Romania and Bulgaria within the classification of the most globalized countries

Country	2009	2010	2011	2012
Bulgaria	28	23	26	22
Romania	30	30	32	31

Source: Carried out by authors upon basis of data gathered from the annual reports, Ernst&Young, 2009-2012

In this way, one can notice that Romania occupies a relatively constant position within the classification, where the index of globalization registered a growth, from a score of 4.00 in 2009, to 4.10 in 2012, while Bulgaria grew in the classification by 6 positions, meaning from the position 28 in 2009 to position 22 in 2012, and the globalization index registered a growth from 4.03 to 4.37 in 2012.

3. The opening and economic development in Romania and Bulgaria

More empirical studies have confirmed the hypothesis, according to which the growth of the economy's opening level has a positive impact over the economic development. This section compares the economic opening and performances in Romania and Bulgaria, by using a graphical approach. An advantage of such comparison consists in the idea that this will offer a perspective over the way an opening level of economy might determine a higher growth, considering that two countries might have some resemblances, although their opening level can be quite different.

Romania is the ninth country, in accordance to the territory surface (238.391 km²) and the seventh country, in accordance to the people's number, within the member states of the European Union, with over 22 million of inhabitants, according to the National Institute of Statistics. After the communist regime comedown, Romania has known a decade of profound unsteadiness and economic decline. According to the National Institute of Statistics, the GDP knew a growth in 2006, in real terms of 7.9%, one of the highest in Europe, and even equaled the GDP per capita, carried by Romania in 1988. As regards Romania, the percentage of 32% of the country's people is employed in the agricultural and production fields, one of the highest rates in Europe.

Generally, Romania has held an intense trade with countries of the European Union, and especially with Germany and Italy, which represent one of the most important trading partners of Romania.

After a series of privatize actions and reforms at the end of nineties and beginning of the years 2000, the government intervention within the country's economy was quite absent, as comparing to the economies of other states in Europe ([Index of Economic Freedom: Romania](#), heritage.org). In 2005, Romania has replaced the progressive system of taxation, where the maximum quota was of 40%, with a unique quota of 16%. In 2007, this was the lowest quota of EU ([Taxation trends in the EU](#), Eurostat 2007). Tough, in 2008, Romania was overshadowed by Bulgaria, which has now a unique quota of 10%. The economy is predominantly based upon services, which represent 55% of the GDP, and the industry and agriculture have also a significant contribution of 35%, and respectively 10% of the GDP.

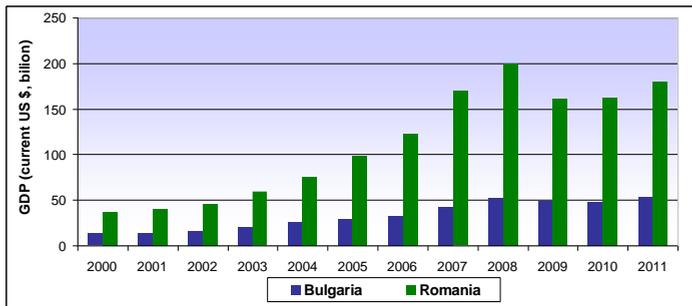
With a territory of 110.994 km², Bulgaria is the fourteenth country, in size, within Europe. The value of 7.327 million people in 2012, in accordance to Eurostat, is predominantly urbane, being more intensive in the residences of the 28 regions. Most of the trade activities are carried out in the capital Sofia. The most developed sectors of economy are represented by the heavy industry, the energetics engineering, the agriculture and tourism, all of them underlying on locally available resources.

Bulgaria has an industrialized market economy (Alfred Levinson, 1994), existing on the average revenues region and where the private sector produces over 80% of the GDP (The World Bank Group, 2008). Regarded as a country predominantly agricultural, and with a prevailing rural population in 1948, Bulgaria has become an industrialized economy, whose main priority relied on the technological and scientific research.

The crisis of planned economies, and afterwards, the shocks therapy applied on changing into a market economy, has had as result the sharp diminution of the

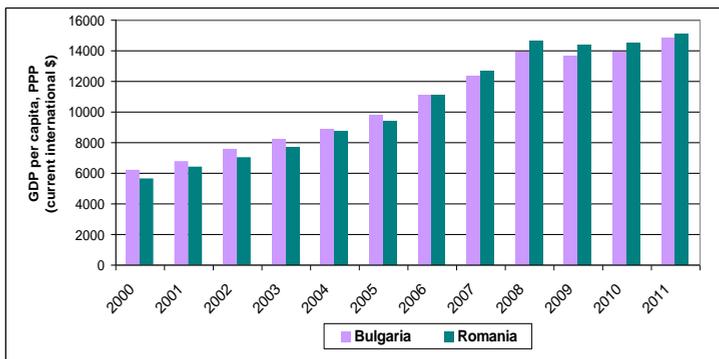
industrial and agricultural production, which reached the high point by the economic collapse in 1997.

After 2000, Bulgaria has reached a period of fast economic growth (European Committee, 2007), although the level of revenues has remained one of the lowest in EU, and the gross average wage was of 386 Euro in March, 2012 ([Average monthly wages and salaries in 2012](#), National Institute of Statistics). The wages have represented only a half of the domestic revenues total ([Households Income, Expenditure and Consumption in 2011](#), National Institute of Statistics, 2012). The GDP per capita, in terms of the purchasing power parity was almost 46% of the EU average in 2011 for Bulgaria and 49% for Romania, in accordance to the Eurostat data.



Graphic 3: The Gross Domestic Product (milliards of dollars)

Source: Carried out by the authors, in accordance to data provided by the World Bank



Graphic 4: The Gross Domestic Product per capita (dollars)

Source: carried out by the authors, in accordance to data provided by the World Bank

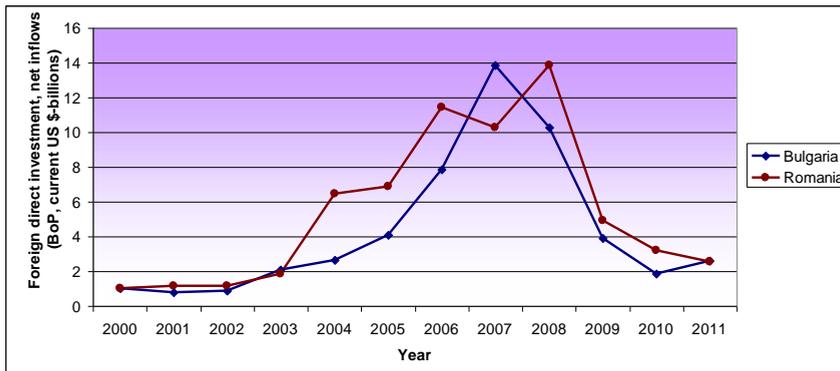
As can be seen in the two graphics illustrated above, the significant differences between Romania and Bulgaria's GDP, which are underlined in the first graphic, are lost in the second graphic, which reflects the gross domestic product per capita. Though, Romania is placed in front of Bulgaria, with a GDP per capita of 15.138,94 \$ in 2011, as comparing to Bulgaria (14.825,07 \$). During 2000-2005, Bulgaria registered the GDP per capita higher than Romania, the last one exceeding it, by starting with 2006. Since 2000 and until 2011, GDP/per capita of Bulgaria was risen by 2.38 times, from 6.225,06 \$ in 2000 up to 14.825,08 \$ in 2011, as comparing to

Romania, which registered a growth of 2.67 times higher, from 5.661,77 \$ in 2000 to 15.138,94 \$ in the year 2011.

According to official statistics offered by the World Bank, the Romania's GDP on 2011 was of 179,793 milliards \$, value of 4.85 times higher as comparing to that registered in 2000. As regards Bulgaria, the GDP grew 4.14 times, from 12,903 milliards \$ in 2000 up to 53,514 milliards \$ in 2011.

Romania was situated in February 2013 on the first position in European Union, as regards the industrial production growth, as comparing to the similar period in 2012, in conditions where the indicator was reduced by 3.1% in the Euro region (EA17) and by 2.5% in the European Union (EU27), data published by the European Office of Statistics (Eurostat). In accordance to Eurostat, the industrial production grew in six member states of the European Union, and was reduced in 16 member states. The highest increasing was registered in Romania (6.5%) and Bulgaria (5.1%).

The unemployment ratio in Romania increased from 12.9% in February 2013 (Unemployment rate, Eurostat, 2013) and the GDP growth passed from 6.2% (2008) to -5.5% (2009) within the context of financial crisis ([Real GDP growth rate – volume, Eurostat, 2013](#)). The crisis has had a negative impact over the industry, thus producing a reduction by 10% of the national industrial production, a reduction of 31% in mining, and of 60% in the non-ferrous metals ([Economist: financial crisis brewed by U.S. market fundamentalism, Xinhua, 2009](#)). The positive growth knew a recovering in 2010, reaching to 0.2% ([Real GDP growth rate – volume, Eurostat, 2013](#)).

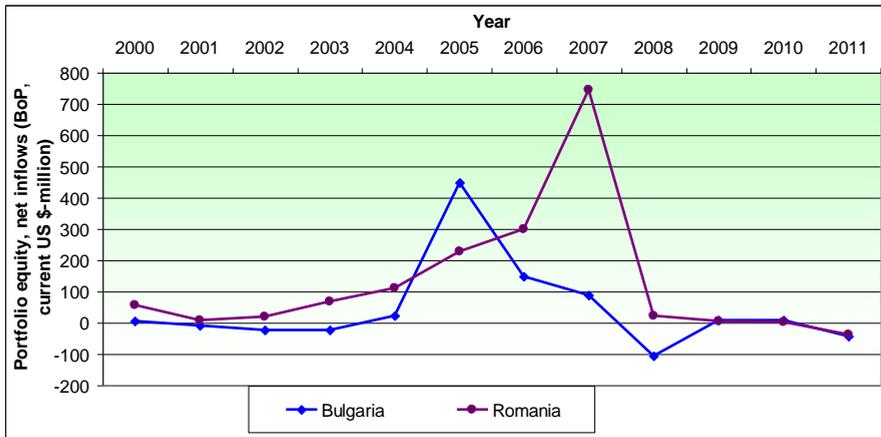


Graphic 5: Foreign Direct Investments (milliards of dollars)

Source: Carried out by the authors, in accordance to data provided by the World Bank

Starting with 2000, Romania has represented an attraction point for many foreign investors, becoming the most important destination of foreign investments in the Central and South-East Europe. The foreign direct investments had in 2011 the value of 2,557 milliards \$, on the decrease from 3,204 milliards \$ with a year before. During 2000-2008, the highest value of foreign direct investments in Romania was registered in 2008, and respectively of 13,849 milliards \$. Bulgaria reached the maximum of the same period in 2007, when the FDI volume reached 13,875 milliards \$. At the end of 2011, the investments in Bulgaria were on decrease, and the consumption was constantly reduced because of the

unemployment growth ([Looming Recession to Fuel Further Bulgaria's Jobless Rate](#), Novinite, 2012).

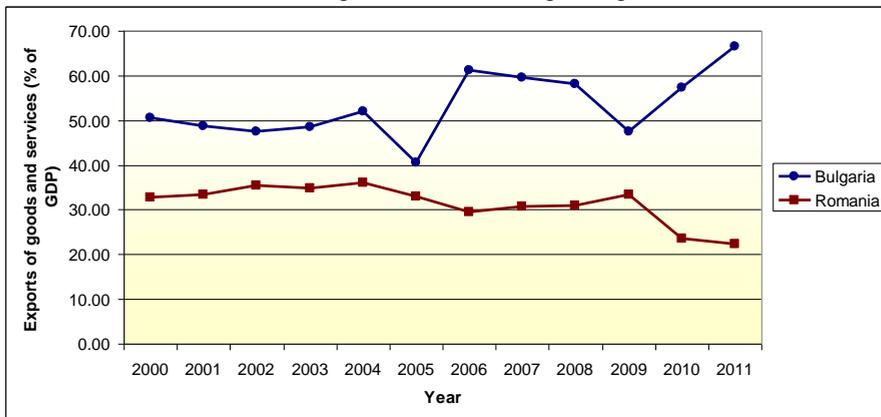


Graphic 6: Investments of portfolio (milliards of dollars)

Source: Carried out by the authors, in accordance to data provided by the World Bank

The investments of portfolio in Romania registered a maximum level in 2007, of 746 million of \$, after which this were reduced from one year to another, and the more pronounced reduction was registered in 2008, when the level of portfolio investments was of only 23 million of \$.

Regarding Bulgaria, the portfolio investments registered reductions during 2000-2003, the maximum level of 449 million \$ being reached in 2005, after which 3 years of reductions followed until 2008, and a slow recovering in 2009 and 2010 also took place, followed by new reductions in 2011, so that the level on portfolio investments reached the level registered at the beginning of the time.



Graphic 7: Export of goods and services (percentages of GDP)

Source: Carried out by the authors, in accordance to data provided by the World Bank

If one analyzes the exports of goods and services, as percentage of the gross

domestic product, one can see a better situation for Bulgaria, which indicates growths by starting with 2009, after three years of coming-downs. Romania hasn't known significant changes during 2000 to 2009, though an essential diminution of almost 30 percentages was registered in 2010, where after this have continued in 2011, as well.

4. Conclusions

The nature of globalization continues to progress and keep changing. The technology has always ensured new development and strengthening ways as regards the capital, ideas and innovations flows, towards directions that are yet difficult to be accomplished. Any evaluation of the relevance of the globalization indexes should take into account the various definitions of the globalization. Unfortunately, the globalization, by having such indexes, it seems to be difficult to be distinguished by internationalization or liberalization.

All the indexes have had component indicators and data that haven't been able to make a differentiation between globalization and internationalization (or liberalization). A composite index of globalization can solve many approaches. An index should be conceptually analyzed and well-defined, and this issue has involved measuring issues. Instead of calling in question the accurate feature of the globalization measuring, a certain level of optimism would be benefic, in order to bring improvements in the measuring processes, as well as in a better understanding of the globalization phenomenon.

Regarding the globalization from the economic processes point of view might signify a reductionist action. The globalization concept has had in subordination the culture, society, politics and environment concepts, as well.

The globalization has opened the world towards the international competition, and has also induced better allotments concerning the labor force, capital and technology. The globalization has offered to each country that enters into competition the possibility of specialize their production, in accordance to the relative advantages related to the production factors.

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AN OVERVIEW OF THE EUROPEAN PRIVATE EQUITY INDUSTRY

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Abstract: Private equity is an alternative form of financing companies, besides classical methods (bank loan or bonds), which is done in exchange of a part of the share capital of the company. This funding is realized by investors interested in the company that also offer portfolio companies expertise in order to increase their value. Private equity is viewed as the most expensive form of financing because it is done against a stake in the company's share capital and gains from selling the shares at a higher price than the buying price. The operations can be divided into two main categories, regarding the owned stake in the company. There are venture capital investments, that are made in the early stages of company development, the involvement of investors is mainly consulting and the percentage of owned share capital is under 50%. The other category is buyout investments, that are made in more mature companies, the percentage owned is more than 50% and the involvement of investors goes to complete restructuring of the company. The article is structured in four parts. The first part is the introduction and presents the private equity activity. The second part is a brief presentation of the present state of the industry at a global level. The third part presents the European private equity market, with a focus on European fundraising, investments and divestments. The data is gathered from European Private Equity and Venture Capital Association (www.evca.eu) and represents the evolution of the market in the last five years, between 2007 and 2011. The last part represents the conclusions of the research. We present the state of the industry globally, with US representing more than half of total activity, followed by Europe and Asia-Pacific. The European market is dominated by the United Kingdom, with more than 40% of total activity, followed by France and Germany. The funds are raised primarily from pension funds and banks and are invested in different sectors, depending on the type of operations: venture capital or buyout. We also find that the preferred exit routes for investments are trade sale and secondary sale.

Keywords: private equity; venture capital; buyout; funds raised; investments; divestments; exit

JEL classification: G32, O16, O52

1. Introduction

Private equity funding is an alternative form of funding companies, besides classical methods of funding (bank loan or bonds), which is done in exchange of a part of the share capital of the company. This funding is realized by investors interested in the company. The revenue of these investors is represented by the dividends which they cash in and the sums of money that they receive by selling

the packages they own at higher prices than the acquisition price. This gap between the two values (the acquisition and the sell price) is due to the active involvement of the investors in the company's activity, resulting in the increased value of the firm and implicitly in the increased price of the shares. The role of private equity activity is to increase the performance of the company, because "any economic entity must increase its performance in order to survive" (Pintea, 2011:13).

Another essential feature of the private equity activity is that besides the funding activity, the private equity investors also offer expertise to the companies in their portfolio. Thus, they get involved in the activity of the company to contribute to the development and the increase of its value.

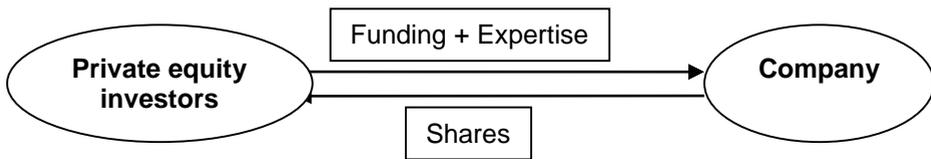


Figure 1. Private equity activity

Source: own work

The definition of the private equity activity has changed in time, including today any investment in share capital of companies, listed or not, accompanied by the active involvement of investors in their activity, through a well developed strategy, with the express purpose of helping to increase the value of the respective companies and to generate profits by selling the shares at a higher price than the acquisition one. Being an alternative form of funding, this method is usually used by companies which cannot apply for classical forms of funding. Also, it is considered to be the most expensive form of funding, because you have to sell a part of the business. The private equity activity can be divided into two categories, depending on different criteria: venture capital and buyout. In the next table we will present the main features of the two forms of funding:

Table 1. The main features of the venture capital and buyout operations

Characteristics	Venture capital	Buyout
Percentage of the share capital owned	Minor (under 50%)	Almost always control, over 50% (minor holdings in the case of “development capital” or “expansion capital”)
Dimensions of the firms in which is invested	Relatively small companies, in course of development	Big, mature companies
Level of involvement	Passive (consulting, know-how, business relationships)	Active (involvement in the activity of the company, going all the way to restructuring)
The stage in the life of a company in which the investment is being made	Early (start-up, establishment, early-stage, development, late-stage, expansion)	Advanced (mature or in decline)
Sectors in which to invest	Emerging sectors, with a high innovating capacity	Traditional, mature, settled sectors, with a well known business model
Using loaned money	Almost never	Almost always
Necessity of profit for the company in the portfolio	Not essential in the beginning	Essential, for paying the debt
Funding rounds	Continuous funding through rounds of financing	Single funding
Risk and reward profile	High (due to the uncertainty about the future of the company)	High, but lower than in the case of the VC (high, due to the necessity of reimbursing the acquired credit for the acquisition of the company, and lower due to the higher certainty about the future of the company)
Types of people involved	Former managers, business owners	CFO's, Accountants
Reward of the investment depends on	Flair of the investor, sense of business (art)	Preparing an accurate financial plan (science)

Source: own work

The two types of operations, even though they possess different features, they have the same objective, namely earning profits, and follow the same pattern, buying a stake in the company, raising the value of the package and selling it at a higher price.

2. The Global Private Equity Market

Private equity assets under management around the world probably exceeded \$2.0 trillion at the end of March 2012, and funds available for investment totaled \$949bn (about 47% of overall assets under management) (www.wikipedia.org).

Some \$246bn of private equity was invested globally in 2011, down 6% on the previous year and around two-thirds below the peak activity in 2006 and 2007.

Global exit activity totaled \$252bn in 2011, practically unchanged from the previous year, but well up on 2008 and 2009 as private equity firms sought to take advantage of improved market conditions at the start of the year to realize investments.

The fund raising environment remained stable for the third year running in 2011 with \$270bn in new funds raised, slightly down on the previous year's total.

The United States plays the biggest part in private equity activity worldwide, with more than 50% of the operations.

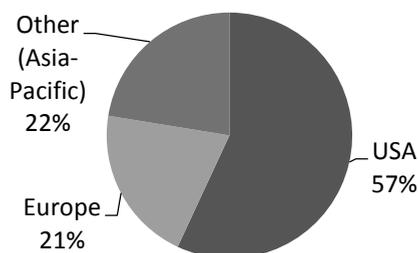


Chart 1. Regions share in the private equity operations (2011)

Source: www.evca.eu

3. European Private Equity

In 2011 European fundraising increased by 80% to 40 bn. EUR compared to the previous year, matching 2001 level. Venture Capital contributed to this trend with its 50% increase compared to 2010. The buyout & growth segment almost grew by 100% compared to 2010 and attributed for 30 bn. EUR. More than half of the buyout amount raised came from pension funds, banks and fund of funds.

Investments remained stable at 46 bn. EUR showing a 6% increase from 2010. This figure resembles the investment level of 2005. Buyout & Growth accounted for 91% of the total amount invested.

In 2011 more than 4,800 companies received investments in Europe out of which SMEs accounted for 85% with an average investment per company of 3m EUR. More than 60% of these investments were attribute to Venture Capital.

The three most targeted sectors by number of companies in 2011 were Life sciences, Computer & consumer electronics and Communications together accounting for 50% of the total. The stage focus split reveals a sector specificity in case of Venture Capital (Life sciences, Computer & consumer electronics and Communications) and a more homogeneous distribution for Buyout & Growth.

In 2011 30 bn. EUR were divested showing a 50% increase compared to the previous year and almost reaching the 2006 peak. This increase was triggered by the Buyout & Growth segment which accounted for 92% of the total amount. More

than 2,000 companies were divested of which Venture Capital and Buyout & Growth had about an equal share. The most preferred exit routes were Trade sale and Secondary sale, together representing more than 60% of the market in terms of amount divested. The total funds raised, the investments and divestments through 2007-2013 are presented in the following chart:

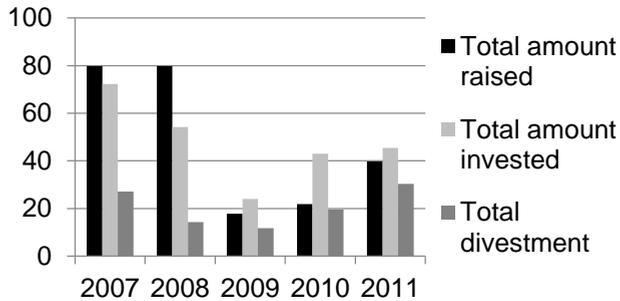


Chart 2. Amounts raised, invested, divested 2007-2011 (total bn. EUR)
Source: www.evca.eu

As for the European countries, their share in 2011 regarding the amounts raised, invested and divested is as follows:

Table 2. Participation of European countries in private equity (%)

Funds raised		Investments		Divestments	
United Kingdom	41.40 %	United Kingdom	41.95 %	United Kingdom	40.78 %
France	15.22 %	France	19.87 %	France	18.49 %
Sweden	14.14 %	Germany	9.45%	Germany	15.33 %
Germany	7.83%	Spain	4.84%	Sweden	7.71%
Netherlands	5.52%	Sweden	4.65%	Netherlands	4.04%
Norway	3.46%	Netherlands	4.40%	Spain	2.84%
Italy	2.11%	Italy	2.55%	Italy	2.55%
Other countries	10.31 %	Other countries	12.00 %	Other countries	8.00%

Source: www.evca.eu

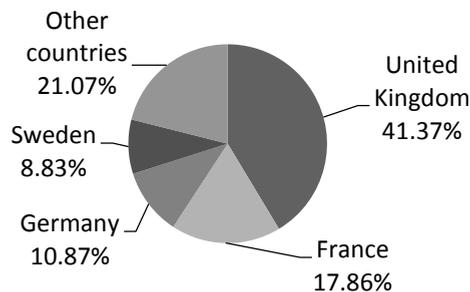


Chart 3. European countries share in private equity

Source: Own work

United Kingdom is by far the most active player in the European private equity industry, with more than 40% of total activity, followed by France and Germany, with 17.86% and 10.87% respectively.

Because of its high risk – reward profile, the share in GDP of private equity activity is low, the European average being under 0.5%.

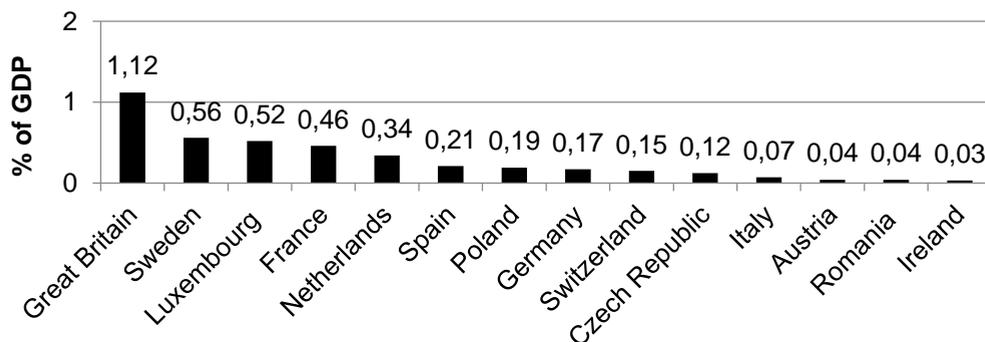


Chart 4. Private equity as percent of GDP for European countries (2011 - %)

Source: www.evca.eu

3.1. Fundraising

Total funds raised in 2011 were 40 bn. EUR. As a source of funding private equity operations, the most important contributors in the last 5 years were the pension funds, the banks and the funds of funds.

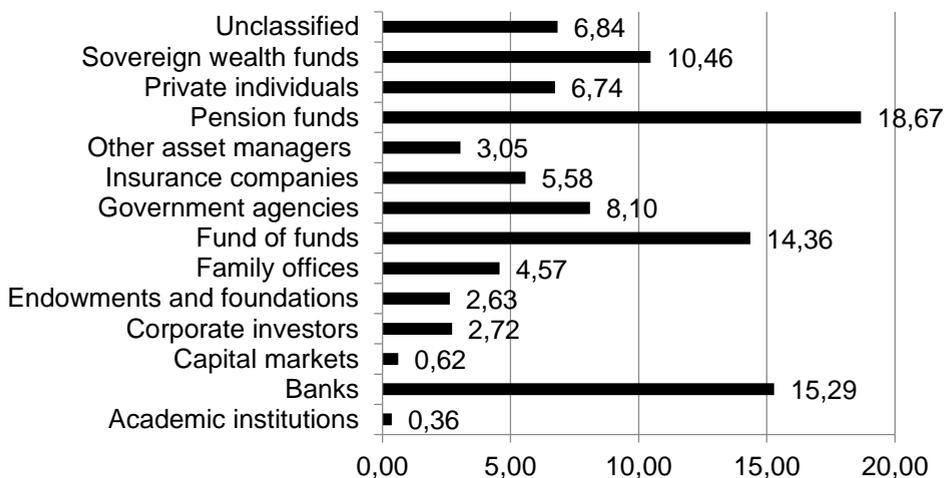


Chart 5. Sources of funding private equity operations 2007-2011 (%)

Source: www.evca.eu

The geographic sources of funds between 2007-2011 are presented below:

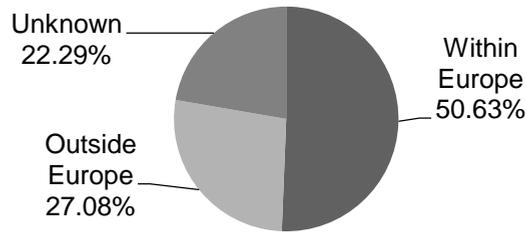


Chart 6. Sources of funds 2007-2011 (%)

Source: www.evca.eu

As we can see, almost half of the money for private equity investments in the last five years came from outside Europe.

3.2. Investments

Investments made in 2011 totaled 46 bn. EUR and more than 4,800 companies received financing. The geographic distribution of investments between 2007-2011 is presented below:

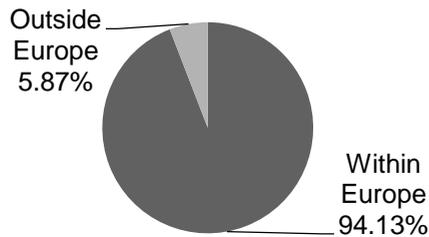


Chart 7. Distribution of investments 2007-2011 (%)

Source: www.evca.eu

We can see that more than 90% of the investments were made within Europe. Venture capital investments are made in innovative sectors (such as life sciences – medicine, pharmacy, etc. or electronics and informatics), while buyout investments are made in mature domains, with a well known business model (such as consumer goods or industrial production).

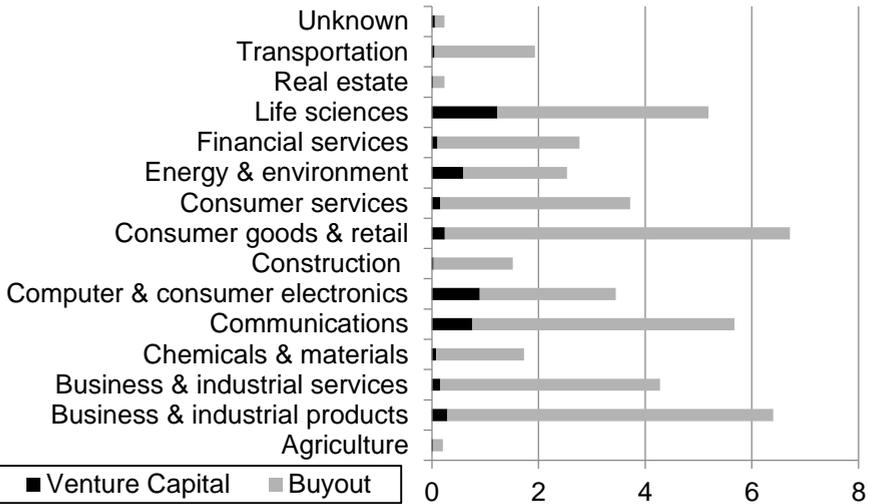


Chart 8. Private equity sector focus of investments 2007-2011 (average bn. EUR)
Source: www.evca.eu

3.3. Divestments

In 2011, a total of 30 bn. EUR was divested from more than 2,000 companies. The exit by route between 2007-2011 is presented in chart 9:

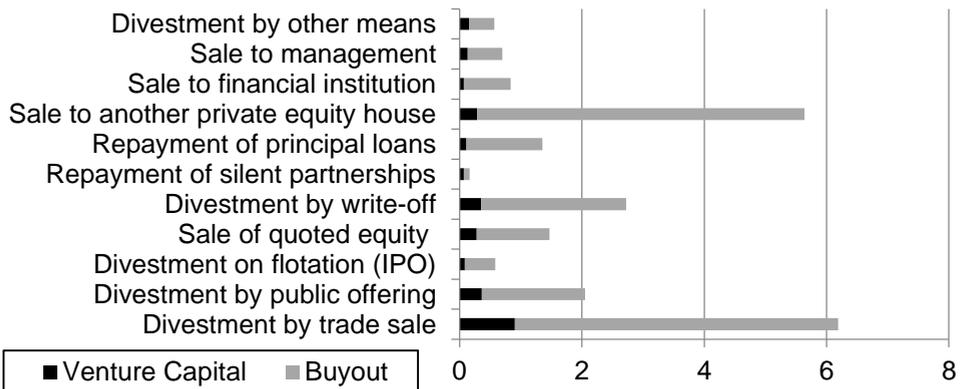


Chart 9. Exit route 2007-2011 (average bn. EUR)
Source: www.evca.eu

The preferred exit route by private equity investors are trade sale and secondary sale. The sector focus of divestments between 2007-2011 is as follows:

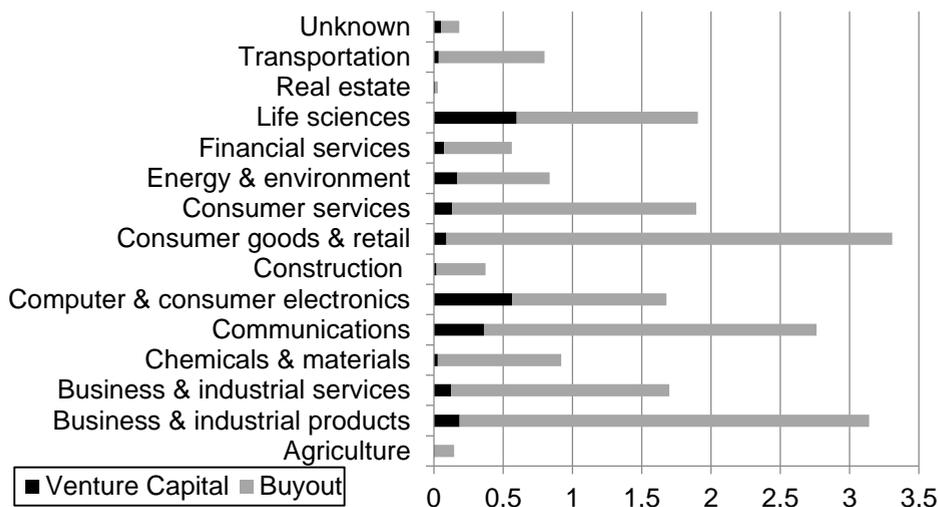


Chart 10. Sector focus of divestments 2007-2011 (average bn. EUR)

Source: www.evca.eu

The major divestments were made in the same sectors as most investments were made, that is innovative sectors for venture capital and mature industries for buyout.

4. Conclusions

Private equity is an alternative form of financing, besides classic forms of financing (bank or bond loans). Private equity investments are made where classic forms are not applicable, and are realised against a stake in the company's share capital. Besides financing, private equity investors offer expertise to the portfolio companies, in order to increase their value, and therefore gain profits from selling them at a higher price. The operations can be divided in two main categories – venture capital and buyout – based on the stake in the company (minor or control), the degree of involvement, etc., but they all have the same purpose, that is profit from buying low and selling high.

Globally, the United States are the most active in private equity operations, with more than half of overall activity, followed by Europe with 21% and Asia-Pacific with 22%. In Europe, the United Kingdom is the most active, with more 40% followed by France and Germany. Because of its very risky nature, the share in GDP of private equity is low, the European average being under 0.5%.

The most important contributors to private equity are the pension funds, the banks and the funds of funds. Almost half of the money for private equity investments comes from outside Europe but more than 90% of the investments are realized within Europe. The investments are specific to the type of private equity operation: venture capital investments are made in innovative sectors, while buyout investments are made in more mature industries. The preferred exit route by private equity investors are trade sale and secondary sale and the major divestments were made in the same sectors as most investments were made.

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INVESTORS' DIVIDEND PREFERENCE ON THE ROMANIAN EQUITY MARKET: A CROSS-SECTIONAL EMPIRICAL INVESTIGATION

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Abstract: *The literature on dividend policy and its relationship to stock returns relies on two important concepts: information asymmetry and agency theory both of which suggesting that there should be a positive relationship between dividend changes and stock returns. The Dividend irrelevance theory claims that dividend policy should not affect shareholders' wealth. In this paper, we investigate whether there is any preference among investors on the Romanian stock market for dividend paying stocks, as reflected by their abnormal return around certain key dates related to companies' dividend policies. To serve our purpose, we take three events related to the dividend policy for each of the 25 companies included in the BET-XT index, namely: 1. The announcement date of the proposed dividend for the year 2011; 2. The General Shareholders Meeting date, a date when dividend distribution becomes certain; 3. The Ex-dividend date. We define abnormal return as the difference between a company's return and a constructed index unaffected by dividend-related events. We cannot report that investors exhibit a preference for dividend paying companies during the investigated time period, but we find that among dividend paying companies there seems to exist a preference for the larger-dividend-paying companies and that this preference seems to manifest strongest between the announcement date and the General Shareholders Meeting date. We also analyze the relationship between dividend yields and the abnormal return for the dividend paying Romanian listed companies. We can report that for the period between dividend announcement and the General Shareholders Meeting there is a statistically significant positive correlation between the dividend yield and the subsequent stock return. We offer a possible explanation for the two seemingly contradictory findings which would be supported by a clientele effect combined with the different tax treatment of dividends as compared with capital gains, for institutional investors and retail investors.*

Keywords: *dividend policy, ex-dividend date, abnormal returns, dividend preference, Bucharest Stock Exchange*

JEL classification: G14, G15, G35

1. Introduction and related literature

The relationship between a company's dividend policy and its value remains an unresolved issue in the financial literature. Starting with the seminal work of Miller and Modigliani (1961) which proposes the Dividend irrelevance theory i.e. in the absence of market imperfections, dividend policy should not affect shareholders' wealth – other subsequent studies reached mixed results. For example, Black and Scholes (1974) also show that the relationship between dividend yields and stock returns is unclear and therefore it cannot be showed using the best available methods, neither what effects dividend yield has on stock returns nor what effect, if any, a change in dividend policy will have on a corporation's stock price.

Among others, Goetzmann and Jorion (1993) study the ability of dividend yields to predict stock returns over long-horizon periods by employing both the bootstrap methodology and simulations and conclude that there is no strong statistical evidence indicating that dividend yields can be used to forecast stock returns over long-horizons. Further, Ang and Bekaert (2007) examine the predictive power of the dividend yields for forecasting excess returns, cash flows, and interest rates and find that dividend yields predict excess returns only at short horizons together with the short rate but do not have any long-horizon predictive power. Their results are therefore in line with those of Goetzmann and Jorion (1993).

On the other hand, Kothari and Shanken (1997) report that both book-to-market (B M) and dividend yield track time-series variation in expected real stock returns over the period 1926 -1991 while for the subperiod 1941–1991 dividend yield is a even stronger explanatory factor.

A number of other empirical studies have examined whether stock prices behave differently after events that affect the dividend distribution or the dividend policy in general.

Asquith and Mullins (1983) study the impact of dividends on stockholders' wealth; the analysis is based on a data sample of 168 firms that either pay the first dividend in their corporate history or initiate dividends after a 10-year hiatus. They found evidence that initiating dividends increases shareholders' wealth and also that dividend increases positively impact shareholders' wealth. Dewenter and Warther (1998) compare dividend policies of U.S. and Japanese firms and show that Japanese firms experience smaller stock price reactions to dividend omissions and initiations, but the US stock prices reactions are significantly affected by the change in the companies' dividend yields.

Michaely (1991) analyzes the behavior of stock prices around ex-dividend days after the implementation of the 1986 Tax Reform Act - the most dramatic change in the U.S. tax code during the last 40 years - and show that this tax change had no effect on the ex-dividend stock price behavior. Before the enactment of the federal income tax, stock prices fell, on average, by the full amount of the dividend (Barclay, 1987). Lang and Shackelford (2000) study the effect of the 1997 US capital gains tax reduction on stock prices and empirically prove that stock prices moved inversely with dividend yields during the May, 1997 week when the White House and Congress agreed on a budget accord that included a reduction in the capital gains tax rate. Studying the UK equity market, Lasfer (1996) finds that the differential taxation of dividends and capital gains results in a decrease in ex-day share prices by significantly less than the amount of the dividend. Very recently, Chen, Chow, and Shiu (2013) find that differential taxes are an important factor

affecting share prices and the behavior of investors around the ex-dividend day based upon an examination of 987 ex-dividend events that took place on the Taiwan Stock Exchange between January 1992 and December 2006.

The literature on dividend policy and its relationship to stock returns relies on two important concepts: information asymmetry and agency theory. With respect to the asymmetry of information, it is argued that managers have more information than investors on the company and its prospects and therefore dividends reveal some of this information to the market. Consequently, it should be a positive relationship between dividend increases and stock returns. The agency theory argues that dividends serve as a tool to constrain managers through the reduction of the free cash flow available to them which in turn forces them to submit to the discipline of the market. The agency theory also predicts a positive correlation between dividend increases and stock returns, as higher dividends reduces managers possibility to waste free cash flows.

Overall, the empirical research concerning the explanatory power of dividend yields on stock returns and the relationship between dividend policy and firm value contains mixed results. We investigate whether there is any preference among investors on the Romanian stock market for dividend paying stocks, as reflected by their abnormal return around certain key dates. We also analyze the relationship between dividend yields and the abnormal return of the dividend paying Romanian listed companies. We contribute the literature with an unique dataset and also by proposing and constructing an index which is further used in the quantitative analysis, namely the “Non-dividend index” by employing a procedure similar to the one used by the Bucharest Stock Exchange to compute its BET-XT index.

The remainder of the paper is organized as follows. In Section II, the data, the construction of the two indexes and methodology are presented. The empirical results are reported in Section III, while Section IV concludes the study.

2. Data and Method

We employ daily returns adjusted for dividends and corporate actions covering the period from December 19th 2011 to May, 31st 2012, for all the 25 companies included in the BET-XT index published by the Bucharest Stock Exchange. BET-XT is a capitalization-weighted index of the most traded companies listed on the stock market. We have further devised the number of companies in a dividend-paying group comprised of 16 companies representing initially 83.5% of the weight in the BET-XT index; and, a non-dividend paying group of the remaining 9 companies, representing initially 16.5% of the weight of BET-X.

2.1. The Non-dividend index

The group of non-dividend paying stocks was used to construct a new sub-index (“Non-dividend index”). Our index was initialized at 66.323 points at December 19th, 2011 (corresponding to 16.5% of BET-XT at that date). The initial weight for each company in the new index matches the weight of the respective company in the BET-XT index, divided by the initial cumulated weights of these companies in the BET-XT as of December 19th 2011 or 16.5% (at this date a new decision of the Indices Committee of Bucharest Stock Exchange regarding the weights came into force). For all subsequent days the weights were re-calculated based on previous trading day stock returns and their respective weights, using the formula:

$$w_{j,t} = \frac{w_{j,t-1} * (1 + r_{j,t-1})}{\sum_{j=1}^N w_{j,t-1} * (1 + r_{j,t-1})}$$

Where

$w_{j,t}$ = weight of stock j at time t

$r_{j,t}$ = return of stock j at time t

N = the number of stocks in the index (here, 9)

The daily index returns were computed as the sum of the weighted returns for the stocks included in the index. Consequently, the daily values for the index were chain-computed using the formula:

$$Index\ value_t = Index\ value_{t-1} * (1 + \sum_{j=1}^N w_{j,t} * r_{j,t})$$

The procedure used to compute the new index mirrors the one used by the Bucharest Stock Exchange to compute its BET-XT index. For comparison purposes we have also constructed an index of dividend-paying stocks (“Dividend index”), using the same methodology as described above. The initial value of the Dividend Index was chosen to equal 83.5% of the BET-XT index (or 335.6 points) so that the sum of the values of the two new sub-indices will be equal to that of the BET-XT index. This procedure was used not only to provide a tool for comparison purposes but also to ensure that our data collection process was correct. The sum of the values computed for the two new indices only infinitesimally diverged from those computed by Bucharest Stock Exchange, most likely due to rounding errors (we used the higher standard precision of the econometric software, while the Bucharest Stock Exchange uses a 6 digits precision). The values start to diverge only after the ex-dividend date, which is expected since we have used dividend-adjusted returns that suit our research, while the Bucharest Stock Exchange does not adjust its indices for dividends.

2.2. The Events

The need for a valid benchmark (the Non-dividend Index) becomes obvious since we want to draw valid inferences about the stocks behavior between certain events related to dividends. The main events are:

1. The announcement of the proposed dividends for year 2011 for the 25 companies included in BET-XT
2. The General Shareholders Meeting, a date when dividend distribution becomes certain
3. The Ex-dividend date, the date when share-holders are no longer entitled to dividends.

Since companies listed at Bucharest Stock Exchange normally pay or announce dividend distribution only during the time frame between the date when End of Year results are announced and the First quarter results announcement, we feel confident that the time frame chosen to study the price behavior related to dividends is correctly settled between the months December and May.

Since companies do not announce dividends, organize General Shareholders Meetings nor chose identical reference dates, we had to investigate the price behavior of each of the 25 companies separately, according to its own relevant dates for the above mentioned events. Furthermore, in order to draw valid conclusions we needed a sample of stocks whose returns were unlikely to be influenced by dividends, but likely to be influenced by other events (macro-events, for example) - hence the need to compute the Non-dividend Index comprised of companies whose stock returns should not be influenced by dividends but who are affected by the same external factors as dividend-paying companies.

Consequently, we were able to derive abnormal returns related to dividend distribution, calculated as the difference between the return of the respective stock between two defined events and the return of the constructed Non-dividend Index for the same period in the following manner:

$$\hat{r}_{j,[a,b]} = r_{j,[a,b]} - r_{Index,[a,b]}$$

Where

$$\hat{r}_{j,[a,b]}$$

= abnormal return of stock *j* over a period from and including event *a*, until – but not including – event *b*

For comparison purposes we also needed to compute Average daily returns for the previously computed abnormal returns since different time intervals have been employed. We used geometric average compounding to derive daily returns.

3. Empirical results

Table 1 summarizes our statistics for the four time intervals delineated by the three dividend events, including daily abnormal returns for the dividend-paying stocks, as well as average returns and standard deviation for the specified event intervals:

Table 1: Daily abnormal returns for the dividend-paying stocks

Symbol	(2012-Announcement Day)	[Announcement Day -GSM)	[GSM-Ex Div Date)	Ex-Div date
ALR	-0.0051	-0.0026	0.0022	0.0721
ATB	-0.0023	-0.0031	-0.0007	0.0467
BIO	-0.0032	-0.0013	-0.0021	0.0235
BRD	-0.0029	-0.0017	0.0011	0.0112
BVB	-0.0007	-0.0004	-0.0079	0.0337

FP	0.0026	-0.0025	0.0030	-0.0020
OIL	-0.0042	-0.0037	-0.0089	0.0322
SCD	-0.0027	-0.0012	0.0015	-0.0230
SIF1	0.0012	-0.0037	0.0020	0.0152
SIF2	0.0057	-0.0023	0.0039	0.0205
SIF3	0.0001	0.0016	0.0007	0.0024
SIF4	0.0034	-0.0015	0.0183	0.0512
SIF5	0.0006	0.0005	-0.0067	0.0072
SNP	0.0018	0.0017	-0.0028	0.0319
TEL	-0.0046	-0.0031	0.0001	0.0078
TGN	-0.0019	0.0014	0.0033	0.0086
Average	-0.0008	-0.0014	0.0004	0.0212
STDev	0.0031	0.0018	0.0062	0.0232
Correlation with DivYield	0.416	0.499*	0.365	-0.172

*- statistically significant at 95% confidence level

For a more intuitive depiction of our results we also present in Table 2 the average abnormal returns for the whole period (without adjusting for different holding periods):

Table 2: Average abnormal returns (whole period)

	(2012-Announce)	[Announce-GSM)	[GSM-ExDividend)	Ex-Dividend day
Average	-5.53%	-3.93%	0.27%	2.12%

The negative excess returns for the period before and after the Announcement Day might indicate that investors are more likely to prefer non-dividend paying companies. This hypothesis is supported by the preferential tax treatment of capital gains versus dividends for private individuals: both are currently taxed at 16%, but since capital gains could be offset by losses on other securities in their portfolio it is only natural that investors would prefer the possibility of deferring the payment of taxes for as long as possible. This is especially relevant for periods when portfolios have most likely incurred losses. However since the mean is not significantly different from 0 we cannot draw any substantial conclusion from these results alone.

As expected, the time period between the General Shareholders Meeting (GSM) and the ex-dividend date does not bring any additional gains or losses for the dividend-paying companies as compared with those not paying dividends. That is

because most of the surprise concerning dividends was priced before the day of the announcement and almost entirely eliminated after the announcement. The GSM itself is unlikely to bring any additional surprises and that could be the reason why stock prices fluctuate insignificantly after this date compared to the benchmark.

However, an interesting finding is related to the last period presented in the table – actually a single trading day, when the right to receive dividends already expired. The returns presented in the last column of Table 1 are dividend adjusted returns, as the actual returns would most likely show significant price declines for that day. The average abnormal return for the ex-dividend date equal 2.12% (a large value, but without statistical significance). This finding suggests that prices do not actually adjust as much as they should considering the dividend that has just expired and a possible advantageous trading strategy would be present. Nevertheless, considering the double trading commission involved for such a sell-buy strategy, at least half of the related profit would melt away. Moreover, we need to consider that the actual dividend adjustment applied to prices was based on gross dividends adjustments when in fact most of the investors (private individuals) are actually concerned with net dividends. In fact our own price adjustments based on net instead of gross dividends (calculation not shown here) reveal that prices do indeed adjust much closer to where they should when net dividends are taken into account. Consequently even that potential source of gain from the last period is not actually relevant except for companies and investment funds that do not pay taxes on dividends per se.

Finally, the correlation coefficients between the dividend yield at the beginning of the period and the excess return reveals some of the usual relations we would have expected to see when analyzing returns of dividend paying stocks. Some qualification is necessary here, since for the first period there is no dividend yield for the beginning of the period, but only expectations for such a yield. However, considering a perfect analysis and estimate for such yield, we see that there is actually a seemingly positive relation between the yield and the return of the respective stock. Dividend yield might help explain some of the variation of returns for dividend paying stocks, though this positive correlation is not always statistically significant. However, for the period following the dividend announcement and the General Shareholders Meeting there is a statistically significant positive correlation between the dividend yield as of the date of the announcement and the subsequent stock return for the period. This is in line with our expectations that dividends are most likely to influence market prices starting with the moment when they become a reality – and that it's the day when they are announced.

Yet another interesting observation is related to the negative correlation between the yield of high-dividend-paying stocks and the return on the ex-dividend date. It may be a fact that the investors who prefer dividends are mostly investment funds and companies that are not concerned about the taxes on dividends since they pay their respective corporate tax that is only marginally related to dividends. If this is the case, then we would expect high-dividends stocks to adjust with the gross value of the dividend (hence more), while low dividend stocks only adjust with the value of the net dividend which is of concern for individual investors. Hence we have a negative correlation between the dividend-yield and the abnormal return on the ex-dividend day.

4. Conclusions

Contrary to both the information asymmetry theory and the agency theory, it seems that investors on the Romanian capital market do not seem to exhibit a preference for dividend paying stocks, at least not for the short time span between key dividend-related events that we have studied. The irrelevance theory seems to better explain investors' reaction, though we suspect that the different taxation treatment of dividends as compared to capital gains could also be a relevant factor. We could not completely rule out the possibility that the companies' decision to pay dividends might not be a surprise at all, being actually priced in long before the announcement is made public. It would be interesting to study what was the investor's reaction when a company that was supposed to pay dividends (according to some simple AR model) doesn't actually pay dividends: for the few cases that we could identify the reaction was negative, but a larger sample is necessary to formulate any definitive conclusions.

However, it is also apparent that between dividend-paying companies there is a preference for the larger-dividend-paying companies, a finding that would support the information asymmetry theory or the agency theory. This preference seems to manifest strongest between the announcement day and the General Shareholders Meeting and the positive relation is statistically significant. For the other two time intervals that we had studied the relation is also positive, though not significantly.

A possible explanation for these two seemingly contradictory conclusions might be the clientele effect among investors. Accordingly, it is apparent that overall there is no preference for dividend paying companies, and the investment preference is somehow evenly split between those who prefer dividends and those who want to benefit from taxation advantages inherent to capital gains. However, we would expect investors who form the clientele of dividend paying companies to appreciate large dividends, and hence stock returns of those companies are positively and significantly related to dividend yields.

Finally, an interesting and unexpected relation was the negative correlation between dividend yield and adjusted returns on ex-dividend day. We suspect that large dividend yield companies find their investor clientele among companies and investment funds. Consequently, the price of these companies is adjusted on ex-dividend day with the full, gross value of the dividend, since the gross value of the dividend is more relevant for such institutional investors. On the other hand, the price of low-dividend-paying companies is only adjusted with the net dividend, which is of interest for retail investors. Hence the different taxation system combined with a clientele effect might explain these short-term price anomalies.

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

EUROPEAN UNION (EU) FUNDS ABSORPTION – ROMANIA

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Abstract: *This paper is about European Union funds in Romania and tries to give relevant information on this aspect. The paper is addressed to all persons interested in this domain, especially for those that work in this sector (non-governmental sector, public institutions, etc) and that need to have a better perspective on the situation. 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 importance of European Union funds and how they differ from one country to another, the situation of absorption in Romania with dates regarding the level of absorption. My research includes both quantitative and qualitative dates; the ideas are embraced by my own opinions on the topic and expresses also my beliefs on the matter. The added value of the paper is provided by the elements brought together: the situation of European Union absorption in Eastern European countries and in Romania, the rage of absorption for each Operational Program and relevant conclusions. The paper starts with an introduction that offers general information about the topic, a short background on the next headlines. As follows, each headline surprises with punctual elements of European Union funds and absorption: determinant causes, solutions found, institutions involved, conclusions. The results of the paper shows that in the next period there are big chances for absorption to growth due to the identified problems. Lack of experience and non-qualified persons, low quality management lead to unsatisfactory results. Institutions in Romania are concerned about this situation and fight to bring out the best solutions. This paper should be read and acknowledged as a study for the European Union funds' absorption and it aims to create an interest for more persons in contributing to the strategic growth of the country by implementing co-financed projects.*

Keywords: *European Union; funds absorption; structural funds; sustainable development*

JEL classification: *Z13, F15, F36*

1. Introduction

January 1, 2007 is an important date for Romania: it become a member state of the European Union and the beneficiary of substantial non-reimbursable financial transfers, offered by the European community to support its development.

These amounts are specially channeled through the cohesion policy. The European Commission, through the Comprehensive Monitoring Report on

Romania, issued on 25 October 2005, explains the state of the administrative capacity of our country in the field of regional policy and of Structural Instruments coordination, formulating the following main idea: "There are serious concerns in relation to the administrative capacity of the institutional structures, and in the area of financial management and control. Immediate action is required to strengthen administrative capacity across all concerned bodies at national, regional and local level". During the four years since the integration, Romania has proved to be able to create institutional structures, some of them with good results in terms of absorption.

Romania's integration into the European Union (EU) was regarded as offering a historic chance for economic and social development and for improvement of the living standards and quality of life. 'Without a satisfactory degree of absorption, Romania could become a net contributor to the European budget. Thus, there is a risk while waiting for a successful integration that would bring additional financial resources and thereby lead to a development process to reduce the gap compared to Western Europe, a cruel reality would unfold, in which payments from Romania to Brussels exceed the financial support of the Union to Romania.'(Da Browski, 2008).

The discussion about the EU funds absorption requires establishing a distinction between contracting and absorption. Contracting represents the moment of signing the financing contract and the financial allocation by authorities.

Besides contracting, absorption concerns the whole process of the project, meaning not only winning the initial funding, but carrying until its end. A high contracting rate is dependent on the contracting parties, the one which manages the funding and the other, the organization requesting the funds through a project.

EU structural funds require national co-financing to strengthen project ownership and sound management. The EU co-financing rates in the Structural and Cohesion Funds are modulated on the basis of the relative level of development of the Member State supported, on the basis of the cohesion policy objective and the fund under which the support is provided. For Member States whose GDP (gross domestic product) was below 85 per cent of the EU average over the period 2001-2003, the grant financing is at a maximum of 85 per cent of the eligible investment costs of a project. For more developed Member States, the EU co-financing rates mostly vary in the range of 50 to 85 per cent.

The results of the current on-going negotiations over the EU's 2014-2020 budget are bound to be shaped to a great extent by the existing fiscal constraints of the EU member states. The negotiating position of Romanian authorities favors an increase in the size of the EU budget. But, it may look contradictory in the light of the country's poor track record of EU funds absorption. At the end of March 2012, after more than five years into the current fiscal exercise, Romania's certified absorption rate, including pre-financing, stood at 17.8% compared to an EU-average of above 33%. Excluding pre-financing the absorption rate was much lower, at 6.6%. Systematic irregularities in the public acquisitions processes have led to a suspension of payments from the Regional Operational Program.

Obviously, higher effective absorption rate alone, even if achieved eventually, it is not sufficient to ensure higher economic growth. The key questions are if EU funds are used for the appropriate projects and if they are successful in meeting the objectives for which they have been conceived. It is well acknowledged the fact

that Romania's strategic objectives, laid out in the National Development Plan 2007-2013, failed to match the objectives set in the Operational Programs. This resulted in a funds allocation mismatch which led to negotiations between Romania and the EC for a EU funds reallocation among operational programs.

2. Romania EU Funds as part of Eastern European Countries (CEE)

In the period 2007-2013, the Romanian National Development Plan is implemented through five sectorial, one regional and one for technical assistance Operational Program (OP).

In the framework of the National Development Plan Romania is scheduled to access EUR 19.2 billion from the European funds. In addition to national public contribution, the entire amount available to beneficiaries totals EUR 23.3 billion. The available budget per capita figure is EUR 1,083, which is significantly below the average figure for CEE.

By the end of 2010, EUR 10.3 billion in grants had been contracted within the Romanian Operational Programs. In a breakdown according to OP, except for the Transport OP and Increase of Economic Competitiveness OP all the programs with higher available budgets had contracted more than 40% of their budget.

After four years of implementation the best performer was the Human Resources development OP with almost EUR 3 billion in contracted grants accounting for 72% of the available budget per OP. However, only nearly one-fifth of this amount (i.e. EUR 476 million) has been paid out to the beneficiaries.

The performance of classical Cohesion Fund co-financed OPs, namely the Transport and Environment OP exhibit a big difference by comparison: the Environment OP is performing better, with EUR 2.3 billion in contracted grants and contracted ratio of 43%, while the Transport OP is lagging behind, reaching only a 15% contracted ratio. Additionally the payments related to the Transport OP are significantly lower: out of EUR 836 million only EUR 47 million has been paid out to the beneficiaries. By the end of 2010, the contracted ratio was the highest for human resource development related operations and urban and rural development (infrastructure development in urban and rural areas). Both intervention types reached a contracted ratio of over 79%, which is also outstanding at the CEE level. Among the other intervention types, one well performing area is R&D and innovation.

Regarding the disbursement the payment ratios are very low, ranging between 1% and 18%. However, for weaker performing energy operations almost one quarter of the contracted grants have been paid to the beneficiaries.

3. Romania and the European Social Fund (ESF)

Romania is deploying ESF funds to give its people the jobs and skills they need to benefit from the modernization of its economy and convergence to EU living standards. Projects are addressing a wide range of activities, from education and training to helping the young, older workers and women gain access to work and careers. And Romania is building a fairer society with focused efforts to help poor, rural populations and its Roma citizens to have the same opportunities for education and jobs as everyone else.

3.1 Investing in People and Jobs: The Opportunities for Romania

The Romanian economy is forecast to see accelerating economic growth as it exits the crisis, and the government is using this opportunity to boost the 'catch-up' process with the more developed EU economies. In this effort, issues of employment and social inclusion are playing a major role as, to ensure sustainable growth; Romania must help more of its citizens gain access to the labor market, and must equip them with the skills they need to share in the benefits of a growing and modernizing economy. Furthermore, jobs and education are at the core of efforts to build a more inclusive society. Romania aims to reduce the number of people at risk of poverty and social inclusion by 580 000 by 2020. So it is creating more opportunities for the young, women and older people – who find it more difficult to find work – and also for disadvantaged groups, in particular the Roma and rural populations who need substantial support if they are not to miss out on the benefits of growth and convergence towards EU living standards

These efforts involve using active employment and promoting jobs in the developing tourism sectors in rural areas. In addition, Romania is taking steps to improve the performance of its public administration – which is vital for the effective implementation of its investment programs for jobs and growth.

3.2 ESF spending in Romania

For 2007-2013, Romania is receiving EUR 3.68 billion in ESF funding. With national co-funding, this brings the total ESF spending on jobs and social inclusion to over EUR 4.3 billion. Spending priorities are focused on a wide range of activities to boost employment, offer fairer access to employment, education and training, social inclusion and the quality of public services.

- **Romania's ESF Priorities - Boosting employment**

Romania is using ESF funds to provide a broad range of active employment projects using vocational training and other measures to help more people get work and develop careers. These projects are reaching around 900 000 people a year – many of them young people, women, the long-term unemployed and older workers – and of these, each year, over one-third are finding work.

For example, new childcare facilities for 1 000 children in Bucharest allow young parents and women to find work while providing skilled jobs for careers. Likewise, the Olt County employment agency provided training for 1 500 job-seekers in fields such as health-spa, sport and agro-tourism.

- **Better jobs**

Other projects are building skills, such as a qualification and training program for 1 900 railway employees giving them the skills to improve service quality and reliability, to help interoperability with the EU rail system, and to encourage a culture of lifelong learning. And there is help for workers in declining industrial sectors, such as that offered by several companies in southern Romania to retrain 100 recently unemployed energy-sector workers by giving new skills to work in the growing renewable energy sector. Nationwide, Romania has launched an awareness-raising campaign on television and radio accompanied by a travelling road-show to encourage people to take up vocational training opportunities to improve their employability – over 5 million people have been reached so far.

- **Promoting inclusion**

Many projects are addressing the challenges facing precarious rural populations who have few opportunities, including many Roma groups who also face discrimination. For example, a project which established three regional entrepreneurship centers offered training and guidance to rural inhabitants in order to encourage new businesses. Projects helping the Roma concentrate on the multiple challenges facing this group. The National Roma Agency is running ESF projects to help over 20 000 Roma fight social exclusion and find work.

For example, they are providing scholarships for Roma medical students and support for 500 Roma schoolchildren considering a medical career. Other projects are encouraging Roma children to complete school education – for example, by including Roma-specific courses on language and history.

- **Better public services**

ESF projects are helping public servants improve their skills and competences to achieve a switch from passive functions – such as registration and payments – towards active involvement in employment measures and initiatives to better serve the wider public. Examples include a project that implemented a certified quality management system in eight municipalities in Brasov and Covasna counties. Over 380 staff received training with the aim of improving the services on offer to the public. Likewise, in Caras-Severin county a one-stop shop for a range of public services covering 75 villages was set up to provide a flexible and efficient contact point for local citizens.

4. The ESF In Romania

4.1 Quality and equality in education

In their fight against discrimination and social exclusion, education is a powerful weapon for the Roma – empowering people to take part in normal working life by giving them the skills and qualifications to do so and ensuring the Roma community has the successful role models it needs for the future. The ‘Quality in education – a step to equality’ project applied an intercultural curriculum in 40 kindergartens covering 800 children. For the youngest Roma children from more traditional communities who only speak Romani, the project offered help to ease the transition into kindergarten and avoid them dropping out later. Pre-school attendance of Roma children is very low and dropout rates from primary and secondary schools are very high. With ESF help, the Amare Romentza NGO (non-governmental organization) helped change this situation and encourage young Roma to gain a complete education

4.2 Creating chances for women, changing attitudes to women

Romanian women living in rural, agricultural communities often face limited job opportunities, a situation made worse by traditional attitudes to gender role models and poverty rates three times higher than in urban areas. To improve this situation, the ‘Better Future for Women’ project promoted a more active role for disadvantaged women in their local economies by helping them set up and manage their own businesses and associations – an approach guided by similar projects in Spain. Around 700 potential female entrepreneurs received counseling and training in business, finance, entrepreneurship, project management and

community-work skills. The project encouraged them to establish community organizations which can act as catalysts to change attitudes to women and work and help raise living standards and female employment in these rural areas.

4.3 Lack of absorption of the EU funds

While considerable funds are available for the Member States – and particularly for those of Central and Eastern Europe – absorption has been disappointingly slow in most countries. The lack of absorption has been a particular problem in Romania and Bulgaria, where only 13 per cent and 15 per cent, respectively, of the funding available under the ERDF, ESF and CF in the Financial Perspectives 2007-2013 has been mobilized. Once payments of cash advances are subtracted, the absorption rate drops to 3 per cent and 5 per cent, respectively. These figures reflect better progress in project implementation as cash advances disbursed in 2007-2009 were unconditional and unrelated to the progress with the implementation of individual projects.

For 2007-2013, a common reason for the delayed absorption in the EU27 is the late agreement on the multi-annual financial framework, which has caused consequent delays in the negotiations of the National Strategic Reference Frameworks and of the Operational Programs. Most programs were adopted in 2007, some only at the end of 2007. Moreover, given the nature of the policy, slow absorption in the first year of the programming period after the adoption of the programs is expected. However, in 2007- 2013, the late start of programs was coupled with the subsequent economic and financial crisis.

‘The absorption rates continued to be low despite the changes introduced in the approval process in 2008 to speed up disbursement in the wake of the financial crisis. These changes in essence introduced greater flexibility in allocating funding under different programs, and reduced the administrative burden. Moreover, some flexibility in co-financing rates was introduced, allowing full grant financing under some programs’ (World Bank (2010): EU-10 regional study, July)

Part of the explanation for the low absorption rate Bulgaria and Romania is their relatively recent accession to the EU in 2007, prior to which there was little time to become familiar with the relevant procedures. The new Member States as a whole, however, perform only marginally worse than the rest of the EU, as the absorption rate excluding advances is roughly 9 per cent versus 11 per cent for the old Member States.

Romania is on all scores a poor performer and has difficulties at all levels of program implementation, starting with the evaluation and selection of the projects. Usually, the lack of administrative capacity has been the main reason for the poor EU funds absorption, and, Romania is not an exception. In order to improve the administrative capacity there is a specially designed Operational Program with an EU allocation of EUR 0.2 billion, where the absorption is somewhat better.

Banks seem to have a comparative advantage especially for projects involving SMEs. For illustrative purposes a closer look at Romania reveals that the Operational Program for Economic Competitiveness has an annual allocation of EUR 430 million of which 85 per cent is co-financed by EU funds. If these resources are made available to the economy, there could be lending opportunities for the banks. Assuming that the non-eligible part is equal to the part eligible for EU

funding and a 25 per cent co-financing ratio, EUR 107.5 million in loans could be granted leading to an additional credit expansion of 0.25 per cent per year.

5. Obstacles to the EU Funds Absorption Process

Although the absorption of EU funds has improved gradually over the last year, the certified absorption rate by the EC continues to remain weak. In September 2011 the Romanian Parliament approved the creation of the Ministry of European Affairs (MEA), with the aim of accelerating the absorption of EU funds. This decision highlighted the dire state of affairs in the EU funds absorption process and the urgent necessity to address the existing flaws, which hampered the increase in Romania's effective absorption rate. However, the existing structural deficiencies in the institutional architecture of EU management funds rendered MEA's role to one in which it exerted an influence focused more on control and coordination. A measure which could have had a positive impact on the absorption rate was the centralization of activities from the existing seven management authorities. The main obstacle in achieving this objective however, was the requirement to obtain new accreditation from the EU for the newly set-up authorities. Such an option was not feasible due to the length of time required to obtain new EU accreditation. Nevertheless this option should be seriously considered as a structural measure to improve EU funds absorption during the EU's next financial exercise 2014-2020.

- Poor strategic planning and uncorrelated objectives;
- Insufficient administrative capacity;
- Limited expertise capacity at central and local administration;
- Limited accountability of public procurement agencies in the tendering process;
- The lack of project experience of both management authorities and beneficiaries;
- Financing constraints;
- Long periods of time for project evaluation, selection and contracting processes
- Project evaluation and prioritization;
- A relatively poor level of qualification from the part of the consultants involved in preparing projects;
- Funds misallocation and procedural irregularities.

Addressing the issues that constrain the pace of EU funds adoption is paramount not only for the current EU fiscal exercise, where the risk of funds being lost increases, but also for the 2014-2020 programming exercise, in which the management of the EU funds would need to be much better managed.

6. The Impact of EU Funds on Romania's Economic Growth and Employment

The assessment of the impact of EU funds on economic growth would depend to a great extent on the actual flows to the economy as a whole, the efficiency to which these funds are employed and the methodology employed to analyse their impact on the economy. Although the overall impact of EU funds in the economy should be positive, since, these represent a net inflow of capital into the economy, there are a number of factors to be considered. For certain funds such as those aimed at building both human as well as physical capital, like enhancing infrastructure; there is a spillover effect in the economy which would be felt over time. This is an

important consideration for policy analysis as, at the aggregate level of the economy, the net and redistribution effects would matter. The implications of increased spending sometimes overlook the effect of the economy once this spending ceases. Thus, while the EU funds could provide a small stimulus to the economy in the short term, their medium and long term effects on the economy, from the point of view of the efficient allocation of resources, could be doubtful.

The current EU budget negotiations for the 2014-2020 period are of great importance as they set political priorities for future years. As it often happened during past negotiations, each EU member country will very likely attempt to pursue its own interests as much as it can. In these times of fiscal austerity net contributor countries tend to support a freeze in the EU budget rather than an increase. The former stance is more consistent to the general direction followed by fiscal policies in the EU member countries that pursued fiscal stabilization program. It may appear inconsequential that countries which adopted austerity policies in order to reduce their budget deficits would support an increase in the EU budget. One line of argument in favor of this approach could stress the importance of EU Funds in supporting economic growth. However, this may work for countries which have exceptionally high absorption rates and face serious financing constraints.

Table 1: The absorption rate to 31 of December 2012:

Operational program	Submitted projects	Approved projects	Contractes/ finance decisions	Payments made (total bil. Lei)
OP Transport	154	93	87	1884.76
OP Environment	634	363	346	4041.26
OP Regional	8221	3690	3319	6490.57
OP Human Resources Development	10375	3016	2449	5485.53
OP Competitive Growth	15184	3664	2449	2692.84
OP Administrative Capacity	1371	420	416	232.45
OP Technical Assistance	130	114	106	144.95
Total	36069	11360	9172	20972.36

Source: Structural Funds Newsletter, no 4, January 2013

The Prime Minister Victor Ponta said in an interview that, in his opinion 'For 2014-2020, Romania asked for more, a higher amount than the European Commission's proposal. The budget proposal of the European Commission, having the support of the European Parliament, is fair and addresses Romania's needs and expectations to a great extent. An irresponsible argument as to why we should not be allotted EU funds is that we did not spend the current allocation. The argument was provided by a former female minister who had good results with respect to EU funds absorption.' (Agerpress, November 2012). This states that our rate of funds absorption is low. Still, with the second framework we hope things will improve and we will learn how to absorb more structural funds.

7. Conclusions

The EU structural funds constitute significant resources available to EU Member States. These funds are particularly important for the new Member States, for which the funds yet to be disbursed could amount to up to 2 per cent of Gross Domestic Power per year for the remainder of the current financial perspective. While absorption rates have been also low in the old Member States, the lack of capacity to better absorb EU funds has been particularly acute in the new Member States. The latter have been lately confronted with subdued economic growth, constraints in bank funding to the private sector as well as budgetary constraints on public investment.

Some of the main conclusions are as follows:

- measures are needed in order to strengthen the administrative capacity across all main ministries and the other relevant bodies;
- the number of employees and the pace of employment should be increased, in order to recover the backwardness;
- the cooperation between the central and local administration should be substantially strengthened;
- the co-financing mechanisms, especially at local level, should be established and clarified;
- for the programming activity, the partnership principle should be effectively implemented;
- the financial management and the control are still characterized by structural weaknesses and should be considerably strengthened in order to avoid the future irregularities

Structural Funds are the key that lead to sustainable development. Each finance line was thought according to our country's needs. Indicators show that the lack of experience, first coming from the institutions involved and second of the beneficiary are causing difficulties in the rate absorption. Romania is still learning, catching experience, but has good potential in making progress. Next framework will be significant for our sustainable development.

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'Without a satisfactory degree of absorption, Romania could become a net contributor to the European budget. Thus, there is a risk while waiting for a successful integration that would bring additional financial resources and thereby lead to a development process to reduce the gap compared to Western Europe, a cruel reality would unfold, in which payments from Romania to Brussels exceed the financial support of the Union to Romania.'(Da Browski, 2008).

'The absorption rates continued to be low despite the changes introduced in the approval process in 2008 to speed up disbursement in the wake of the financial crisis. These changes in essence introduced greater flexibility in allocating funding under different programs, and reduced the administrative burden. Moreover, some flexibility in co-financing rates was introduced, allowing full grant financing under some programs' (World Bank (2010): EU-10 regional study, July)

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RECENT EVOLUTION OF ROMANIAN INDUSTRIAL COMPETITIVENESS IN THE EUROPEAN CONTEXT

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Abstract: *Competitiveness is a key concept and a constant concern of the contemporary society. This article is meant to evaluate Romania's industrial competitiveness level. The first part of the article, refers to the importance of the constant concern regarding the national competitiveness concept, and also regarding its branches and economic sectors. The second part of the article reveals the set of applied indicators used to describe the sectoral competitiveness in the context of sustainable development. This indicators refer to the following: GDP (I1); GDP annual growth rate (I2); Employment rate (I3); Work force productivity (I4); Exports (I5); Total gas emissions (I6); Energetic intensity (I7); Sustainable energy resources percent of total primary energy (I8); Waist disposable performance (I9); Research, development and innovation expenses as a percent of GDP (I10); Engineers and exact science specialists percentage (I11); Professional training degree (life long learning) (I12) TIC training degree (I13) Generated FDI stock / received FDI stock (I14). The application developed in this article is meant to present the results of the conducted evaluations, regarding the economic competitiveness indicators used in the field of anian industry, and in the last part of the paper reveals the conclusions and recommendations of the analysis. The application was developed using the data bases presented by the Romanian National Institute of Statistics and Eurostat.*

Key wods: *competitiveness, industrial competitiveness, applied indicators*

JEL Code: *F23; R11*

1.Introduction:

The economic literature regarding competitiveness reveals a great number of deffinitions and interpretations, the most important being presented in the first Report of the PhD Thesis, report that is entitled „The actual state of the concerns related to competitiveness and sustainable development” (Felea Adrian Ioan, 2011). The concerns regarding competitiveness are present in all the plans of the economic and social life, at national, regional, industrial, sectoral and firm level. Especially in the last decade there have been intense disscussions regarding the EU competitiveness reported to its main international competitors USA, China and Japan.

This article is not meant to detail the deffinitions, intrepretations and concernes regarding the national, regional and firm competitiveness concept, but it focuses on the economic sectoral competitiveness, a subject that is less popular within the recent economic literature, compared to the concept of national and regional competitiveness.

According to the position occupied on the Resources – Consumers trajectory, the economic sectors are divided into the following categories (Olah, 2004): primary

sector (agriculture and extractive / mining industry); secondary sector (manufacturing industry and constructions) and the tertiary sector (services). Some researchers consider constructions branch as a separate sector (IER, Studiul 2/ 2006).

In the structural and competitiveness analysis of our national economy, we can also find the concept of activity branch (as a branch of the national economy), defined as the ensemble of economic entities (companies, firms, institutions, etc) that obtain similar products / services (for exemple: agriculture, forestry, industry, constructions, transport, trade, finances, etc). The national economic branches can be divided into three spheres: the sphere of materials production, the sphere of spiritual production and the sphere of services (Olah, Gheorghe; 2004).

The economic sector competitiveness is fundamental for the national competitiveness. Although the structuring and evaluation of nations does not reflect the competitiveness of economic sectors, it implicitly comprises it, and that is reflected in the phase of defining the national competitiveness concept. For example the most simple and also complex definitions, are the following: "The capacity of an economy to obtain and maintain high GDP per capita growth rates" (World Economic Forum). The existence of a certain capacity involves, obviously competitive economic sectors.

"Competitiveness results from the ability of a certain country to produce goods and services respecting the free trade and market efficiency conditions, that can resist the international market test, in the conditions of maintaining and growing the real income on long term" (IER, Studiul 2 / 2006, OECD definition).

It is obvious that the goods and services production in the specified in the above definition, may be realised only in competitive economic sectors.

The first Study of IER entitled „ The Romanian economic competitiveness. Necessary adjustments for achieving the Lisabon Agenda objectives" refers directly to the sectoral competitiveness (mezzeconomic), the conducted analysis being set on two different levels: „price based competitiveness" and „quality competitiveness". At an economic sector level IER recommends combining the quantitative aspects (price, export volume, productivity, investment) with the qualitative aspects (management, brand, innovation).

Regional competitiveness subject, and Romanian services and agricultural competitiveness concepts are reflected more complex in the Romanian economic literature, compared to the industrial sector competitiveness. A systematic approach example of regional competitiveness in Romania is a PhD thesis entitled „Human resources and regional competitiveness" (Banica, 2009), that argues that a competitive region is the one that presents high quality factors (capital and qualified human resources), and it combines the above mentioned factors to support innovation and technological progress.

This defining method reflects the importance of the industrial sector (technological progress) on regional competitiveness.

With reference to services competitiveness another important study reveals the following definition: „a nation's or a region's capacity to generate a relative growth of incomes from services and a relative growth of employment in services activities, in the conditions of exposing to regional and international competitiveness". The definition formulated by WEF for economic competitiveness mentioned above may be applied to any economic sector. Obviously, sector competitiveness is

explained as being its capacity to contribute at achieving and maintaining high GDP per capita growth rates, in the present existing constraints. The main constraints in which the economy operates and implicitly its sectors are the ones regarding the natural environment and the socio – political and economical environment in which it operates. Under the natural environment aspect, the constraints involving the sustainable development must be considered. From a social, economical and political point of view must be considered the following aspects:

1. Social cohesion – one of the three important pillars of sustainable development;
2. Economic activities globalization;
3. State interference in the sectoral activities (through regulations and its institutions);
4. The companies' contributions (private, multinational, foreign) to building the sector competitiveness.

Therefore, the realistic evaluation of sectoral competitiveness may be conducted only in the conditions imposed by the sustainable development strategies, at two different levels:

- At national economic level, through evaluating the sector's economic performance, based on indicators as: the sector's contribution to GDP per capita, sectoral distribution of the added value, work force productivity, costs per unit, work force;
- At the international transactions level, through the identification of the method the analysed sector competes on the international market or it confronts the external competition on the local market, based on indicators as: export market share, export structure, comparative advantage index.

2. Applied indicators for describing the sectoral competitiveness:

If annual models were imposed for evaluation of national competitiveness, that were operated by prestigious international institutions, there is no unitary methodology with reference to the economic sectors competitiveness to be applied by the European or international institutions. The monitoring and evaluating methods applied by national institutions may be grouped in the following categories: inventory analysis, analysis based on statistical indicators in absolute and / or relative values, using statistical and econometric methods. Multi-criteria analysis based on composed indicators.

For describing the sectoral competitiveness concept, as in the case of national and regional competitiveness, several types of indicators may be used: independently used, divided in several categories and aggregated in synthetic indicators. For classifying the sectoral competitiveness indicators may be used similar criteria as in the case of regional competitiveness: comprised qualitative and quantitative aspects, according to their implication on competitiveness, or according to the time variable (t), according to the analysis complexity (Banica, 2009).

The indicators selection is made based on requirements as: simplicity, relevance, accuracy, information availability. Setting the set of indicators that will be used is a fundamental phase of the complex evaluating process of sectoral competitiveness, that involves: screening the present situation, identifying the causes responsible

for the existing gaps and projecting the solutions for improving the indicators and also the competitiveness.

The suitable indicators for evaluating the national economic sectors competitiveness, in the conditions of sustainable development are the following:

- GDP (I1);
- GDP annual growth rate (I2);
- Employment rate (I3);
- Work force productivity (I4);
- Exports (I5);
- Total gas emissions (I6);
- Energetic intensity (I7);
- Sustainable energy resources percent of total primary energy (I8);
- Waste disposable performance (I9);
- Research, development and innovation expenses as a percent of GDP (I10);
- Engineers and exact science specialists percentage (I11);
- Professional training degree (life long learning) (I12)
- TIC training degree (I13)
- Generated FDI stock / received FDI stock (I14)

The majority of the above mentioned indicators [I1-I9] are independent indicators, indicators [I10-I13] are input indicators, and the indicator I14 is composed by an input indicator and an output indicator. All the above indicators are suitable for the statistical description and for the dynamic description of national economic sectors' competitiveness.

3. Modeling the independent output economic indicators, applied in the industrial competitiveness evaluation process:

Independent output indicators that have a strict economic value, that will be referred to in this section are the ones marked with I1, I2, I3, I4 and I5.

For these indicators the present value calculation and also the evolution rate in time are suitable. The present value is usually calculated for one year, and by evaluating several values for several successive years we could notice the indicator's time evolution. The evolution rate of a certain indicator (I_j) will be calculated using the following relation:

$$i_j(t) = \frac{I_j(t) - I_{j0}}{I_{j0}} \times 100\%, \quad j = \overline{1, 14} \quad (1)$$

where

I_j(t)- represents the value of indicator I_j at the moment t

I_{j0}- represents the value of indicator I_j in the reference year (t₀)

A. Indicators I1, I2, I3 and I4

GDP is the main indicator used to describe competitiveness. By observing the GDP evolution and its evolution rate, we can generate the image of the direction in which the economy, the economic sector, the region or any other entity is oriented or directed, from the competitiveness point of view, and also from the speed used in that certain direction. The comparative analysis of GDP per capita and GDP at a sectoral level permits the hierarchy under the aspect of national competitiveness, of economic sectors between themselves and the nations from the competitive

advantage of the same economic sector point of view. GDP per capita may be decomposed into two important elements: productivity (GDP per employed population) and employment (employed population / inhabitants).

Nowdays there is a diversity of utility methods of the indicator GDP per capita (Cambridge Econometrics, 2003).

$GDP / \text{total population} = (GDP / \text{total number of working hours}) \times (\text{total number of working hours} / \text{employed population}) \times (\text{employed population} / \text{aged employed population}) \times (\text{aged employed population} / \text{total population})$

Also, there are several methods of decomposing the indicator GDP per capitat that show the influence factors (Banica, 2009):

$GDP / \text{total population} = (GDP / \text{employed population}) \times (\text{employed population} / \text{human work resources}) \times (\text{human work resources} / \text{total population})$.

Strating from the definition and the expression of GDP, we will express the GDP at a certain sector level (k), using the following relation:

$$PIB_k = \sum_{i=1}^n q_{ki} \cdot P_{ki} \quad (2)$$

where

q_{ki} - the quantity obtained through the fiscal good (i) in the sector (k)

P_{ki} - the price of the good

n- number of distinct goods.

If we admit that the national economy is structured on three sectors (par 2.1), than PIB_k will be calculated for the three sectors and at national level, and it could be expressed as:

$$PIB = \sum_{k=1}^3 PIB_k \quad (3)$$

For any sector we cand calculate the following indicators PIB_k / POP and, $PIB_k / POPO_k$

where,

POP- total population (total number of inhabitants)

$POPO_k$ - employed population in the sector „k” (number of workers in that certain sector)

Obviously,

$$\frac{PIB}{POP} = \sum_{k=1}^3 \frac{PIB_k}{POPO_k} \times \frac{POPO_k}{POP} \quad (4)$$

In the ecuation (4) two fundamental indicators for describing the „k” sector competitiveness are expressed:

$\frac{PIB_k}{POPO_k}$ „k” sector productivity

$\frac{POPO_k}{POP}$ employment rate in sector „k”

The analysis regarding competitiveness could be extended to the interior of a certain national economic sector, by evaluating similar indicators at branch or subsector level of those certain sectors:

$$PIB_{kr} = \sum_{j=1}^m q_{krj} P_{krj} \quad (5)$$

where,

q_{krj} - the quantity obtained from fiscal good (j), inside branch (r) of sector (k)

P_{krj} -price of fiscal good (j)

m- number of different goods generated in branch (r) of sector (k)

If inside the sector „k” there have been R branches that generate fiscal goods identified, it could be expressed as:

$$PIB_k = \sum_{r=1}^R PIB_{kr} \quad (6)$$

For the sake of comparison, inside sector (k), between its branches there could be determined the following indicators:

$\frac{PIB_{kr}}{POPO_{kr}}$ - branch (r) productivity in sector (k) ;

$\frac{POPO_{kr}}{POPO_k}$ - employment rate in branch (r) of sector (k)

With reference to the two indicators the following relation is valid:

$$\frac{PIB}{POP} = \sum_{r=1}^R \frac{PIB_{kr}}{POPO_{kr}} \times \frac{POPO_{kr}}{POPO_k} \quad (7).$$

The set of indicators determined by the relations (1 – 7), for national economic sectors and branches for EU 27 and for member states of EU27 is used to describe the Romanian level of sectoral competitiveness in the European context, to analyse and compare the national economic sectors and their branches. By calculating the evolution rate of PIB_k , PIB_k/POP , $PIB_k/POPO_k$, $POPO_k/POP$ and of the similar indicators at subsector level, using type (2) relations we can notice the sectoral competitiveness level and the branches dynamics evolution.

GDP at all levels (national economy, sector and subsector) is measured in monetary units (euro or lei). For the analysis conducted at EU level we will use the GDP in euros.

B. Exports could be determined as GDP share at national, sector, branch and company level.

Therefore,

PIB_k^E - exports of sector k[UM];

PIB_{kr}^E -exports of branch r of sector k[UM];

UM- monetary units.

The relative values of the two indicators could be calculated reported to the total value, as:

$$pib_k^E = PIB_k^E / PIB_k^R$$

$$pib_{Kr}^E = PIB_{Kr}^E / PIB_{Kr} \quad (8)$$

If there is the possibility of delimiting the human resource that serves the sectoral exports $POPO_K^E$ and branch exports $POPO_{Kr}^E$, then we can calculate the specific value and the indicators „work productivity” and „employment rate” with reference to exports, using similar relations with (7). The indicators (PIB_K^E, PIB_{Kr}^E) and their relative values we can calculate using type (1) relations, the evolution rate. The above mentioned indicators allow identifying the actual state and the time evolution of the exports realised at sectoral level and at national economic branches, compared to other states in the European context.

4.Results:

Using the information presented in the EU report regarding the industrial structure (**EU Industrial Structure 2011. Trends and Performance, 2011**), we analyse a series of evolutions in the industrial sector at EU level and also in comparison with its main competitors.

The growth rate evolution of the manufacturing industry in the EU, between 1991 – 2011, in the international context is presented in Figure 1



Figure 1: Growth rate in manufacturing industry in the EU reported to USA and Japan

Source: EU Industrial Structure 2011. Trends and Performance

We can easily conclude that the EU and the other two analysed competitors have a fluctuating evolution, that varies every year, but it finally maintains a positive growth. In the above Figure we can notice the „moment 2008” when we can see a powerful reduction for all the three competitors. Japan’s evolution is notable and it is characterised by a powerful decrease, but also by a spectacular reinforcement above the level of EU and USA, followed by a reduction to the negative area.

Using the information presented in the EU Industrial Structure 2011. Trends and Performance, the second Figure presents the contributions of the economic sectors to the formation of EU GDP

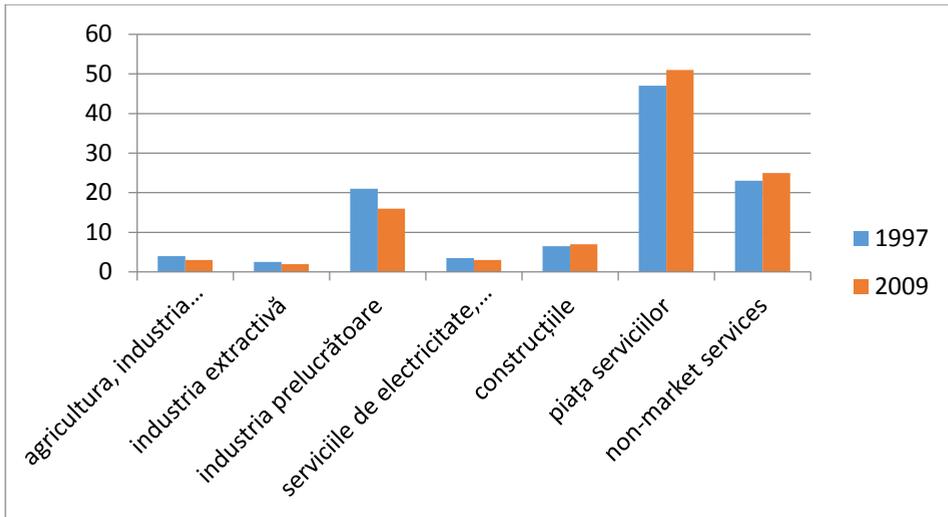


Figure 2: Economic sectors contribution to the EU GDP formation:
Source: EU Industrial Structure 2011. Trends and Performance

The results presented in the Figure 2 reveal the important contribution of services to the EU GDP, that was growing in the period 1997 and 2009, when the services percent in the GDP was about 75%. It could also be noticed that the industrial and agricultural in the formation of GDP decreased in the period analysed. Using the information published on Eurostat, Figure 3 presents the GDP time evolution in the manufacturing industry in Romania, compared to the EU.

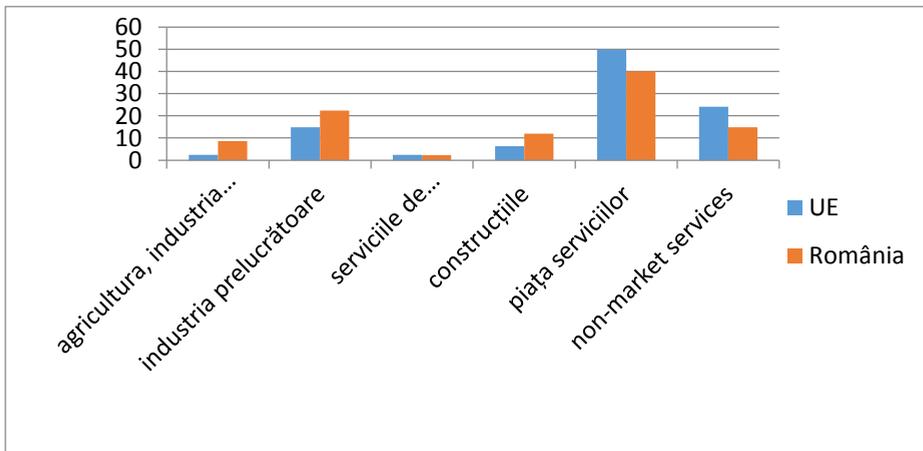


Figure 3: Comparative representations of the economic sectors' contribution to GDP in 2009
Source: Author's calculations based on the information provided by the EU Industrial Structure 2011. Trends and Performance

The graphics in Figure 3 reflect the fact that in Romania the services represented the majority of GDP (about 55%), percent that is under the EU average. In Romania, the secondary sector and the primary sector have a relative contribution to GDP, that is higher than in the EU.

Based on the information published by the National Statistical Institute (<http://www.insse.ro/cms/rw/pages/buletinelunare.ro.do>), we can notice the recent evolution of the following indicators, in the Figures (4 – 9).

- GDP growth rate by industry (total and industrial sectors / branches)
- Work force productivity growth rate (total and industrial sectors)
- Industrial products exports and imports evolution
- Employed population in industry and employment degree at national level;
- Growth rate of medium earnings in Romanian industry.

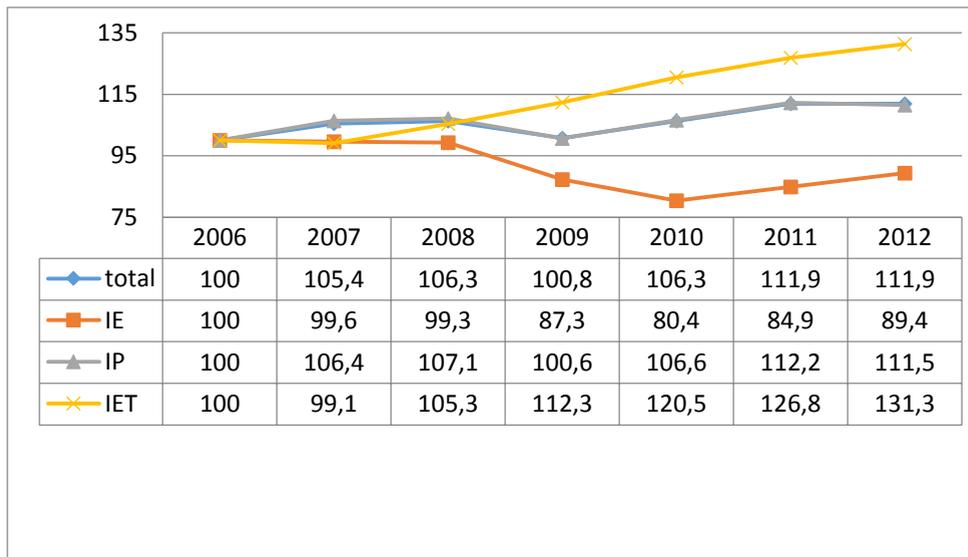


Figure 4: GDP evolution rate in the Romanian industrial sector

Source: Author's calculations based on the information provided by the National Statistical

Institute (<http://www.insse.ro/cms/rw/pages/buletinelunare.ro.do>)

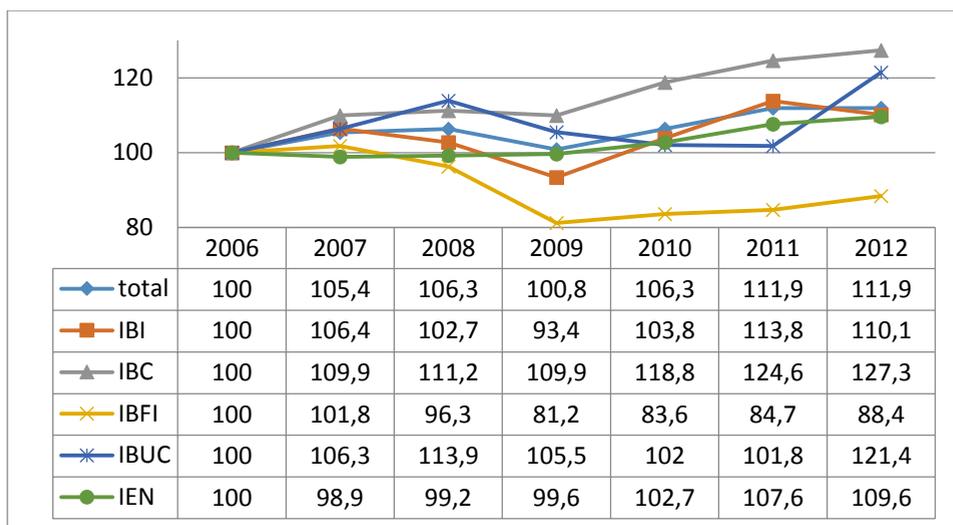


Figure 5 GDP evolution rate in the Romanian industrial sector, divided in the main industrial groups:

Source: Author's calculations based on the information provided by the National Statistical Institute (<http://www.insse.ro/cms/rw/pages/buletinelunare.ro.do>)

The results presented in Figures 4 and 5 reflect the fact that the industrial sector in Romania was influenced by the economic crises through the production reduction in 2009, compared to 2008, and a zero growth in 2012, compared to 2011. The affected branches were the Manufacturing industry, that imposes the whole evolution of the industrial ensemble and the IEN, that decreased in the period 2008 – 2010. The IEN and IET industry presented a continuous growth in the period analysed.

The conducted analysis, divided in the main industrial groups in Romania reflects the fact that the most affected industries were IBUC and IBFI, the single one industry remaining unaffected being the IEN.

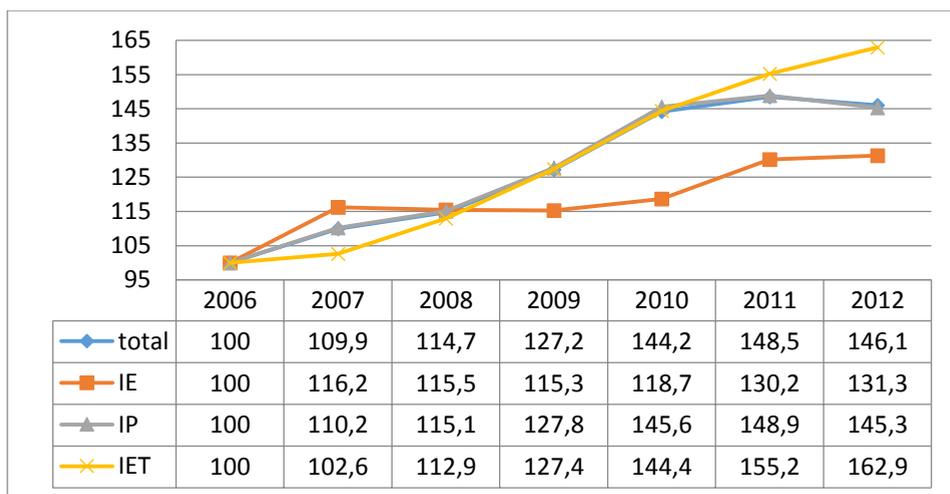


Figure 6: Work force productivity evolution rate in Romania

Source: Author's calculations based on the information provided by the National Statistical Institute (<http://www.insse.ro/cms/rw/pages/buletinelunare.ro.do>)

The above Figure presents the fact that the work force total productivity in the industry is increasing in the period analysed, except in 2012. If we analyse the evolution of the three components of the industry, we can see a regression of the manufacturing industry, a progress of the other two branches.

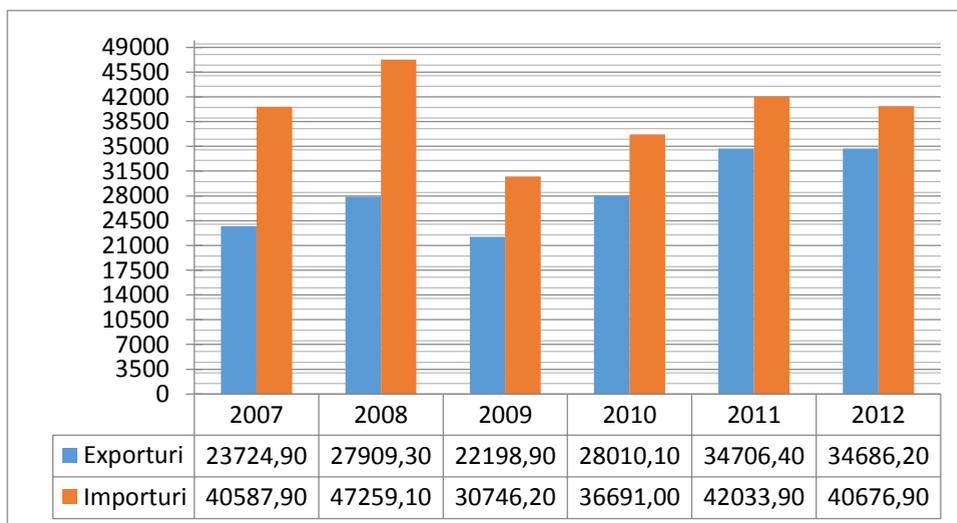


Figure 7: Industrial products imports and exports evolution in Romania / mil euro

Source: Author's calculations based on the information provided by the National Statistical Institute (<http://www.insse.ro/cms/rw/pages/buletinelunare.ro.do>)

Analysing the Figure 7, we may draw the following conclusions. We can notice that on the period analysed, the level of exports is under the level of imports. We can also notice that the economic crisis effect also on this part of the industry, initially appeared in 2008. The important thing is that although the imports of industrial products in 2008 was not achieved, in the exports case we can talk about a fast recovery, and the result is that today the exports level is higher than in 2008.

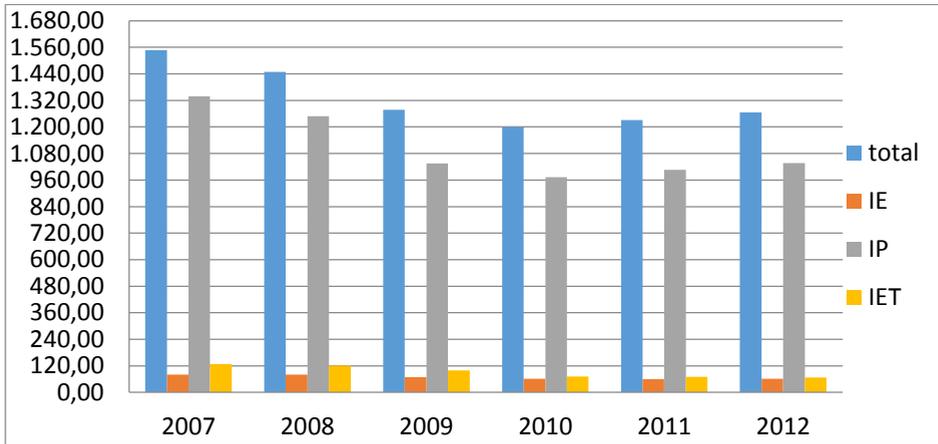


Figure 8: Evolution of Employed work force in the industrial sector

Source: Author's calculations based on the information provided by the National Statistical Institute (<http://www.insse.ro/cms/rw/pages/buletinelunare.ro.do>)

Regarding the employed work force evolution in the industrial sector, the things are unchanged. For total industry, IE and IP present an affected evolution by the economic crisis, since 2007, and in the present moment we can notice a slight increase. An exception is IET that has a negative evolution in the period analysed.

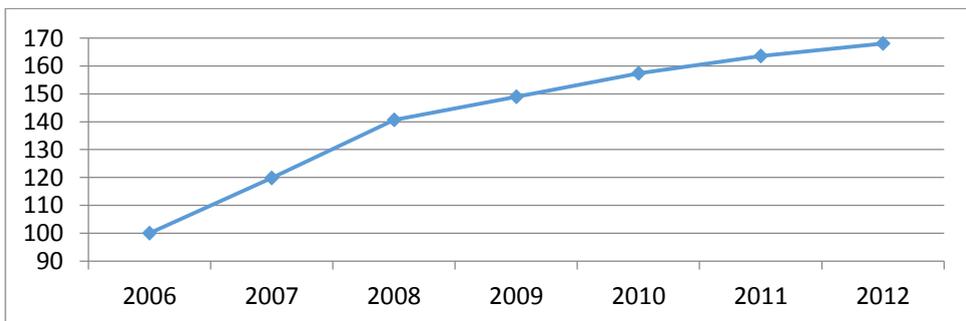


Figure 9: Medium earnings evolution rate on total industry in Romania:

Source: Author's calculations based on the information provided by the National Statistical Institute (<http://www.insse.ro/cms/rw/pages/buletinelunare.ro.do>)

Although the year 2008 affected the Romanian industry with all its components, Figure 9 presents a continuous increase of the medium earnings in industry in the period analysed. Affecting the growth rhythm of industrial production, after 2008, determines the decrease in earnings. To establish if there really was a real earnings increase, we must compare the effective annual growth with the inflation rate.

5. Conclusions:

International and European institutions and also the economic literature reflects that the concerns regarding the national and regional competitiveness are more complex than those regarding the sectoral and national economic sectors competitiveness. Nowadays there is no unitary methodology accepted at international and European level for evaluating the sectoral competitiveness.

Sectoral competitiveness evaluation may be conducted only in the conditions imposed by the objectives and targets of the sustainable development strategies, in two directions: at national economic level and at international transactions level. For evaluating the sectoral competitiveness there can be used three types of indicators: independent, grouped in categories and aggregated in synthetic indicators.

The proposed indicators are suitable for the statistical description and for the dynamic description of sectoral competitiveness and of national economic subsectors. For all the indicators mentioned we calculated the present value and the evolution rate.

In the period 1997 – 2009, the industrial sector contribution to the EU GDP decreased, the highest reduction being registered in the manufacturing industry, the most important branch of EU industry. The GDP compensation realised through the increase of services in its structure.

The relative industry contribution to Romanian GDP was in 2009, approximately 30%, the most important branch being the IP, with 20%. Comparing it with EU27, we can notice that in Romania, the industry percentage is higher and the services percentage is lower, compared to the EU.

The evolution of the analysed competitiveness indicators reflects the following:

- An increase of industrial competitiveness in Romania
- The economic crisis marked the year 2008 and only a part of the branches and groups of the industrial sector in Romania
- The energetic industry registered a continuous increase in the period analysed
- The employment rate in the industrial sector continuously decreased in the period analysed
- Evolution rate of the medium earnings registered an increase in the analysed period.

To complete the Romanian industrial competitiveness picture in Romania, in the context of sustainable development, it is necessary to evaluate other indicators, like input indicators, output indicators regarding the environment and aggregated indicators.

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This article is part of the third Report of the PhD Thesis entitled ***Romanian economic competitiveness growth in the context of sustainable development.***

STAKEHOLDER ENGAGEMENT BETWEEN MANAGERIAL ACTION AND COMMUNICATION

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Abstract: *This paper is aimed at designing a research programme to improve the communication with the stakeholder through the analysis of the managerial actions in order to create shared value. At the core of this research we propose to observe the relationships between management actions and the strategic conversations. Thus the dialogue and the communication become the key tool for strategic change. Two fields of analysis are proposed: the dialogue between stakeholders and among the scholars of share value creating. Our hypothesis is that enterprises are formed and changed through sequences of thoughts and actions, in which the medium is always conversational. Thus dialogue becomes the privileged method of intervention in strategic change. This dialogue is always constructive because it proceeds through positive feedbacks and feed-forwards. A dialogue is aimed at including the stakeholders and their arguments, in a relationship oriented to the mutual understanding.. A good relationship with potential customers, NGOs, citizens, governments and other stakeholder is not some vague objective that's good to achieve, if possible. It is a determinant key of competitiveness. But it is necessary to recognize that traditional Corporate Social Responsibility (CSR) fails the challenge by separating stakeholder engagement from business. In this way shared value creating becomes part of the culture of the company and as such it is fully integrated into strategy, thus finding its natural place in the value chain. The creation of long-term value is only possible through the implementation of a strategy to develop economic and social conditions simultaneously. For a company it is a strategic decision to fund the creation of value that binds to improving the quality of life of employees and the communities in which it operates. In the first part of the paper we introduce some basic concepts, the terminology and the model of the relationships between managerial actions, communication processes and stakeholder engagement. In the second part of the paper, to better understand the link between stakeholder engagement and shared value creating we consider one company that has distinguished itself, one time for scandals, now for shared value creating: Nestlé. The paper shows how implementing a shared value approach is an opportunity not only to contribute to good works, but also to redefine core business strategies, simultaneously creating value for society and for shareholders.*

Keywords: *creation of value; stakeholder engagement; communication; strategy; CSR; managerial actions*

JEL classification: *M14 ; M16*

1. Introduction. Strategy and CSR: the Integration?

Business strategy determines how the firm will use human and financial resources to achieve its objectives. The value system (Mella, 2012) of corporate and stakeholders has a profound effect on corporate strategy implementation. There are some postulates in this respect:

- Business strategy must reflect the understanding of organization members and stakeholders value
- Business strategy must reflect the understanding of the ethical nature of strategic choices
- Business strategy should consider important stakeholders.

If these postulates are accepted, then stakeholder becomes a central concern in business strategy (Jucan and Jucan, 2010). These companies are adhering (or professedly adhering, Laufer, 2003) to Corporate Social Responsibility (CSR) standards and practices and integrating CSR principles and goals into their overall corporate strategy (Godfrey and Hatch, 2007; Lee, 2008; Smith, 2003).

Normally companies which prepared traditional CSR reporting (Gazzola, 2012b), employing a range of communication approaches to reach specific groups in targeted ways. The companies know very well at what groups they provide the informations, what these people need to know and how to meet those needs efficiently.

However, we have to remember that first of all the development and implementation of CSR depends on the management style of the company, and on the significance assigned to the task. Managers' strategic choices are typically influenced by their ambitions, attitudes toward risk, values, ethical beliefs, and business philosophies (Colombo and Gazzola, 2012). Then managerial values shape the ethical quality of an organization's strategy and Influence Company's attitude with respect to CSR (Martinet and Payaud, 2010).

The KPMG in the International Survey of Corporate Responsibility Reporting (2011) has studied the drivers behind integrated reporting of the G250 companies, drawn from the Fortune Global 500 List (2010). The companies that do disclose their motivations for Corporate Responsibility (CR) reporting, the most commonly cited driver (by more than half of integrated reporters) was the desire to integrate CR into the core business, reflecting the common belief that – if CR is to truly be integrated into the business strategy – it must therefore be an integral component of annual reporting as well. The survey also identified a number of other key business drivers including innovation, reputation and access to capital or increased shareholder value.

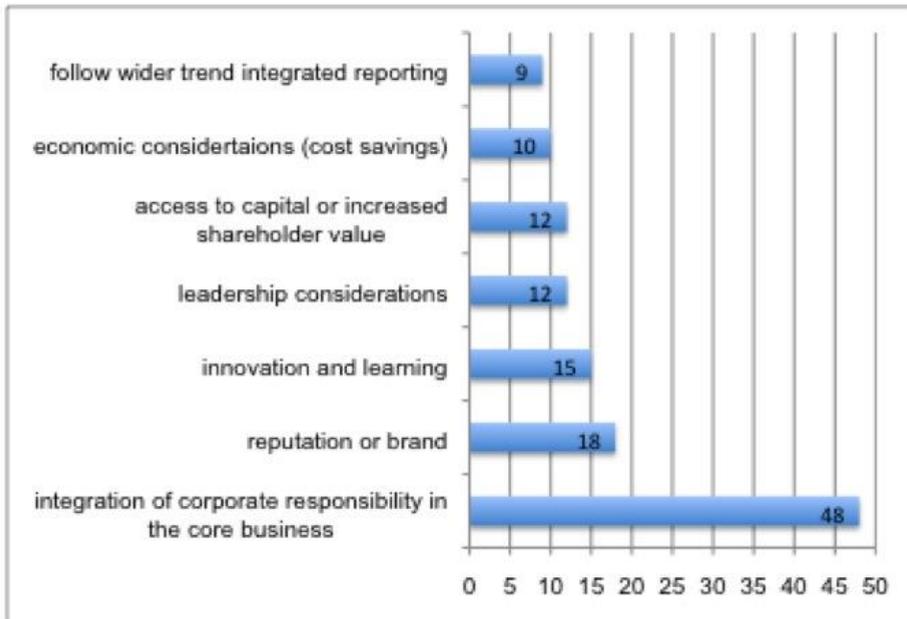


Figure 1: Integrated reporting drivers
 Source: KPMG International Corporate Reporting Survey 2011

Companies, realizing a CSR strategy, maximize the value of corporate responsibility commitments. The identification of critical stakeholders, the definition of objectives in order to satisfy them, and the utilization of a reporting tool are crucial steps to launch a CSR strategy. Preferably, to obtain best results the CSR strategy should be aligned with the company’s specific corporate objectives and core competencies. Further, organizational management that truly cares about CSR is proactive rather than reactive in linking strategic action and ethical behaviour.

2. Creating Shared Value and the Social Dimension of the Strategy

In the past companies often thought to business and society in opposition, but in these days external pressures for CSR continue to grow and numerous organizations monitor, rank, and report social performance. Sometimes the legal, business and reputation risks are great for companies engaging in practices deemed unacceptable.

Now companies recognize the enormous potential of business to contribute to social progress (Vlad, 2012) and they understand they depend on healthy and well-functioning societies to thrive.

For companies it’s not enough to integrate CSR into strategy. If they integrate

society into strategy they reinforce competitive advantage for the business. In this way they follow the principle of shared value, it can create economic value in a way that also created value for society paying attention to its needs and its challenges. The competitiveness of the companies will increase if they follow the economic and social conditions simultaneously. Creation of shared value (Colombo, 2003a) focuses on identifying and expanding the connections between societal and economic progress. Businesses must reconnect company success with social progress.

In this way the company creates economic value by creating social value. The companies could reach shared value when the interests of business and society are aligned (Porter and Kramer, 2011).

Management needs a new approach to engaging the stakeholder. Companies must incorporate interaction with stakeholders into decision making at every level of the organization. (Browne and Nuttall, 2013).

Shared value opens up new needs, new markets, and new value chain configurations. If the company follows this idea it's possible to create new opportunities for strategic positioning, new competitive advantages and the company can incorporate a social dimension in their value proposition. Shared value can help the company's strategy and the social dimensions of strategy to be more sustainable with competitors than conventional cost and quality advantages (Porter et al, 2012).

3. The Strategic Conversation and the Stakeholder Communication.

The creation of share value is possible with the interaction with the stakeholder. For this interaction the company has to communicate with the stakeholder (Gazzola and Meo Colombo, 2011).

We assume that communication is a form of strategic action and strategic action is mainly implemented through communication (Colombo, 1997). The complexity of the relationship implies a reflection on the multiple linguistic codes used in interpreting messages by the actors of the communication. If the communication builds the organisation, we can also observe that the latest allow the actors to share a set of linguistic codes and interpretations and, thus, to make the communication more effective. The institutionalisation of linguistic codes has always a negative implication because it narrows the field of meaning represented by the company or by its organisational units, impacting also on inter-organisation communication. This institutionalisation can represent a limit to innovation and to the co-evolution of strategic discourses.

The strategic conversation, through images and metaphors, allows the evolution and, in some cases, the rupture of the linguistic codes. In order to promote an innovation, a text (an oral message or even a multimediatic message) should combine both the old and the new contents the author is willing to transfer. Ambiguity, ambivalence and paradoxes are the tools that can be used to innovate the linguistic codes and the institutionalised grammars, without destroying the meta-grammar, on which the organisation is based and makes the message interpretable and, thus, actionable by multiple actors (Giordano, 1997). The strategic planning can be the privileged process of the strategic conversation as proposed by Martinet (1995) in opposition to Mintzberg (1994). Strategic action,

even when it is symbolic, requires implementation. The latter always implies a cognitive basis, which in its turn implies an action. We thus propose the concept of conversational strategic action, which implies complex thought and a complex language. Conversational strategic action (as well as the reflexive action) creates tension and dialogue among different points of view (global and local), among different visions and projects. This allows the actualisation of the strategic vision. In accordance with Hatchuel (2000, 2002), we propose a recursive relationship between the co-conception (design) and collective action. This relationship implies an auto-reflection on the communicative action. The text analysis provides a stock of rough data to nurture the individual and collective reflection and to justify both the conception and the action, founding at the same time the communication process.

Conversational strategic action is at the same time vision-oriented and learning-oriented. The learning is addressed not only to the contents of the vision, but also to the relationships among the organisation's actors. The approach we propose requires specific skills and attitude of reflection and self-reflection, observation and self-observation, which are functional to the relational skills that are required both for communication and strategic action.

4. Stakeholder Involvement or Stakeholder Engagement?

This interaction with stakeholder leads to a systematic dialogue with the social agents by means of meetings and other exchanges ("stakeholder dialogue"), in order to grasp in advance the opportunities for an economic development and growth that respects society, without interfering with or changing the objectives (Seabright and Kurke, 1997) of the stakeholders, which often differ from those of the firm (Schmidheiny and Zorraquin, 2000; Gazzola, 2012a)

The best way to interact with the stakeholder is integrating internal and external engagement into business decision making at every level of a company. What kind of interaction with stakeholder is necessary? Involvement or engagement?

It's important to understanding the difference between involvement and engagement. One of the dictionary definitions of involve is "to enfold or envelope" whereas one of the meanings of engage is "to come together and interlock". Thus involvement implies "doing to", engagement implies "doing with".

Therefore companies must incorporate engage with stakeholders into decision making at every level of the organization.

The stakeholder engagement non only reduces the conflict of interests (Ienciu, 2012), but helps a company to manage its relationship with the stakeholder. This relationship can and should include a wide variety of activities: not just corporate philanthropy (Porter and Kramer 2006), community programs, and political lobbying, but also aspects of product design, recruiting policy, and project execution.

Companies now consider the external environment more carefully than they did in the past. But in a majority of cases, CSR has failed to fulfill its core purpose, to build stronger relationships with the stakeholder.

For companies it is very important to know their stakeholders. Knowing the stakeholders means more than writing a list of risks they could pose, and holding a few focus groups. It means understanding the stakeholders in the same way as a

company understands the consumers.

Some companies have achieved significant progress through such efforts. In general, however, traditional approaches to corporate engagement represent a missed opportunity. Equally, from a business perspective, benefits are typically claimed in terms of reputation or goodwill only. Concepts that, while important, are often nebulous, difficult to define and measure, externally influenced, and only indirectly connected to the action being taken.

With our understanding of stakeholder engagement, companies focus on where stakeholder engagement can have the biggest impact on their strategy and operations, learn from past experiences to assess ambition and clarify objectives, understand and manage stakeholder expectations. The relationships described above are illustrated in the following diagram.

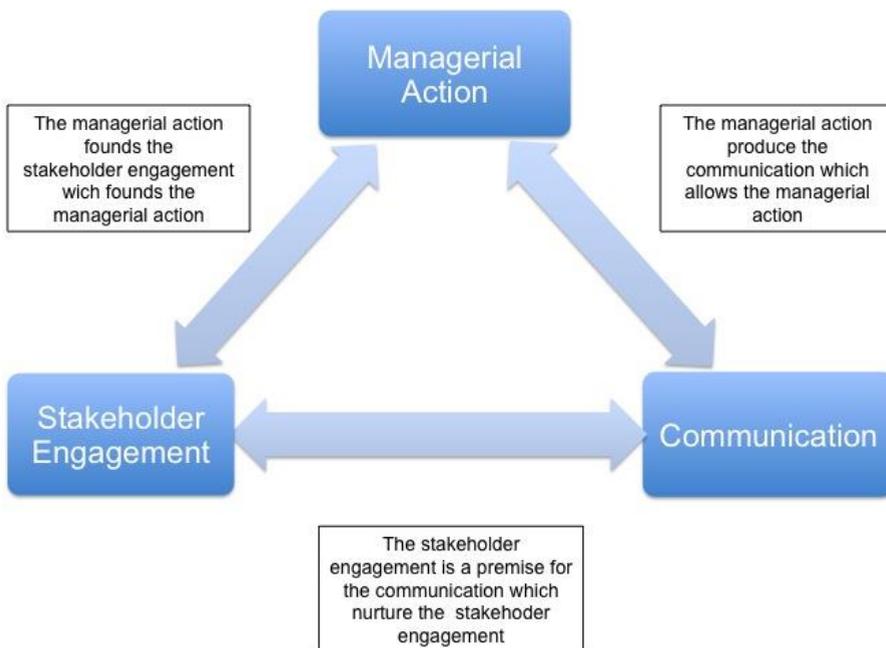


Figure 2: The relationships between managerial actions, communication processes and stakeholder engagement.

Source: Colombo 2003b (with modification).

5. Nestlé: Scandal and Exchange of Strategy

Environmental group Greenpeace launched a social media attack on Nestlé's Kit Kat brand, to stop using palm oil in its products. Greenpeace accused Nestle of supporting deforestation and threatening the Orang-utans monkeys with extinction, contending that the harvesting of palm oil was damaging the environment. The organization created a faux Nestle' Kit Kat logo, and posted a video on You Tube.

It highlighted the use of unsustainable forest clearing in production of palm oil. This is used in the Swiss food group's products including Kit Kat.

Greenpeace had found that Nestlé was sourcing palm oil from an Indonesian supplier that it claimed was acting unsustainably. The company's chairman defended the company's position, saying Nestlé only used under one per cent of global production of palm oil.

Nestlé's initial response was to force the video's withdrawal from YouTube, citing copyright. This led to a viral outbreak of criticism on social media. The antipathy soon gained expression in mainstream media around the world (Ionescu-Somers and Enders, 2012).

The challenge for a new senior operations manager, and his team was twofold. They had to limit the immediate damage. And in the longer term, Nestlé's resistance to Greenpeace's request for them to stop using palm oil predictably evaporated, and they did soon announce that they wouldn't use it any longer.

Nestlé needed to address the palm oil sourcing issue and turn the reputational risk into an opportunity.

Instead of trying to control social media conversations, Nestlé's team had adapted its approach. The first problem was to deal with the short-term damage. Nestlé suspended sourcing from the Indonesian supplier, and the company held meetings with Greenpeace in which it provided details of its palm oil supply chains. With a focus on the longer term, Nestlé sought a credible external partner to certify the sustainability of its palm oil suppliers. The company chose the Forest Trust, a non-profit organisation, which helped the company when it came to liaising with Greenpeace as well as helping Nestlé to audit its suppliers (www.nestle.it).

In May 2010, Nestlé also joined the Roundtable for Sustainable Palm Oil, a partnership of companies and other parties aimed at eliminating unsustainable production.

Nestlé had set up a "digital acceleration team" as part of Nestlé's efforts to monitor social media sentiment 24 hours a day. When the team sees problems, the communications unit co-ordinates the company's engagement with the relevant parties, such as suppliers, campaigners, governments and consumers.

Nestlé now has a goal of using only palm oil certified as sustainable by 2015.

Showing leadership on sustainability is becoming a business imperative. A sustainability risk is potentially big when the whole world can find out about it overnight. Nestlé discovered that engaging with its critics and addressing some of their concerns was more effective than trying to shut down discussion on social media.

Now Nestlé has a good stakeholder engagement. Nestlé engaging with the stakeholders underpins Creating Shared Value, enabling to identify emerging issues, shape their responses and continue to drive performance improvements.

Topics raised by their stakeholders and discussed with them in a variety of local and international forums include: nutrition, health and wellness – education and access; Nestlé's role in public policy issues; auditing and disclosure of infant formula marketing practices; and food safety

6. Conclusion. The Centrality of the Person.

The multinational companies are vulnerable to new media campaigns by NGOs that can involve individuals in a way that was impossible before the creation of the

Internet. The campaign also illustrated the intense environmental controversy surrounding palm oil. It's very important to consider all the stakeholders.

Nestlé, when managing the scandal, made a lot of mistakes:

- to force the video's withdrawal from YouTube, citing copyright, angered the Greenpeace members;
- to protect their Facebook page by removing critical comments; This move by Nestlé angered Greenpeace more
- This lack of transparency and apparent unconcern was translated into disdain and unfeeling by the Greenpeace movement.

CSR cannot be just a response to problems when they arise. Only if the company includes ethical concerns since its foundation and includes CSR in businesses strategy, social responsibility, as a concept, is integrated into daily decision making.

In this process communication is particularly important. Stakeholder engagement has long been at the root of corporate responsibility and social engagement practices. This is particularly true for companies that seek to create shared value. Shared value creation requires the active participation of a wide range of corporate functions. It is important to develop a sense of shared ownership, into every part of the business by defining what they contribute to society, knowing their stakeholders, engaging radically with them, and applying world-class management. In other words, it requires the same discipline that companies around the world apply to procurement, recruitment, strategy, and every other area of business. Those that have acted already are now reaping the rewards.

Two elements play a crucial role:

- The centrality of the person in its complexity.
- The internal dialogue characterizes the functioning of the managerial action produced a working method in the organs of governance that promotes openness negotiated to external communities, and therefore the socially responsible behavior.

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APPLYING THE KUZNETS CURVE IN CASE OF ROMANIA

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Abstract: *The Romanian economy experienced a contrasting trend in recent years. Some of its features are similar to those of other Central and Eastern European Countries, that have joined the European Union in May 2004 and 2007, but some of them are very specific. Indicators of convergence and catching-up seem to show a GAP between Romania and other European countries, and even other CEEC. Indicators of convergence and catch-up are usually used to analyse the effectiveness of EU policies applied in all European countries. Apparent Romanian lag may be the result of too important weight of the rural sector in the economy. This sector is characterised, for example, by too many farms and very small agricultural holdings that induces a certain loss in productivity, also by low income and poverty. This result is consequence of both the story and original policy choices. This paper consists of two parts. In the first one, we detail the specificities of new member states and particularly Romanian. The second part allows analysing the link between the agricultural sector and development. Notably, the Kuznets curve can be used as a tool in order to better understand the mechanism of this link. The Kuznets hypothesis is applied to the case of Romania and allows us to draw some conclusions about the recent developments.*

Keywords: *agriculture, Kuznets curve, convergence, inequality, development*

JEL classification: *P20, Q18*

Introduction:

This paper investigates the empirical relationship between agricultural sector structure and development. The agricultural sector has a significant weight in the Romanian economy, particularly in terms of employment. This fact clearly distinguishes Romania other countries of the European Union. However, this sector is undergoing significant changes in the current period. These changes originate for example in the post-Communist policy of land restitution, economic development related to the integration of Romania into the European Union, the liberalization of markets... Our analysis focuses on the relationship between agriculture and the rest of the economy. We will use the inverted-U shape curve that summarizes the analysis proposed by Kuznets. This article is shared into two parts:

- 1 - Convergence and the weight of agricultural sector in Romania
- 2 - Analyse of Kuznets curve in Romania

1) Convergence and the weight of agricultural sector in Romania

Several central, eastern and south-eastern European countries have joined the EU in May 2004 and 2007 (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Malta, Cyprus, Romania, Bulgaria). Catching-up is the distance to be travelled in order to reach the economic level of the other countries of the European, while convergence expresses the measure of progress. According to the analysis of literature, there is three types of convergence of the three specific application areas: 1) *real convergence* according to the evolution of economy indicators such GDP or per capita income; 2) *nominal convergence* in the monetary and financial stability and in rates of inflation, budget deficit, public loan rate, trend of the exchange rate; 3) *administrative and institutional convergence* to unify the structure of administrative institutions and to ensure efficiency and good communication between countries.

There is evidence of convergence in the transition countries of central, eastern and south-eastern Europe. GDP growth during 2001-2007 has increased almost 6% annually, contributing the great socio-economic transformations. The growth in the new Member States with lower income was faster than in the old Member States. The catch-up process accelerated after the accession. However, the countries with the lowest GDP per capita in the EU are Bulgaria (lower than the EU average by 56 %, Romania (by 54 %), Latvia (by 48 %) and Lithuania (by 45 %). The catch-up rate is calculated by means of the historical actual growth rate. From the year of accession to 2008 and on average for the EU-10 – except for Hungary and Malta – all the countries experienced significant growth in the catch-up rate, with the average rate nearly doubled compared to the previous five years. Total factor productivity growth has been the main driver of convergence, followed by capital deepening, whereas labour has contributed only marginally to economic growth. The transition also involves improving the quality of institutions, the expansion of market reforms and macroeconomic policies.

Labour productivity has improved in most countries, while employment and participation rates have been falling. Structural changes have resulted in, at least temporarily, increasing labour market mismatches. Thus, in order to sustain the positive developments observed in the past, further improvements are needed in terms of labor productivity and utilisation, as well as in terms of physical and human capital accumulation. Total factor productivity (TFP) growth has been the main driver of convergence in the candidate and potential candidate countries, followed by capital deepening, whereas labour has contributed only marginally to economic growth. In the EU10, by contrast, although TFP has been the main driver of growth, its contribution has declined notably over the last decade. This is in line with expectations that after the elimination of inefficiencies linked to a former central planning regime, sustained TFP growth may be more difficult to achieve. Thus further improvements in capital accumulation and capital efficiency are needed in the candidate and potential candidate countries to help sustain convergence in the future. So, unemployment rates are much higher on average than in the EU10 and the euro area countries.

In the new Member States (NMS), the absolute income inequalities decreased, too. The faster growth in the NMSs after EU-accession was based mainly on faster domestic demand growth. In four countries (Poland, Lithuania, Romania, Slovakia)

the contribution of the domestic demand growth reached the indicated share after the accession.

Table 1: GDP growth and its main demand factors

Annual average change as percentage (fixed prices)	New Member States		Old Member States	
	1999-2003	2004-2008	1999-2003	2004-2008
GDP	3,4	5,6	2,2	2,2
private consumption	4,0	5,5	2,5	1,7
public consumption	3,1	2,3	2,2	1,8
gross fixed capital formation	2,0	10,2	2,3	3,4
export	8,7	11,8	4,8	5,7
import	7,9	12,4	5,0	5,6
Contribution to the GDP growth				
domestic demand	3,4	6,4	2,2	2,1
net export	0,0	-0,8	0,0	0,1

Source: HALMAI P., VÁSÁRY V. (2009).

The success of the integration process of the new EU Member States is reflected by their nominal and real convergence performance. But, the financial and economic crisis of 2008 has resulted, however, in a fundamentally new situation. Financial crisis has hit particularly fast-growing eastern European Member States. There are risks related to convergence. The growth dynamism in the NMSs was generally accompanied by rapid financial deepening and credit expansion. The catch-up process was partly based on exuberant demand. The process was financed through cheap credit. Countries accumulating huge internal and external deficit are very vulnerable under the conditions of the present crisis. Moreover, the catching up process requires globalization and financial integration this implies high sensitivity of the NMSs against shock impacts. There has been a deep recession in the NMSs mostly as a consequence of the crisis.

In Romania, there is a considerable gap from the old EU members regarding the development of the real economy (GDP per capita and other indicators of level). Structural analysis of indicators corresponding to the Lisbon strategy, but this shows that Romania occupies the last place among the EU 27. We can also note the existence of weak performance in terms of economic efficiency, productivity, level of competitiveness, due to structure of employment and low-usage of human capital. Currently the Romanian economy is among the less competitive countries of Eastern and Central Economies. Another problem is the movement of Romanian citizens in the Schengen area since 2002: over 1.5 million people have emigrated in search of work places. This phenomenon has generated shortages in certain segments of the internal market of labor, especially in industries such as construction or textiles and confection. Romania still in the phase of the economy based on the accumulation of factors, with high share of population employed in agriculture.

**Table 2 : Employed persons aged 15 years and older :
composition by economic activity (main job), 2011**

	Agriculture	Industry	Market Services	Non-market services
UE27	5,0	25,2	39,4	30,4
ZE17*	3,5	25,1	40,2	31,2
Germany	1,6	28,3	39,8	30,3
France	2,9	22,2	38,3	36,6
Hungary	4,8	30,7	37,7	26,7
Poland	12,7	30,6	33,9	22,8
Romania	28,6	28,8	26,3	16,3

Source: Eurostat(2012), "European union labour force – Annual results 2011", statistic in focus, N° 40.

If the weight of the Romanian agriculture is clearly the highest among the European Union countries, the service sector is the largest in terms of employees, like in the others EU countries but on a lower level. According to a Eurostat survey on labor force (2012), nearly 70% of people employed in the EU27 worked in the service sector in 2011 a percentage ranging from 43% in Romania to 85% in Luxembourg. According to Eurostat (2012):

"Almost 70 % of employed persons in the EU in 2011 worked in services. 39.4 % produced market oriented services such as trade, transportation, accommodation and food services, information and financial activities and real estate. 30.4 % were employed in public administration, education, human health, arts, entertainment and recreation and other services. A further 25.2 % of employed persons worked in industry and construction, while 5.0 % worked in agriculture..."

...Agriculture continues to be a very significant source of employment in Romania (28.6 % of the working population in 2011), whereas it accounts for only a very small share (below 2 %) in Germany ..."

Romanian agricultural sector is heavily dependent upon subsidies from European Union. Productivity is poor: current earnings per hectare are the weakest in Eastern Europe. This is due to a bad surface distribution: most farmers have only small surfaces. Over half of the useful agricultural surface is operated by families for their own maintenance, by hand, horse and obsolete machines. A family enterprise occupies around 1.8 ha. Large enterprises are located mainly in the south and have an average surface of 270 ha each. The fragmented structure of the agricultural surface is a drawback in drawing new investments. Land restitution of properties confiscated during the Communist regime is not over until today. The land reforms may bring economic change in the society through redistribution of land.

The transition to a market economy has affected the land tenure systems of Central and Eastern Europe by reversion to private ownership, mass privatisation and restitution, including farm lands. Among the family and individuals units, many are tiny subsistence farms, implying a serious fragmentation of farmland (As we can see in Table 3). The very low income situation on the Romanian and Albanian collective farms was in contrast with the relatively better situation of workers on

state farms in their own countries. In consequence, Romania has chosen a similar land reform as Albania for its collective farmland, by distributing an important share of its collective farmland to poor collective farm workers. Romania is the only Central and Eastern European Countries which has partially "overruled" the demand for land restitution from individuals who still formally owned the land. By imposing a 10 hectare maximum for restitution, and distributing the remaining share of its collective farmland to poor collective farm workers. Compensation of farm workers has typically taken the form of a combination of nonland assets and restrictions on the transfer of property rights to former owners. Farm workers ("labour contributions") received 60% of non-land asset shares in Romania.

When the restitution of land was discussed, the choice of the reference date had important distributional implications. In Romania, Hungary and former Czechoslovakia, land restitution was not based on the 1945 ownership situation, but on the ownership situation which was strongly influenced by post-World War II land reforms, implemented by a government dominated by the Communist Party. Despite the fact that the political basis on which these land reforms were decided and implemented was undemocratic, these countries have chosen not to use the 1945 land ownership distribution, but rather a later date as the basis for restitution. In Hungary 1948 and in Romania 1947 was taken as the reference date.

Table 3: Average Area per holding, 2010 (1)
(hectares)

	Average UAA/holding (ha)		Average UAA/holding (ha)
Czech Republic	152.4	Latvia	21.5
United Kingdom	78.6	Austria	19.5
Denmark	64.6	European Union 27	14,1
Luxembourg	59.3	Lithuania	13.7
Germany	55.8	Portugal	12.0
France	52.6	Bulgaria	9.8
Estonia	47.7	Poland	9.6
Sweden	43.5	Italy	7.9
Ireland	32.3	Hungary	8.0
Finland	35.9	Slovenia	6.4
Belgium	31.7	Greece	5.8
Slovakia	28.1	Romania	3.4
Netherlands	26.0	Cyprus	3.1
Spain	24.0	Malta	0.9
Norway	21.6		

Source: Eurostat (2011)

However, in recent years the number of farms decreases significantly because of high age of famers, migration to the cities or abroad and recent drought.

In the period 1980 - 2000 the drought event occurrence increased with more than half. In the year 2000, almost the entire country was affected by a prolonged drought event with high intensity as a result of a very hot and dry summer. The most drought affected areas were located in the western, south-western and central part of the country. In terms of intensity, surface extension and duration, the drought which occurred in 2000 was the strongest one in the last century, at least the most severe after 1946. Drought related periods (regarding intensity, duration

and spatial extension) became more frequent and severe in the last decade having a very negative effect upon crop yields. Some of the drought years may be considered as catastrophic concerning the impacts upon the mean yield of winter wheat and maize crops - the most important crops in Romania. The decline in crop yields reached about 40-60%, especially in the areas without irrigation systems.

According to Martins C. and Spendlingwimmer F. (2009), in 2007, 19% the sole holders were women, 71% were aged 55 or more and 2.9% were younger than 35 years. 29% of the sole holders had another gainful activity in 2007. 64% of the agricultural area was farmed by its owners. Romanian agricultural production is characterized by a predominant share of self-consumption: in 2007, 64% of Romanian farms produced mainly for own consumption.

In most countries there has been a noticeable shift of employment from agriculture and industry to the services sector, a trend which has been much more pronounced in the NMS.

The transition to democracy and an market economy directly affect the land tenure systems of Central and Eastern Europe by reversion to private ownership, mass privatization and restitution, including farm lands. Among the family and individuals units, many are tiny subsistence farms. Serious fragmentation of farmland exists throughout the region.

A number of the new EU members from Central and Eastern Europe had restrictions on the ownership of agricultural land by foreigners. Among the countries joining the EU in 2004 and 2007 that had restrictions on foreign ownership of land were Estonia, Hungary, Lithuania and Romania. The lifting of restrictions on foreign companies acquiring agricultural land also implies that any barriers to domestic companies purchasing land must also end.

The eventual granting of rights to foreign companies to acquire agricultural land implies that any remaining obstacles to domestic companies purchasing agricultural land must also be lifted. The phenomenon by which larger farming businesses are obliged to rent land on a short-term basis because they cannot legally own it will disappear. There could be profound changes in land ownership and land tenure as the transition periods come to an end. The use of devices such as options to purchase at a future date and the registering of purchases in the names of nominees may mean that these changes will be anticipated towards the end of the transition periods, even though the interests acquired may not be officially registered or appear in official statistics. There is some limited evidence of such practices already occurring. For example, from Hungary there are reports of land acquisitions by foreigners using methods of dubious legality and estate agents' reports from Romania talk of demand for land coming from foreign investors.

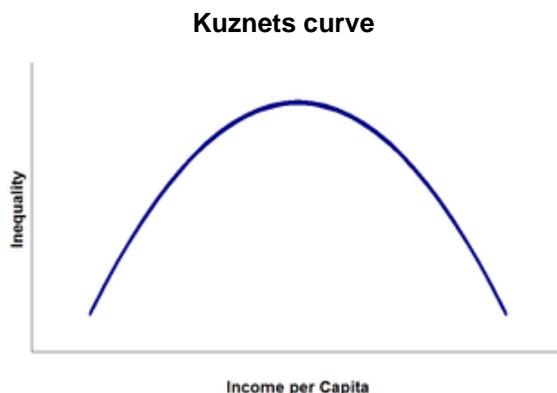
Romania has the largest useful agricultural surface in Europe. The country has 14.7 million hectares of land for agriculture. Romania, Europe is third biggest agricultural country after France and Germany. Romania ranks 11th in the world among farmers and 6th among agricultural exporters. Around 30% of employees work in agriculture - in Western countries the average is 3-5%.

The link between agriculture and economic development can be analyzed via the Kuznets curve. With this curve, changes in income inequality seem to reflect the different phases of developments.

1) Analyse of Kuznets curve in Romania

Kuznets curve assumes that as a country develops, there is a natural cycle of income inequality. At first, industrialization causes a significant rural-urban income inequality gap and consequently rural migration to cities and migration from agriculture to industry. Moreover, when the agricultural productivity increases the incomes of farmers, this leads to expand the demand for manufactured goods. This is the contribution of agricultural sector to the other sectors of the economy. Income inequality is expected to decrease when a certain level of average income is reached. Migration and mechanization in agriculture sector causes income inequality decrease when 50% of the workforce switches over to the higher paying sector. According to Kuznets' belief; income inequality would follow an inverted-U shape as it rises and then falls again with the increase of income per capita.

The Kuznets curve is based on the assumption of a monotonic increase in GDP per capita (or per capita income) and inverted-U shape depending on GDP evolution.



In fact, Simon Kuznetz (1955) has divided the economy into two sectors: industrial and urban sector to an agricultural and rural sector, and so has built a dual economy. He stressed that the average per capita income of the rural population is generally lower than that of the urban population on the one hand and that unequal distribution is more pronounced in urban areas than in rural areas on the other hand. Development is defined as the passage of a growing fraction of the population from rural to urban areas. More developed a country is, the greater the social pressure for greater equality also seems to increase. From purely empirical observations, Kuznets built a hypothesis on the evolution of income inequality during economic development.

It is useful, however, to update the explanation for the relationship between income inequality and level of development. According to Berry (2013), the major determinants of income inequality are the distribution of factors of production: the distribution of land, physical capital and human capital. In market economies, the differences in income across people can be thought of as the result of a set of market imperfections that leave their incomes either higher or lower than their contributions to production. Technology choice, essential to growth, may be also

an important structural contributor to the level and trend of income inequality, since it can play a powerful role in determining both the capital share as well as the distribution of capital and labour incomes. But the magnitude of its impact is hard to measure precisely. Furthermore, economic policies or social policies are not taken into consideration in this traditional shape of the curve.

In the initial design of the Kuznets curve, per capita income has a quasi-unique value related to a given level of income inequality. According to Barthélemy (1995), this approach implies knowing ex ante the level of income distribution if level of development is given. It assumes a deterministic process of development. Internal politics and environment appear to play no role.

Critics of the Kuznets Curve theory argue that its inverted-U shape comes not from progression in the development of individual countries, but rather from historical differences between countries. Barthélemy (1995) finds that the hypothesis Kuznets is based on a purely mechanical view.

However, many economic and econometric analyzes has showed heterogeneous trajectories and the sensitivity of inverted-U shape (more or less flat or pronounced) related to socio-cultural or socio-political factors or regional specificities. Today the long and deep economic crisis leads us to examine recent changes in income distribution.

Some authors extend the Kuznets curve in the link between income inequality and market liberalization. Furthermore, since 1991, Environmental Kuznets Curves (EKC) have become standard features in the literature, though their application here is strongly contested. It is a hypothesized relationship between environmental quality and economic development: various indicators of environmental degradation tend to get worse as modern economic growth occurs until average income reaches a certain point over the course of development.

We can now study the shape of the Kuznets curve for Romania and France from 2000 to 2011. The impact of German reunification prevents us from achieving the same type of graph for this period.

Table 4: GDP per capita and Gin coefficient

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Romania	Gdp/inhabitant (€)	2700	2900	3100	3200	3500	3700	4000	4200	4600	4300	4200	--
	Gini coefficient of equalised disposable income	29	30	30	30	31	31	33	37,8	36	34,9	33,3	--
France	Gdp/inhabitant (€)	26100	26400	26500	26500	27000	27300	27800	28200	28100	27000	27300	27600
	Gini coefficient	28	27	27	27	28,2	27,7	27,3	26,6	29,8	29,9	29,8	30,8

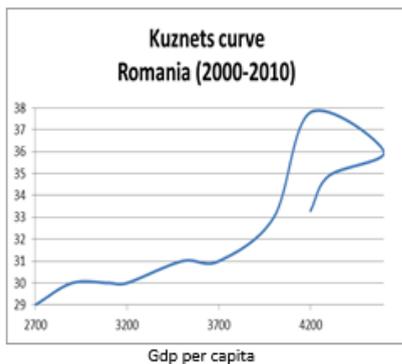
(1) Source Eurostat:

<http://epp.eurostat.ec.europa.eu/tqm/table.do?tab=table&init=1&plugin=0&language=en&pcode=tessi190>

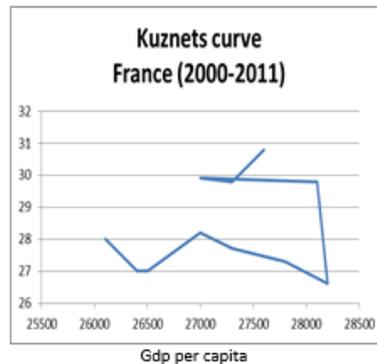
(2) Source: Eurostat:

<http://epp.eurostat.ec.europa.eu/tqm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdec100>

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In Romania, income inequality peaked in 2007 with a GDP per capita equal to € 4,200. The increase in income inequality is almost exponential until 2007. Beyond 2007, in accordance with Kuznets's hypothesis, income inequality seems to decrease. Thus, in 2008 the GDP of € 4,600 level is associated with a Gini coefficient equal to 36 against 37.8 in 2007. After 2008, the GDP decreases as a result of the economic crisis. The decline in the Gini coefficient can be explained by the economic and social counter-cyclical policies.

Regarding France, the Gini coefficient is almost stable until 2009. Indeed, the Gini coefficient remains in the 27-28 margin in this sub-period. However, the crisis has an opposite effect on the evolution of income inequality: in France, they have significantly increased due to the crisis parallel to a decrease in GDP per capita.

Conclusion

In Romania, the agricultural sector with 30% of the workforce is still a significant source of employment. But this weight seems to decrease, sign of a change in future years. The agricultural revolution is not yet completed in Romania. There is concern in the near future a very significant reduction of the agricultural population, an increase in farm size and an increase of productivity in the agricultural sector. In the context of appropriate policies, a virtuous circle may appear: agricultural transformation may have an impact on all other sectors of the economy in terms of productivity and the evolution of institutions. One may utilise Kuznets' intuition on link between migration from rural areas to urban ones, i.e. from agriculture to other sectors, and economic development. According to Kuznets, changes in income inequalities reflect this evolution, through inverted_U curve. It should nevertheless update the Kuznets' explanations for more recent analyses. For Romania, the hypothesis of the existence of a Kuznets curve is not invalidated. One observes a augmentation income inequalities until 2007, in a period of economic progress and market liberalization. Then, one can note a reduction of these income inequalities, implying that economic development has is a relatively mature. However, it is premature to assert it because we do not have enough perspective and because of the current economic crisis that disrupts behavior.

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ENVIRONMENTAL MONITORING AND SUSTAINABLE DEVELOPMENT

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Abstract: *The interest of any individual to achieve progress and growth and the entrepreneur's desire to make a profit at all costs, show that humans have a consumptive and destructive nature, that is, man has often forgotten that he is part of the natural system, so that imbalances have been created, leading on the long-term to the deterioration, degradation and destruction of the natural environment, the effects being already felt worldwide. Educating and training people is an essential element that must be included in all programs regarding ecology and sustainable development, the only way to ensure a future.*

In order to eliminate the repercussions of climate change, population growth, poverty, water crisis, drought, depletion of resources, loss of biodiversity and to ensure social progress, economic and human development, clear actions are necessary, summarized in specific and measurable objectives, that are subject to some of the national strategies .

The ecological / integrated monitoring involves obtaining an accurate, overall image of the environment's quality state at a moment in time as well as the evolution tendency on the two basic components - the biotic and abiotic environment - in their interaction.

Sustainable development allows a nation to plan, implement and monitor the progress of society in order to achieve long-term goals, to meet the needs of current generations, but without preventing future generations to meet their own needs. We need to establish specific projects that enable us move on to a high added value generating model, generated by the interest in knowledge and innovation, aimed at continuously improving the quality of life of humans and the relationships between them, in harmony with the natural environment. Given the fact that Romania has an economy based on intensive use of resources and the natural capital is facing the risk of damage that may become irreversible, the assimilation and practical application of all the principles and practices of sustainable development is required. To integrate all the objectives of sustainable development at the heart of economic activity one should consider the tax and legal regulations to bring changes in the way of production and consumption.

Keywords: *environment, natural environment, artificial environment, ecosystem, ecology, ecologic balance.*

JEL Classification: *E20*

1. Introduction

The interrelationships between the economy and the natural environment were born with human society. They have multiplied and developed as the society and the economy have changed.

There are a series of relationships between, humans, economy and nature:

- independency;
- dependency;
- interdependency.

History has shown that mankind was first interested in survival and then in a better life. People were interested in economic growth and development, in growth and development of the property at an individual and human community scale although, sometimes, this growth was achieved due to the reduction and even exhaustion of some natural resource deposits, or by damaging them, more or less. The state of the natural environment was not always interesting.

Reality has shown that society should pay special attention to the environment not only to economic growth and development.

2. History of sustainable development

The term "ecosystem" was first used in 1935 and it belongs to A.Tansley, expressing an "open information system, with a capacity for self-preservation, self-healing and development from simple forms to complex forms of organisms and stability in relation to other systems"(Enescu Valer, Dorel Cherecheș, Constantin Bândiu, 1997).

The United Nations Conference held in Stockholm in 1972, where the 113 nations present, raised the issue of pollution, destruction of resources, environmental deterioration, extinction of plant and animal species, the need to raise the human living standards and raised the concern about how human activities have influenced the man and the environment, emphasizing the indissoluble link between quality of life and the environmental quality for future and current generations.

The year 1986 is marked by the establishment of the UN, the World Commission on Environment and Development, acting to study the dynamics of environmental deterioration and to provide solutions for the long-term sustainability of human society. We must become conscious that development is not just about high profits and high standards of living for a small category of the population, but rising living standards for all, as well as the fact that development does not involve the unconscious use of natural resources nor the environmental pollution. The key issue of sustainable development is the opposition between the needs of population growth and the limits imposed by the planet's resources, on the one hand, and the continuous degradation of the environment, on the other hand.

In 1987, in the paper of the Brundtland Commission "Our Common Future", committee which was convened by the U.S.A to examine global environmental degradation, sustainability is defined as "meeting the needs of today without sacrificing the ability of future generations to sacrifice their own needs" (http://en.wikipedia.org/wiki/Our_Common_Future).

At the summit in Rio de Janeiro in 1992 important issues of environment and development were discussed, namely: the systematic control of production types,

particularly the production of toxic components, alternative energy sources to replace fossil fuels, which are linked to global climate change, finding new solutions to reduce vehicle emissions having very harmful effects on the human body, efficient use of water given the growing water scarcity etc. (http://en.wikipedia.org/wiki/Earth_Summit)

The United Nations Summit on Sustainable Development in Johannesburg in 2002 gave an impulse to the implementation of global measures to fight poverty and protect the environment. The links between poverty, environment and how resources are used and managed, how the economic and social development is regarded as well as the environmental protection at a local, regional, national and international level were emphasized. This conference was the start in developing in Romania a National Sustainable Development Strategy (NSDS) in which one of the objectives is aimed at protecting the environment, namely:

- "protecting the Earth's capacity to support life in all its diversity by improving the environment's quality;
- pollution prevention and reduction and production and consumption promotion for the purpose of sustainable development to ensure the detaching of economic growth from the environmental degradation " (<http://www.mmediu.ro/>).

Sustainable development is "a new way of development that supports human progress for the planet and for a long-term future" (<http://www.un.org/geninfo/bp/anviro.html>)

3. The big challenges of sustainable development

In the course of time, it has been determined that the human domination over nature is an essential part of the technical, economical and social progress, but at the same time it was ignored that often the power of man over nature and the fundamental interest of entrepreneurs to maximize their profit is consumptive and destructive, in other words on the long-term, one can notice the deterioration, degradation and destruction of the natural environment.

The new environmental conditions are less favourable for human life as its continuous deterioration is not only destroying the ecological balance, but it also indicates the emergence of reverse reactions on humans coming from the environment.

In order to carry out a real and effective environmental protection activity, the continuous monitoring of its quality and the level of pollutants discharged or already present in the environment is an objective necessity.

The ecological/integrated monitoring requires obtaining the big picture of the environment's state at a certain moment in time, as well as the evolution trend of the two basic components – the biotic and the abiotic environment - in their interaction. More and more projects are aimed at achieving environmental performance, by controlling the impact of their activities, products or services on the environment and taking into consideration the environmental policy and objectives. To ensure the society's sustainable development, the need to integrate the economic objectives with the ecological and environmental protection ones, is fundamental. (*Minea, Elena-Maria*, 2012)

By environment, in accordance with the Government Emergency Ordinance 195/2005 on environmental protection, we understand all conditions and natural elements of the Earth:

- water;
- air;
- earth;
- underground;
- characteristics of the landscape;
- atmospheric layers ;
- organic and inorganic materials;
- living beings;
- some material and spiritual values;
- quality of life;
- conditions that can affect human health and welfare.

The main way of ensuring the existence as the population grows and even increasing its quality is the economical and social improvement and development. (*Negucioiu, Aurel; Petrescu, Dacin, Crina, 2006*).

The major causes of the crisis are: pollution – consequence of population growth, prosperity, abundance, human aggression, human tendency to maximize profit, capitalism, etc.

The environment includes:

- the natural environment - nature in its original form, with its visible and invisible parts, representing the existence condition for all living things (land of any kind, underground waters, soil, terrestrial flora and fauna etc);
- as well as the artificial environment, the one created by the hand and mind of humans, namely those goods that exist due to human activity and that are the material conditions of life.

The exhaustible resources are divided by specialists into two groups (*Aurel Negucioiu, 1998: 492*):

- renewable resources, which are resources that can be exhausted, but after some time they can recover naturally, as soil fertility is;
- resources that do not recover naturally, like useful minerals.

The finite and non-generable nature of these resources requires managing and saving them.

Ecology studies the relationships between the Earth and all its inhabitants and the economy manages these relationships.

The forms of ambient crisis manifestation are water degradation, the flow of garbage, damaging of the air, noise pollution, chemical pollution, radioactive pollution.

The eco-development is the development process based on taking into account the requirements of the ecological balance.

An ecological balance represents an ensemble of conditions and interrelationships between the components of an ecological system, which ensures that its structure, functioning and dynamics remain ideal.

The ecosystem is a dynamic complex of plant, animal and microorganism communities and the abiotic environment, interacting in a functional unit.

Currently people talk more and more about ecotourism. Ecotourism is a form of tourism in which the main objective is observing and being aware of the value of nature and local traditions and it must meet the following conditions:

- a) contribute into the conservation and protection of nature;
- b) use local human resources;
- c) have an educational character, respect for nature - awareness of tourists and local communities;
- d) have an insignificant negative impact on the natural, the social and cultural environment.

The main priorities of the present moment are protecting endangered species and habitats and the most efficient possible use of natural resources. Reaching these goals we can contribute to economic growth by encouraging innovation and entrepreneurship.

The European Union practices the most advanced environmental standards in the world. Thus, it devised a strategy by which it wants to stop the decline of endangered species and habitats, by 2020. At the heart of this strategy we find the Natura 2000 network, covering 26,000 protected areas representing almost 20% of the land area in the European Union.

The LIFE program is the primary instrument used by the European Union to supports environmental and conservation projects. Funds are allocated within the European Union as well as beyond, in acceding countries and other neighbouring countries.

Natura 2000 is a European network of protected natural areas established in 1992 from the need to protect nature and maintain on the long term the natural resources necessary for the socio-economic development. Natura 2000 is a vital tool for saving the natural environment, if we consider that about 800 plant species are endangered and some European fish stocks are below the safe limit.

Declaring the Natura 2000 protected sites is based on two European Union directives governing the selection, designation and protection system: the Birds Directive (1979) and the Habitats Directive (1992) so that the sites were demarcated based on the scientific identification of habitats and species on their territory. It is about sites where human activities can be performed, without endangering rare and vulnerable species or habitats and not about nature reserves.

In Romania, the total surface of protected areas is approx. 7.83% of the land area (1,866,705 ha): "Danube Delta" Biosphere Reserve 576,216 ha; - 13 National Parks 318,116 ha; - 13 Natural Parks - 772,128 ha; - 981 Natural Reserves - 179,193 ha; 28 Special Areas of Bird Protection - 21,052 ha. (*Constantin Munteanu (coordinator), 2011: 27*).

Natura 2000 through analyzes is aimed at identifying economic activities and resources that can help developing the area as well as the socio-economic benefits derived from the area's protected. Another objective would be to identify other fields that can contribute to the economic development of the area, while respecting the conditions derived from its status of protected area. (<http://www.natura2000transilvania.ro/despre-proiect/studii-si-publicatii/beneficiile-socio-economice-ale-includerii-zonei-in-aria-natura-2000>)

For example, the result of the socio-economic study in the area of the Hârtibaciului-Târnavă Mare-Olt Highland, completed in early 2013, stresses the importance of

protected areas for the development of local communities. Ecological farming and tourism are real solutions to revive the area. The main economic activities (agriculture, forestry, animal husbandry, trade) fail to provide sufficient revenue to ensure a decent living style for the citizens. Problems identified in this area are: unemployment, education, inadequate infrastructure, population migration. The study was conducted within the project SOP Environment, co-financed by the European Regional Development Fund - "For Nature and Local Communities - Fundamentals of an integrated management of Natura 2000 in the area Hârtibaciu - Tarnava Mare - Olt". Natura 2000 protected areas add value to the area and makes it more attractive for tourists, but also for investors and consumers, responsible for healthy products and who want to live in harmony with nature. (<http://www.natura2000.ro/news/>)

Romania faces a serious shortage of resources, because in 2008 it imported 50% of its gas and 60% of its oil. Nuclear power is a solution, but not on a very long-term, due to limited resources. It was found that production is unsustainable, which means that industrial production growth is exceeded by the growth of resource consumption. Two thirds of the power plants are obsolete, so that their modernization would be very expensive. Regarding human resources it was found that in the first decade of the 21st century there are 2.6 researchers per 1,000 persons, which is three times less than in other EU countries. The continental climate in Romania allows the use of renewable energy resources. Romania has untapped mineral resources such as salt, non-ferrous ore, iron ore, non-metallic minerals, sand, gravel, decorative rocks, etc. (<http://www.insse.ro>)

In the paper of the Brundtland Commission "Our Common Future" several issues were raised, including the need for a new approach to resources, especially non-renewable ones, proposing a "national green product" that replaces the gross domestic product, which will exclude non-renewable resources and will provide a more realistic value to others, so that less developed countries will be able to use their own resources, without incurring debt.

If we want to avoid a crisis in the use of natural resources, we need not only tough legislation but also public education and the stimulation of mass collaboration in order to achieve goals by providing funding for projects in the field.

In the long run, one of the measures to reduce energy consumption would be the use of energy labels for household appliances. The energy label expresses the energy's efficiency using an energy efficiency-based index, calculated by comparing the energy consumption of the household electrical appliance that needs to be labelled with the average consumption of the European model.

In the last 10 years, no less than 8 major energy directives were discussed and adopted by the member states of the European Community, influencing on one hand the energy supply and, on the other hand, the management of the energy demand.

Since water is the source of life, water is considered the most important disposable consumer commodity. Water policy aims to:

- provide all European citizens with access to sufficient quality water;
- ensure that all water bodies in Europe meet the minimum quality standards;
- protect vulnerable aquatic environments.

By joining the European Union, Romania has access to structural and cohesion funds, financial instruments designed to help reduce economic and social disparities between the Member States of the European Union. To develop and expand the environmental infrastructure, Romania benefits from the European Regional Development Fund and Cohesion Fund where:

- The European Regional Development Fund helps eliminate regional imbalances in the European Community, it reduces the gap between the development levels of different regions and it closes the gap between less favoured regions;
- The Cohesion Fund supports Member States in order to reduce the economic and social development differences and to stabilize the national economy.

Accessing EU funds is conditioned by the Member States developing Operational Programs, indicating areas that require financial support from the European Union.

The water and wastewater sector are receiving the largest share of European Union funds allocated to the SOP Environment (60%). (<http://www.posmediu.ro>)

The Sectoral Operational Programme Environment (SOP ENV) is the document that sets the strategy for allocating the European Union funds for the environmental sector in Romania, in 2007-2013, but its objectives also keep track of Romania's development needs beyond 2013, through investments that lay the foundations for the sustainable development in the environmental infrastructure.

The investments consider the expansion or modernization of water systems and drainage, the construction or modernization of water and wastewater treatment plants as well as the increase in the quality of public water services and sanitation, in terms of acceptable prices for the population. For this sector large infrastructure projects are financed, covering several areas at a regional or county level, which will bring an important contribution to the alignment with the European environmental standards with a significant impact on the development of those communities.

Another issue that must be addressed in investment projects is aimed at protecting people and property from the devastating effects of flooding. Intervention areas will be selected in accordance with the national strategy in the field as well as based on some risk analysis.

Another area of action is the protection and rehabilitation of the Black Sea southern seashore, in order to reduce coastal erosion. Such investments will increase public safety and protection of the natural environment, as well as the economic value of the Romanian seaside.

Air deterioration is another form of the environmental crisis. Air quality is a carefully analysed area, so that ambitious economic standards were set for a range of pollutants, including sulphur dioxide, nitrogen dioxide and oxides, especially particulate matter and lead.

Air quality can be improved by the green certificate, which is a title that certifies the production of a quantity of electricity from renewable sources. The green certificate is traded between producers and suppliers of electricity and it charged to the electricity consumers. The certificate can be traded, separately from the amount of electricity it represents, on an organized market, in accordance with the law.(Law

no.134/2012 on establishing the promotion system of energy production from renewable energy sources).

Renewable energy sources are non-fossil energy sources: wind, solar, aerothermal, geothermal, hydrothermal, hydraulic (in power plants of up to 10MW), biomass, landfill and sludge gas from wastewater treatment plants and biogas.

In order to expand the use of renewable energy, a system of promotion through green certificates is applied, which aims, among other objectives:

- to reduce imports of primary energy resources;
- to stimulate local and regional sustainable development and create new jobs;
- to reduce environmental pollution by reducing the production of pollutant and greenhouse gas emissions.

Investments intended to prevent air pollution are also considering the reducing of emissions from municipal heating plants.

Investment projects will be carried out in areas where municipal plants are the largest source of environmental pollution.

Regarding waste, special attention is given to:

- new waste prevention initiatives
- more efficient use of resources
- encouraging the transition to a more sustainable consumption.

Sustainable development requires development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

The sustainable development aims to find optimum of the overall interaction between the economic, technological, environmental and human system in a dynamic and flexible operational process. (Minea, Elena-Maria, 2012)

Investments in the waste management sector are aimed at creating integrated waste management at a regional level, while closing non-compliant landfills. Waste collection, sorting, transportation, treatment and storage measures combined with measures to reduce the amount of waste in accordance with European Union principles and practices in the field, will be financed.

Other investments are intended for pilot projects for the rehabilitation of land affected over time by various pollutants that adversely affect the environment and the human health.

If waste generation cannot be avoided, the materials need to be recovered, preferably by recycling.

By waste we understand any substance, preparation or object in the categories established in the specific legislation on waste, which the holder throws away, he intends or he is obliged to throw away. (*Law nr.211/15.11.2011 on waste*)

By recyclable waste we understand waste that can be raw material in a production process in order to obtain the initial product or for other purposes. (*Government Emergency Ordinance 195/2005 on the Environment Fund, as amended and updated*)

Prevention of waste generation:

- awareness campaigns or financial aid in decision making or other support to businesses;
- use of voluntary agreements, consumer groups and manufacturers to encourage companies or operators in the industrial sectors to set their

- own plans or objectives regarding waste generation prevention or to correct wasteful products or packaging;
- organizing awareness and information campaigns directed at the general public or at a specific set of consumers;
- promoting recognized and trusted eco-labels;
- agreements with the industry, such as, for example, the use of product panels like those included in the integrated product policies or agreements with retailers to provide information on waste prevention and related products with reduced environmental impact;
- in the context of public and private contracts, including some environmental and waste prevention criteria in tenders and contracts;
- encouraging reuse or repair of spoilt products or components, particularly through the use of educational, economic, logistic or other measures, such as supporting or establishing accredited centres for repairing and reusing, especially in regions with high population density;
- funding project monitoring, evaluation and control activities in order to achieve an increased capacity to absorb European Union funds involved in protecting human health and the environment.

4. Conclusions

The adoption of some preventive and then reactive environmental policies is imposed, characterized by internalising the environmental rational behaviour and attracting actions of all social actors involved in those environmental issues. (*Marinescu, D, 2008*).

The sustainable development requires respecting at least a few requirements:

- controlled population growth;
- continuously monitoring the economic activity's influence on the environment;
- ecological responsibility;
- conservation and rational use of natural resources;
- emphasizing the qualitative side of production;
- close international cooperation in environmental decision-making and environmental protection;
- elimination of poverty in terms of meeting basic needs related to work, food, water, energy;
- resizing of economic growth and a new attitude regarding technology;
- developing a mentality for conservation and nature's protection;
- respect for nature;
- expanding the use of renewable energy sources;
- stimulating local and regional sustainable development and creating new jobs;
- encouraging the transition to a more sustainable consumption;
- reducing environmental pollution by reducing the production of pollutant emissions and greenhouse gas emissions.

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STATE AID POLICY IN THE EUROPEAN UNION, STUDY CASE:ROMANIA

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Abstract: *This work is an approach to state aid policy, as part of European Union policy in the field of competition. The paper proposes to pursue the achievement of the specific objectives of: presentation of conceptual framework of "economic competitiveness", which contains the definitions formulated by the literature and the evolution of this concept from the perspective of economic theory and analysis of the forms that assume economic competition in the market economy; critical analysis of the role, importance and significance on state aid; economic analysis of granting state aid; analysis of the institutional framework of the state aid policy, aiming to give the existence of supranational control in this area from the European Commission, as well as the specific role fulfilled by the European Court of Justice, the European Parliament and the Council of the EU, the rules that are set out, The 'State aid rules' are set out by the European Commission and comprise various articles of the Treaty on the Functioning of the European Union, regulations, frameworks and guidelines - which set out what aid can be given. The European Commission governs member states' compliance with these rules and must be notified of all schemes involving State aid. State aid control stems from the need to maintain a level playing field for all companies active in the Single Market, irrespective of the Member State in which they are established. State aid control also contributes to avoiding contests between Member States where they try to outbid each other to attract investment. Preserving competitive markets is the best way for European citizens to get the products they want at competitive prices, and to foster innovation and growth. State aid is one of the few remaining ways in which Member States can hold up liberalization and protect companies from competition. As sectors become open to competition, the State aid rules start to become more important – this includes areas which have been the subject to State monopoly. Where in years past, sectors were national in nature, they have become cross-border: coal, transport, financial services and broadcasting are examples. The paper also contains an empirical analysis of State aid granted in the period 2008-2011 for Romania. State aid has been analyzed from multiple perspectives to pleasantly surprise to an extent as comprehensive place and their role as the grant of economic phenomenon.*

Keywords: *competition, state aid, European institutions, EU funds.*

JEL classification: *L12, F35, N70*

1. Introduction

The competition represents a specific behavior of different property agents, independent, some of the others, to achieve the objectives and interests in mutual relations of cooperation and competition with other agents.

In economics, competition is the rivalry among sellers trying to achieve such goals as increasing profits, market share, and sales volume by varying the elements of the marketing mix: price, product, distribution, and promotion (Gilbert Abraham-Frois, 1994). French economist Alexis Jackemin defines the competition as a set of specific interactions between economic agents, and Michael Porter (in "About competition, 2008") sees the competition as an essential determining factor in the success or failure of companies, she leads those activities of leading a company that can contribute to its performance, such as innovations, a unitary culture, thus establishing relationships of interdependence between the concept of competition and competitiveness. It stimulates creativity, initiative, responsibility, risk and the spirit of competition. It was described by Adam Smith in *The Wealth of Nations* (1776) and later economists as allocating productive resources to their most highly-valued uses and encouraging efficiency. Later microeconomic theory distinguished between perfect competition and imperfect competition, (Robinson Joan, 1993) concluding that no system of resource allocation is more efficient than perfect competition. Competition, according to the theory, causes commercial firms to develop new products, services and technologies, which would give consumers greater selection and better products. The greater selection typically causes lower prices for the products, compared to what the price would be if there was no competition (monopoly) or little competition (oligopoly).

A purely competitive market is a theoretical state in which no single buyer or seller has influence over the products sold in the market. Any seller enters the market to sell any product, and buyers are free to purchase any product desired. A large number of producers and sellers operate in the purely competitive market, and the products sold by one producer are easily replaced by a similar product from another producer. Prices for goods would be established by the rate the majority of consumers are willing to pay, and producers would adjust productivity to match the going price (Gavrila Ilie, Gavrila Tatiana, 2009).

Imperfect competition describes a market where multiple firms offer variations of the same product or multiple products are offered, each with variations. A variation may be a difference in quality, durability, price or utility. Like pure competition, a large number of firms sell to consumers. No barriers to entry prevent a business from competing in the marketplace, however, businesses will be forced to exit the market if consumers will not purchase their products.

Depending on the product, many industries tend towards oligopoly, where a limited number of companies compete for consumer purchases. The quality of the product from one business to another may be differentiated or the products may be identical. Industries that persist with oligopolistic competition tend to be those that have significant barriers to entry, such as commercial and military aircraft manufacturers. The barriers to entry in the aircraft industry are regulatory and financial. The cost for producing a single jet is prohibitively expensive for most manufacturers and therefore not worth the competition, even if the competition is limited. (Robinson Joan, 1993).

A monopoly lacks any competition either within the market or within a specific industry. Monopolies are defined by a single business, operating without competition in the market. The main barrier to entry into monopolistic markets is that one firm holds all of the market share and no market share is available for other businesses to succeed. (Wade Robert, 1990) A monopoly may be formed if a company owns all of one single resource, holds the patent for making a specific type of product or if the government has disallowed any other business from competing in the marketplace.

2.State Aid

State aid is a European Commission term which refers to forms of assistance from a public body or publicly-funded body, given to undertakings engaged in economic commercial activity on a selective basis, with the potential to distort competition and affect trade between member states of the European Union. Preferential public assistance - State aid - can distort the market, which in turn can result in lower competitiveness for business, less innovation and ultimately higher prices for consumers. There is therefore a need for effective State aid control in order to maintain a level playing field for free and fair competition in the single market and to guard against subsidy races and national protectionism. The State aid rules are designed to regulate subsidies and to stop public authorities from distorting the markets. They also provide a framework and discipline to assist public authorities to ensure that scarce public resources are targeted where they are most required in an efficient and effective manner.

This definition translates into 5 tests or criteria, all 5 of which must be met for State aid to be present:

- aid is granted by a member state or through state resources (including e.g. lottery distributions and European funds);
- aid confers an advantage on the recipient;
- it favors certain commercial undertakings or the production of certain goods (i.e. it must be selective in its nature);
- it distorts or has the potential to distort competition;
- the activity is tradable between Member States and the aid has the potential to effect trade.

The Commission generally prohibits State aid unless it is justified for reasons of economic development. The circumstances where State aid is allowed are set out in the European Commission State aid rules - a series of frameworks, guidelines and regulations which set out what aid can be given. These rules enable public authorities to target support to address market failures in order to achieve desirable policy outcomes, for example to facilitate competitiveness through research spending, improve access to venture capital for small firms, support the environment, encourage regional development or help provide access to training.

State aid instruments are:

- State grants;
- interest rate relief
- tax relief;
- tax credits;
- State guarantees or holdings
- State provision of goods or services

- direct subsidies;
- tax exemptions;
- preferential interest rates
- guarantees of loans on especially favorable terms
- acquisition of land or buildings either gratuitously
- provision of goods and services on preferential terms;
- indemnities against operating losses;
- reimbursement of costs in the event of success
- State guarantees, whether direct or indirect
- dividend guarantee
- preferential public ordering
- reduction of, or exemption from charges or taxes
- depreciation and the reduction of social contributions;
- deferred collection of fiscal or social contributions;
- assistance financed by special levies;

The role of the institutions in the European decision-making process has benefited from a growing interest. Most theoretical approaches that have turned his attention to the interactions between the various levels of Government of the EU have tried to explain the institutional developments that have taken place in the European common policies. Interactions between different levels of government in the EU are embedded in a dense institutional environment. The principal approaches to European integration and policy-making – intergovernmentalism, neo-functionalism and multi-level governance – differ as to the role they ascribe to institutions. However, all three approaches share fundamental assumptions about how institutions affect policy outcomes, assumptions which are based on rationalist foundations. All three tend to regard institutions as agents in their own right, actors capable of strategic inter- action with other actors.

Due to the dominant role held by the Commission and the European Court of Justice, the European Parliament and the Council of the EU have a rather limited role under the policy on State aid (Pierson P., 1996). The European Parliament and especially the Committee on economic and Monetary Affairs argued a gradual increase in participation in European policy on State aid, as fate and the progressive maturation of it, although they constantly had a limited capacity to influence this area. The decision-making process resulting in the state aid guidelines is quite distinctive from most other policy-processes in the EU. In fact, there are few areas where the Commission is more central or more autonomous than in competition- and state aid policy-making (Blauberger Michael, 2009). This is due both to the policy-field's strong Treaty basis, and to a series of Council regulations which have increased the Commission's role in both developing and enforcing state aid policies. The rationale for this delegation of power has been the notion that in state aid matters, a strong Commission is necessary in order to uphold a 'liberal internal market' and to a safeguard the Community against national, protectionist economic policies.

As a result, the Parliament and the Council of Ministers have no formal roles in the making and shaping of state aid guidelines. They are invited to consultations along with relevant stakeholders, but the Commission does not have to embark on the same sort of negotiations as it does in most other political processes (Blauberger Michael, 2009). As for the European Court of Justice, this institution can of course

play an important role both in overseeing the Commission's powers, and in serving as the court of appeal in concrete state aid cases. However, in practice the Court has contributed to the broadening of the Commission's powers, supporting the Commission's decisions in most state aid cases (Roth P.M.,2001). All in all, then, it seems reasonable to assume that the sources for the changes in the new environmental guidelines are to be found within the Commission itself. The increased aid levels for renewable energy, cogeneration and district heating must be the product of the Commission's own preferences. Of course, the Commission is hardly a unit in complete harmony on these matters. The Competition Directorate-General (DG), which has the formal responsibility for state aid matters, will for instance be much more prone to uphold its 'ethos' of competition and economic liberalism, and consequently work for a minimising of subsidies of any kind; whereas the DG Energy and Transport and DG Environment, which certainly also are relevant actors when it comes to the issue of environmental state aid, will be more likely to emphasise the need for increased subsidies for green energy, in line with the interests of the sectors they represent.

3. State Aid in Romania

Over the period 2008-2011, the National State Aid (expressed in Lei, in 2008 constant prices - 2008 being considered the basis year), has registered a general decreasing tendency, from 850.50 mil. Lei in 2008, to 698.42 mil. Lei in 2011. Same tendency has also been reflected in the share of the National State Aid in the GDP, which decreased from 0.20% in 2008, to 0.17% in 2011, due to the reduction of State Aid awarded by the State aid suppliers for horizontal objectives (namely, State aid granted for rescuing–restructuring firms in difficulty, considered by the European Commission as harmful for the normal competitive environment).

Table 1: State Aid identified at the national level

	2008	2009	2010	2011
National State Aid expressed in:				
Thousand Lei, current prices (less agriculture, fisheries, transport, SGEIs*, <i>de minimis aid</i> , and State aid granted under the Temporary Framework)	850,509.15	973,890.96	745,877.88	876,527.69
Thousand Euro**	254,849.47	264,450.26	176,026.69	208,206.30
Thousand Lei, 2008 current prices***	850,509.15	844,658.25	621,047.36	698,428.44
Dynamics %	100.00	99.31	73.02	82.12
Share of the National State Aid in the GDP % (less agriculture, fisheries, transport, SGEIs*, <i>de minimis aid</i>, and State aid granted under the Temporary Framework)	0.20	0.19	0.15	0.17

Source:<http://eubusiness.com>

* SGEIs – Services of General Economic Interest

** Calculated on the basis of the average annual exchange rate RON / Euro – Source: INSSE;

*** To convert in 2008 constant prices, has been used the GDP deflator – Source: INSSE (GDP deflator 2008=100%; 2009=115.3%; 2010=120.1%; 2011=125.5%);

The level of State aid recorded in 2011, slightly higher than the one of 2010, was especially due to the sharp rise in the State aid granted to regional objectives. As compared with the other EU Member States - in 2011 Romania has awarded State aid of about 10 times lower than the EU-27 average; State aid granted in Romania in 2011 represents 0.34% of the total State aids awarded at the EU level. The analysis of State aid by beneficiary fields showed that, in 2011, the highest share was held by State aids granted for the manufacturing industry (30.75%), followed by those awarded to coal industry (pitcoal extracting) – 28.50% - and by State aids granted for R&D&I (this category recording a percentage of 15.31%). This was due, especially, to the fact that State aid grantors have promoted a large number of State aid schemes aimed at the regional development, many beneficiaries of State aid granted through these schemes operating in the manufacturing industry.

The most important regional State aids awarded to manufacturing industry have been reported by: the Ministry of Public Finance, the Environment Fund Administration, and the Ministry of the Economy, Trade and Business Environment; among the most important beneficiaries of these State aids were the following companies: SC Ford Romania SA, SC Automobile Dacia SA, SC Renault Mecanique Roumanie SRL, SC Pirelli Tyres Romania SRL, etc.

The volume of State aids granted to coal industry has significantly diminished over the period 2009-2011; as a consequence, State aids awarded to this sector in 2011 (as volume, calculated in 2008 constant prices) represented about 53.1% of the level recorded in 2008.

State aids granted to undertakings operating in the field of R&D&I had a slightly increasing trend in 2010-2011, from 26.5 mil. Euro in 2010, to 31.9 mil. Euro in 2011. The State aids awarded for this sector were among those referred to in the "National Plan for R&D&I II", being authorised by the European Commission.

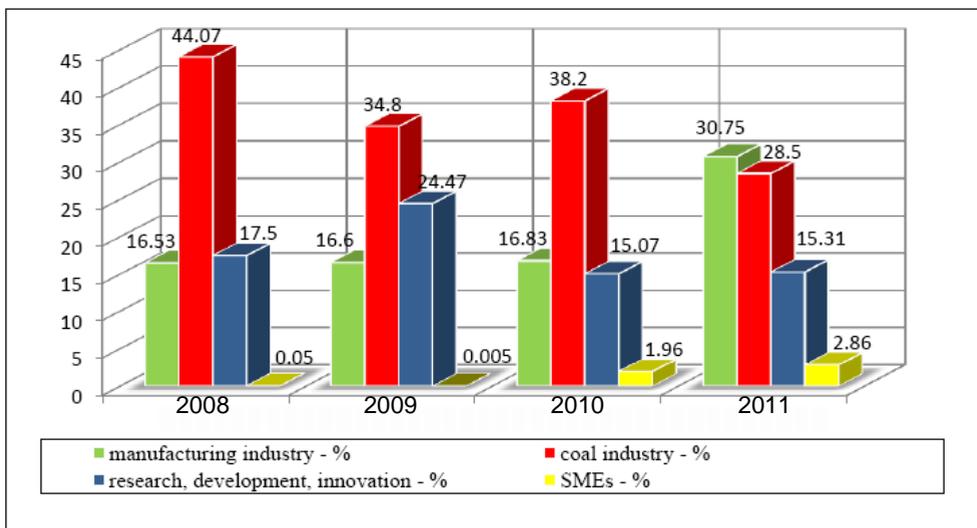


Figure 1: Evolution of the National State Aid structure by main beneficiary fields

Source:<http://eubusiness.com>

Regarding the financial instruments (the granting tools), it should be mentioned that the increasing tendency in the share of State aid having a nature of „Budgetary expenditure” in the Total National State Aid has continued in 2011, detrimental to the State aid with character of “Abandoning the State incomes” by the State; in 2010, the share of „Budgetary expenditure” in the Total National State Aid was of 98.98%, while in 2008 it was of 85.07%.

The State aid grantors have understood that State aids having a nature of „Abandoning the State incomes” are much less transparent than the amounts granted directly to the State aid beneficiaries and much more harmful for the normal competitive environment.

As regards the analysis on objectives of the State aids awarded in Romania over the period 2009-2011, it was found that the highest share in the Total National State aid (less agriculture, fisheries, transport, SGEIs and *de minimis* aids) was held, yet, by the State aids having sectoral objectives.

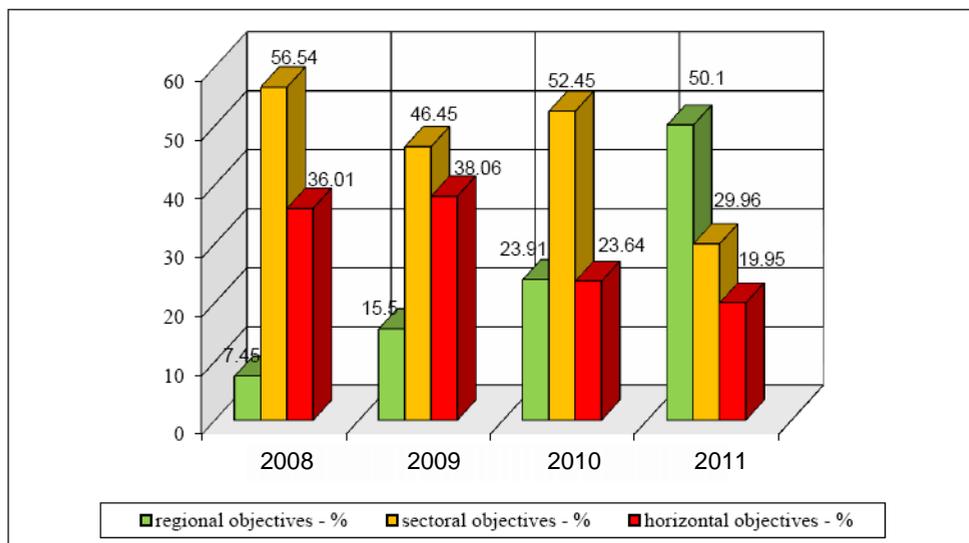


Figure 2: National State Aid by main granting objectives, during the period 2008-2011

Source:<http://eubusiness.com>

From the detailed analysis of each objective, have been found the following aspects:

- In 2011 has been registered, for the first time, an increase in the share of the State aids having regional development as main objective in the National State aid (increase of over 50%); this growth was mainly explained by the fact that, after 2008, the Romanian authorities had promoted a large number of State aid schemes - notified or exempted from the obligation to notify the European Commission;
- The European Commission encourages the Member States to promote State aids aimed at horizontal objectives, which are considered less harmful for the

competitive environment; in 2011 these aids held a diminished share in the Total National State Aid - of only 19.95% as compared with their level in 2008 (36.01%) and in 2009 (38.06%); this was due especially to the small number of State aids awarded from the State budget to objectives such as: environment protection, restructuring firms in difficulty, creating jobs, and, respectively, training; during the analyzed period (2008-2011), the majority State aids for SMEs were granted in the form of *de minimis aids*, these aids being much more permissive, and their awarding by the State aids grantors being more easier to be done.

State aids awarded to companies carrying out Services of General Economic Interest (SGEIs) have an important influence on the national economy, not only in terms of the yearly value of subsidies which must be covered by the public authorities from their own budget, but also through their major impact on the strategical sectors of the national economy, and (not least) on the population.

In 2011, the value of State aids granted for SGEIs was of 302.4 mil. Euro, decreasing – as compared to 2008, when have been awarded 441.9 mil. Euro.

4. Conclusions

The maintenance of a system of free and undistorted competition is one of the basic principles of the European Community. Community policy in respect of State aids seeks to ensure free competition, an efficient allocation of resources and the unity of the Community market, whilst respecting the international commitments of the European Union. The Commission is becoming increasingly vigilant in applying the EC state aid rules. When utilities receive monies from government bodies, they will need to satisfy themselves that the EC state aid rules are being complied with or, otherwise, as the recipient of financial assistance, they will need to press for a state aid notification to be made to the Commission.

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

L'OFFRE D'EMPLOI ENTRE LA VISÉE D'INFORMATION ET LA VISÉE DE CAPTATION

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Abstract: *One of the key steps in the process of labour force recruitment is drafting and advertising vacancies. Although today most of the recruitment process is conducted on the Internet, the supplements and pages devoted to economic information of the mainstream newspapers contain ads especially for hiring managers for large companies or public administration. In this paper we analyze the structure of these ads, the selection, organization and prioritization of the information provided as well as the language using a corpus extracted from the French daily magazine Le Monde and based on the methods and concepts provided by discourse analysis and textual linguistics. Whereas ads for vacancies are generally written in a simple and direct style, those relating to management positions are larger, have a well-defined structure and the language used is precious, sometimes even difficult to decipher for those who are not familiar with the language of the employing company. Even if they appear in the pages of newspapers, these ads are not written by journalists, but by representatives of head hunting firms or of the employing company. They can be defined as a mini-portrait of the ideal candidate intended both to inform and to capture and incite action. The ideal candidate's profile is shaped by listing several exceptional qualities and skills. The potential candidate is often presented as an expert, a strategist, an animator and/or a diplomat. The red thread of the text is the isotopy of quality, success and supreme competence. Both the employing company and the future employee have to be able to face any situation, no matter how complicated, and always obtain performance. To propose this type of texts in French language courses and seminars means not only to familiarize students with certain structures of the language but also to instil the idea that they should gain, during the years of study, skills and aptitudes that will guarantee their successful labour market integration.*

Keywords: *genre, isotopie, objectivité, offre d'emploi, recrutement, stratégie discursive.*

JEL classification: J24, Y80.

1. Introduction

Le processus de recrutement du personnel est très complexe, il comprend la rédaction d'une offre d'emploi correcte et accrocheuse, la sélection des curriculum vitae, la lecture des lettres de candidature et l'organisation d'un ou de plusieurs entretiens.

La présente communication traitera de l'offre d'emploi, qui ces dernières années a subi beaucoup de transformations et a évolué grâce à la diversification des supports (presse écrite, Internet etc.).

Nous nous intéresserons aux annonces qui paraissent dans le supplément *Le Monde Économie* et nous montrerons qu'elles respectent le profil éditorial de ce quotidien de référence, à savoir les caractéristiques suivantes : le sérieux, la précision, l'essentiel, la sobriété, la complémentarité avec l'Internet.

Sur le site du *Monde* on trouve énormément d'offres d'emploi que l'on peut trier en fonction du poste recherché ou du lieu de travail.

En revanche, le quotidien sélectionne des offres pour une élite (les cadres dirigeants des grandes entreprises ou des institutions publiques, les universitaires), en restant fidèle à sa politique éditoriale traditionnelle qui privilégie la hiérarchisation de l'information et l'unicité, non l'exhaustivité.

Nous avons choisi d'examiner les offres qui présentent des postes de direction non seulement pour leur complexité, mais aussi parce que viser un poste de dirigeant c'est une des principales motivations pour lesquelles les étudiants choisissent la Faculté des Sciences Économiques.

2. Définition et caractéristiques de l'offre d'emploi

D'une part, l'offre d'emploi peut être rattachée à la catégorie des « papiers de desk », plus précisément à celle des « informations-service » (De Broucker, 1995 : 149) ou bien à la classe des « "papiers" venus d'ailleurs » (J.-F. Bège, 2007 : 47). En effet, le plus souvent elle n'émane pas de la rédaction, mais de l'entreprise qui se propose d'embaucher du personnel.

D'autre part, elle a des traits communs avec le portrait, car le mot-clé de cette unité rédactionnelle est la personne mais, à la différence du portrait, qui décrit un personnage réel en recourant aux sources ou à l'interview, dans le cas de l'offre d'emploi l'énonciateur dresse le portrait d'un candidat idéal, auquel le lecteur doit se rapporter.

Pour observer plus en détail les traits de l'offre d'emploi, nous allons utiliser un schéma à deux niveaux, qui combine les méthodes de l'analyse du discours et celles de la linguistique textuelle (Florea, 2011 : 230) :

La configuration pragmatique et discursive :

- le mode discursif de mise en scène de l'information : l'événement rapporté ;
- l'organisation macrostructurelle : la fonction pragmatique : informative (*faire savoir*), explicative (*faire comprendre*), séductrice (*faire sentir*) et factitive (*faire faire*) ; les actes de langage dominants : rapporter, qualifier ; les stratégies discursives : exposition, positionnement, description.

La configuration textuelle et énonciative :

- le mode d'organisation et la longueur du texte : plan « intitulé du poste - missions - profil » ; séquences expositives-descriptives ; texte bref ;
- le degré d'implication de l'énonciateur : très faible ; on remarque l'absence des marques de la subjectivité linguistique ;

- les procédés d'organisation microstructurelle : schémas syntaxiques récurrents ; isotopies ; marques d'évaluation axiologique.

Ainsi, nous définissons l'offre d'emploi comme un texte bref qui émane d'une autorité (le porte-parole de l'employeur), donne des informations sur un poste à occuper (visée informative et visée explicative), construit le mini-portrait du candidat idéal, essaie de convaincre le lecteur à poser sa candidature (visée séductrice et factitive).

La structure habituelle d'une offre d'emploi est la suivante :

- la présentation de l'employeur (raison sociale, siège, place sur le marché) ;
- l'intitulé du poste à occuper ;
- les missions que le candidat devra accomplir ;
- le profil recherché (formation, qualités) ;
- les conditions de travail (horaires de travail, salaire, avantages divers) ;
- les modalités de réponse.

3. Corpus d'analyse

Notre corpus est formé de plusieurs suppléments *Le Monde Économie* de l'année 2010. Ces suppléments paraissent le mardi et comprennent principalement des comptes-rendus, des relations de paroles, des analyses et des interviews concernant des sujets et des personnalités de l'actualité économique.

Les deux ou trois pages consacrées aux offres d'emplois visent les cadres dirigeants. Pour les autres postes disponibles, la rédaction du journal renvoie au site du quotidien. Nous avons analysé environ 50 offres d'emploi.

4. La sélection, l'organisation et la hiérarchisation de la matière informationnelle

4.1. La mise en page

Les pages des annonces sont caractérisées par la lisibilité. Les offres d'emploi sont délimitées par des encadrés. Souvent, les paragraphes sont bien séparés par des espaces et certaines informations sont mises en évidence par des caractères gras ou italiques. En outre, les polices et la dimension des lettres diffèrent selon l'information donnée.

4.2. La structure des offres d'emploi

4.2.1. La présentation de l'employeur

Quand il s'agit d'une carrière publique ou d'un poste offert par l'intermédiaire d'une agence de recrutement, la présentation de l'employeur est le plus souvent impersonnelle :

(1) « *Le CNFPT recrute par voie statutaire pour la direction des Finance et des Moyens ...* » (9.11.2010)

Il s'agit d'une instance énonciative externe (au quotidien et à l'employeur) et les informations données n'engagent pas la responsabilité de l'équipe rédactionnelle du *Monde*.

Si l'entreprise propose directement le poste, l'offre d'emploi est écrite à la première personne du pluriel (2), donne des informations sur l'entreprise et met en valeur l'employeur à l'aide de termes tels que *groupe international, leader, innovations,*

qualité, maîtrise, efficacité, nos filiales, nos solutions, en croissance, notoriété, marché porteur et très tendance (2, 3):

(2) « *Filiale française d'un groupe international, reconnue par la qualité de nos produits et de nos innovations techniques, nous sommes spécialisés dans la fabrication et la distribution de solutions pour toutes les étapes de la fabrication de produits élaborés. Présents dans plus de 30 pays à travers le monde, avec 4 000 employés et riches d'une longue expérience, en position de leader, nous nous appuyons sur nos filiales, nos agents et distributeurs pour être au plus près des besoins de nos clients. Nos solutions contribuent à améliorer la qualité de leurs produits mais également à l'efficacité de leur process et la maîtrise de leurs coûts.* » (9.11.2010)

(3) « *Filiale en croissance d'un groupe international de très forte notoriété, fabricant de biens de consommation de grande série (moyen, haut et très haut de gamme) sur un marché porteur et très tendance* » (30.11.2010)

Dans ce cas on a affaire à une instance énonciative externe (au quotidien) et interne (représentant de l'employeur). Le degré d'implication subjective est plus marqué et se traduit par la construction d'isotopies.

Nous remarquons le désir d'imposer dès le début du texte l'isotopie de la qualité et du succès. Cette isotopie a une grande influence sur la construction de l'image d'autorité de l'employeur. Les marques linguistiques de la présence de l'énonciateur dans le discours sont le pronom personnel *nous* et l'adjectif possessif *nos*.

4.2.2. L'intitulé du poste à occuper

Tout comme dans le cas des titres de la presse écrite, l'intitulé du poste doit être bref, efficace, accrocheur, car le lecteur qui consulte les annonces de ce type regarde d'abord les intitulés. C'est pourquoi ils se démarquent du reste du texte par des polices diverses, de dimensions plus grandes.

D'habitude, l'intitulé est exprimé par un court syntagme nominal : « Directeur Général ». Il peut être suivi de la mention *h/f* (homme/femme), car ces derniers temps, dans le monde du travail on insiste sur la parité de traitement et sur l'accès des femmes aux postes importants dans les entreprises et dans la vie politique. L'on ajoute parfois le domaine d'activité : « Directeur(trice) Adjoint(e) en Charge de la Finance ».

Il arrive que l'intitulé du poste ne soit pas standard ; dans ce cas le porte-parole de l'énonciateur utilise la terminologie propre à l'entreprise, avec laquelle le lecteur n'est pas familiarisé, et même des termes en anglais : « Key Account Manager ». Dans cette circonstance, il est impératif de lire le texte de l'offre d'emploi en entier. Un tel intitulé peut séduire un certain type de lectorat, mais il peut également ne pas attirer du tout.

L'intitulé du poste est suivi généralement de l'indication du lieu de travail : « Basé en Bretagne », « Picardie », « Poste situé à Paris » et d'autres mentions que l'énonciateur veut mettre en relief : « Nord de Paris – Anglais courant impératif ».

4.2.3. Les missions du candidat

C'est la partie la plus développée de l'offre d'emploi. Elle est généralement centrée sur la figure du lecteur. On accentue ainsi l'utilité de ce type de texte.

Dans cette séquence expositive-descriptive il n'y a presque pas de traces de l'énonciateur. Celui-ci peut être présent dans le discours à l'aide du pronom personnel *nous* et des adjectifs possessifs *notre, nos*.

En revanche, la stratégie la plus utilisée pour focaliser sur le lecteur est de commencer chaque phrase par le sujet « vous », suivi d'un verbe au présent de l'indicatif. Par cette stratégie l'énonciateur décrit et explique les missions à effectuer mais il réussit également à convaincre le potentiel candidat qu'il peut les accomplir. Ces paragraphes ont le pouvoir de capter le lecteur et de l'inciter à agir, plus précisément à présenter sa candidature. L'exemple suivant est extrait d'une offre d'emploi concernant le poste de Directeur(trice) Adjoint(e) en Charge de la Finance :

(4) « *Rattachée directement au Directeur, vous êtes partie intégrante du comité de direction. Vous prenez en charge la mise en œuvre et la réorganisation structurelle et financière de notre établissement pour améliorer ses performances. [...]*

Vous optimisez la rentabilité financière, et plus particulièrement à partir des constats issus de la comptabilité analytique et de la rationalisation des pratiques. Vous assurez la production d'indicateurs de performance organisationnels et financiers, et effectuez des projections analytiques.

Vous optimisez au mieux les effets de modernisation sur les ressources humaines : harmonisation des postes de travail, des fonctions et des procédures. » (9.11.2010)

Les verbes ont un pouvoir suggestif très fort : *prendre en charge, optimiser, assurer, améliorer*. De plus, les substantifs *réorganisation, performances, rentabilité, modernisation* et le syntagme adverbial *au mieux* indiquent un très haut degré de compétence attendu de la part du candidat. Cette partie représente une partie de transition vers la séquence suivante, axée sur le profil du candidat.

Dans l'exemple (5), visant le poste de *Key Account Manager*, la formule « vous êtes ... » suivie d'un syntagme nominal qui évoque l'idée de la garantie du succès et de l'innovation décrit un candidat dont les qualités doivent atteindre la perfection :

(5) « *[...] Vous êtes le garant de notre succès [...] grâce à votre implication personnelle dans l'établissement et le suivi des relations commerciales pérennes avec les enseignes de la distribution [...]* **Centré sur la dimension client**, vous êtes le relais de l'image d'innovation de notre Groupe auprès des enseignes. » (9.11.2010)

On est donc en présence de l'isotopie de la compétence suprême, qui sera confirmée et renforcée dans le/s paragraphe/s consacré/s à la formation du potentiel candidat.

4.2.4. Le profil recherché

Dans cette partie l'on dessine ouvertement la figure du candidat idéal : la formation, l'expérience, la personnalité. Les noms *connaissance, expert, vision, orientation résultats, dynamisme, challenge* et les adjectifs qualificatifs exprimant une très grande intensité (*excellent, stratégique, aigu*) contribuent à l'image de la perfection. En fait, tout est au superlatif dans l'offre d'emploi pour le poste de *Key Account Manager*. Le soulignement appartient au rédacteur de l'offre. Les séquences en gras représentent autant de mots-clés du profil recherché :

(6) « **De formation commerciale supérieure**, vous avez su évoluer au sein de groupes de renom et votre expérience d'au moins 3 ans à un poste similaire vous permet d'être reconnu comme **un expert dans la distribution du Petit Electroménager**. Votre excellente connaissance des circuits de distribution GSA/GSS et de ses acteurs vous permet d'avoir une vision stratégique du marché du PME. **Vous êtes reconnu pour votre dynamisme**, votre orientation business et résultats et votre goût du challenge. » (9.11.2010)

Suit l'énumération d'autres qualités qui caractérisent la personnalité et le potentiel du candidat : *adaptabilité, aisance relationnelle, ambition, sens aigu du service client, réactivité, enthousiasme et capacité d'analyse*.

Le/la Directeur(trice) Adjoint(e) en Charge de la Finance doit avoir presque les mêmes « super-qualités ». Les marques d'évaluation axiologique (*solide expérience, grande maîtrise, atouts décisifs*) représentent autant de critères d'évaluation et de sélection du candidat :

(7) « Issu(e) d'une formation Bac + 5 (écoles de commerce, ingénieur, gestion ...), vous justifiez d'une solide expérience opérationnelle en finances et en ressources humaines. Vous présentez une grande maîtrise de l'analyse financière et êtes capable de travailler en équipe. [...] » (9.11.2010)

D'autres aptitudes requises pour ce poste sont : *la rigueur, le sens de l'organisation, le sens de la diplomatie*. En outre, dans presque toutes les offres d'emploi analysées on mentionne *la capacité à fédérer/manager une équipe*.

Certains employeurs préfèrent réunir les missions et le profil du candidat dans une séquence plus ample, pour construire le mini-portrait du candidat idéal. Les missions et la personnalité du candidat s'entremêlent harmonieusement avec les objectifs de l'employeur. Dans l'exemple suivant le soulignement appartient au rédacteur de l'offre :

(8) « **Vous prenez la responsabilité pleine et entière de la filiale**. Véritable ambassadeur en interne et en externe, votre mission est de renforcer notre présence et notre notoriété sur notre marché en assurant un développement maîtrisé.

Vous établissez une stratégie pérenne en accord avec les orientations du groupe (objectif 15 millions d'€), veillez au respect des budgets et à la bonne utilisation des ressources et managez les équipes en place (60

personnes) tout en instaurant un climat de confiance, fondement nécessaire au développement. [...] » (9.11.2010)

Dans ce cas on n'insiste plus sur le caractère combatif du futur directeur général, mais sur son aptitude à diriger en assurant un développement maîtrisé et dans la durée et à garantir une ambiance agréable.

Le texte continue par la description de la formation (Bac+5, MBA, École Supérieure de Commerce) et de l'expérience (5 années dans l'industrie de l'alimentation). La partie consacrée aux compétences du candidat mise toujours sur l'idée de diriger « en douceur ». Ainsi, outre les qualités mentionnées généralement dans les offres relatives aux postes de direction, on indique *le pouvoir de former une équipe loyale, la diplomatie, les excellentes capacités de communication, l'organisation, la planification.*

En bref, les offres examinées présentent le candidat idéal comme un expert dans son domaine, un stratège, un animateur et/ou un diplomate.

En ce qui concerne l'aptitude à parler des langues étrangères, si cette mention apparaît, seul l'anglais est impératif pour les postes de direction basés en France ou au Maghreb. Le niveau doit être excellent :

(9) « *Anglais parfaitement fluent* » (30.11.2010)

(10) « *Vous maîtrisez l'anglais* » (16.11.2010)

Pour un poste qui suppose la connaissance parfaite de l'anglais, l'offre d'emploi peut être entièrement rédigée en anglais (ex. : l'offre du 30.11.2010 pour le poste de *French Lowyer-Linguist*) ou bien la mention « anglais impératif » suit de près l'intitulé.

4.2.5. Les conditions de travail

Peu d'offres donnent des informations sur la rétribution ou les avantages offerts par l'entreprise, même si ces informations ont un pouvoir certain de séduction (indemnités, véhicule de fonction) :

(11) Directeur Général Adjoint de la Solidarité (carrière publique) : « *Rémunération statutaire, régime indemnitaire et véhicule de fonction* » (30.11.2010)

(12) Directeur Général d'une entreprise qui fabrique des biens de consommation: « *Rémunération : 200K€++ et avantages liés à la fonction* » (30.11.2010)

L'interpellation du lecteur est une des stratégies par lesquelles l'énonciateur incite à l'action. La réponse ne contient pas d'informations explicites ; de plus, elle met l'accent sur les avantages non matériels :

(13) « ***Vous souhaitez être acteur de notre réussite est vous inscrire dans la croissance d'un groupe international aux projets innovants ?***

Nous vous proposons : des challenges à la hauteur de votre ambition et des perspectives de développement personnel en rapport avec les succès remportés. » (9.11.2010)

Tout comme dans le cas d'un billet de la presse écrite, la « chute » est inattendue et surprenante. Elle a une visée factitive évidente.

4.2.6. Les modalités de réponse

Si l'offre d'emploi capte l'attention du lecteur, celui-ci peut présenter sa candidature sur Internet ou par courrier aux adresses indiquées à la fin du texte :

(14) « *Merci de postuler via notre site [...] ou par courrier auprès de [...]* » (9.11.2010)

(15) « *Merci d'adresser votre CV par email [...] avec en objet la référence [...] à [...]* » (9.11.2010)

(16) « *Merci d'envoyer CV + lettre de motivation avant le 15 décembre 2010 à [...]* » (16.11.2010)

La complémentarité avec l'Internet se reflète également par des renvois au site de l'entreprise de recrutement ou à celui de l'employeur « *Pour plus d'informations : www....* ».

5. Conclusion

L'analyse des offres d'emploi publiées dans le supplément *Économie* du quotidien *Le Monde* nous a permis de définir et de présenter les traits de cette unité rédactionnelle, en utilisant un schéma basé sur la configuration pragmatique et discursive ainsi que sur la configuration textuelle et énonciative.

Nous avons affirmé qu'il s'agit d'un court texte informatif qui construit le mini-portrait du candidat idéal pour le poste proposé. L'offre d'emploi est écrite par une instance externe au journal (une entreprise de *head hunting* ou un représentant de l'employeur). Le texte ne contient pas beaucoup de traces de l'énonciateur.

Le plus simple mode d'organisation du texte est le plan « intitulé du poste - missions - profil ». L'intitulé doit attirer l'attention du lecteur, car celui-ci a le choix entre de nombreuses offres d'emploi. Si l'intitulé est écrit en anglais ou bien s'il est spécifique au langage de l'entreprise, il sera désambiguïté par la description des missions du candidat recherché. Le profil est dessiné à l'aide de l'énumération de qualités et d'aptitudes exceptionnelles. Le candidat idéal doit pouvoir remplir les missions difficiles que suppose un poste de direction.

Le texte peut également commencer par la description de l'entreprise qui embauche. Dans ce cas l'on a affaire à une symétrie parfaite entre l'entreprise, dont l'image est toujours tracée à l'aide de l'isotopie de la qualité et du succès, et le candidat, qui – en tant qu'ambassadeur de l'entreprise – devra prouver un très haut degré de compétence. Il est souvent présenté comme un expert, un stratège, un animateur et/ou un diplomate.

L'offre d'emploi informe, explique, séduit et incite à l'action.

Le lecteur qui ne sélectionne pas les offres publiées dans la version papier du quotidien peut toujours consulter le site du *Monde*, car les pages destinées aux offres d'emploi contiennent des renvois au site du journal et à ceux des agences de recrutement du personnel.

Les étudiants en économie et gestion espèrent travailler comme dirigeants des grandes entreprises ou bien occuper des postes importants dans l'administration

publique. En lisant et en examinant le contenu des offres d'emploi, ils peuvent se focaliser dès le début de leur vie universitaire et professionnelle sur les compétences et les aptitudes qu'ils devraient développer pour réussir à occuper un tel poste, devenir conscients des exigences d'excellence, d'expertise et de qualité et viser la perfection.

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KOOPERATIVES LERNEN IM UNTERRICHT AN WIRTSCHAFTSSTUDENTEN. EIN SCHRITT AUF SYNERGIEBILDUNG ZU

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Abstract: *The aim of following study is to present the idea, principles, working methods and practical applicability of cooperative learning, a relatively new didactic concept used successfully in educational institutions – universities included – of the United States, Canada and other countries. This didactic method fits for every educational cycle from the preschool level up to the university and is in total accordance with the principles of student-centred education. In contrast to other (traditional) didactic approaches it does not lay emphasis on competition but cooperation among individuals which at the first sight may appear outdated in present world based on fierce competition. However at a closer analysis one may realize that on the labour market general practice is working in teams and not as individual entities. Working as a team member for the sake of the whole group and at a higher level the company/institution, not having in mind just individual interests is not simple at all, this skill must be acquired and trained. With following five principles at its base: positive interdependence, individual and group responsibility, promoting interaction, social skills and permanent group evaluation cooperative learning teaches people how to work efficiently together by stimulating individual and group performance in a way leading to real synergy. After the concise presentation of these five principles the study offers a description of the steps to be undertaken in planning teaching units based on cooperative learning, stages in the teaching process including the presentation and analysis of efficient work techniques. In its final chapter it deals with aspects of practical applicability by presenting the author's own experience till now regarding the implementation of teaching units based on cooperative learning in educational institutions in Romania and abroad. Concluding the theoretical aspects and empirical findings presented in this study one may say, that this didactic approach is worth trying further implementation in higher education in our country.*

Keywords: *kooperatives Lernen; positive Interdependenz; soziale Fertigkeiten; Zusammenarbeit; Interaktion; Synergie*

JEL classification: *A20; I20; I23; Z19*

1. Einleitung

Man weiß schon seit langem, die höchste Aufgabe der Schule ist, das Individuum fürs Leben vorzubereiten, d.h. ihm solche Kompetenzen zu vermitteln, die den Anforderungen des Arbeitsmarktes entsprechen. Zwar lebt man in einer globalisierten Welt mit scharfer Konkurrenz, aber die Aufgaben werden meistens – auch wegen ihrer Komplexität – nicht von Individuen, sondern von Teams von

Individuen mit Kompetenzen in verschiedenen Bereichen verrichtet. Der Schlüssel zum Erfolg vieler Großunternehmen liegt eben in der wirksamen Kooperation innerhalb der Teams, im gezielten und entsprechenden Einsatz der Stärken jedes einzelnen Mitarbeiters. Die Fähigkeit zur effizienten Zusammenarbeit ist aber nicht angeboren, selbstverständlich; die muss angeeignet und geübt werden. Da kommt einem relativ neuen Lehr- und Lernmethode, dem kooperativen Lernen eine bedeutende Rolle zu.

Folgende Studie setzt sich als Ziel, Wesen, Prinzipien, Arbeitsmethoden und die praktische Anwendbarkeit dieses didaktischen Ansatzes zu präsentieren. Nach einem kurzen Überblick über die Entstehungs- und Entwicklungsgeschichte der der Methode zugrundeliegenden Interdependenztheorie erfolgt eine synthetisierende Vorstellung des kooperativen Lernens. Dabei werden die fünf Prinzipien, die bei der Gestaltung des kooperativ strukturierten Unterrichts zu beachten sind, die Schritte bei der Planung und die Phasen beim Einsatz der Methode, Interdependenzarten und effiziente Arbeitstechniken behandelt. Im Anschluss daran werden eigene bisherige Erfahrungen des Autors in der praktischen Anwendung kooperativ gestalteter Unterrichtsmodule vorgestellt.

2. Kooperatives Lernen und soziale Interdependenztheorie

Die vor 30 Jahren noch unbekannt, aus der Sozialpsychologie entlehnte Methode ist heute schon weltweit verwendet, vor allem in den Lehranstalten, inklusive Universitäten, von der USA, Kanada, aber auch anderen Ländern. Kooperatives Lernen entsteht, wenn Lernende gemeinsame Lerngruppen formen und auf dieser Weise zusammenarbeiten. Praktisch können alle Aufgabenstellungen kooperativ gelöst werden. Es gibt drei Formen des kooperativen Lernens. *Formale kooperative Lerngruppen* werden für längere Zeiträume gebildet, sie können für die Dauer einer Unterrichtsstunde oder einige Wochen lang bestehen, um verschiedene Aufgaben gemeinsam zu lösen (z.B.: Lesen komplexer Texte, Bericht- oder Essayschreibung, Bewertungsfragen am Kapitelende beantworten, usw.). Der Arbeitsmechanismus ist folgendes: der Lehrer präsentiert die Aufgabenstellung, gibt all die nötigen Erklärungen, Infos und Materialien, teilt die Lernenden in Lerngruppen von 2 bis 5 Personen auf, bzw. jedem Gruppenmitglied seine eigene Rolle in der Gruppe zu. Die so geformte Gruppe arbeitet zusammen, bis alle Teilnehmer ihre Aufgabe verrichtet haben. Während der Arbeit monitorisiert der Lehrer die Interaktion zwischen den Lernenden und spielt eine unterstützende, beratende Rolle. Nach der Beendigung der Aufgabe wird sowohl jeder Lernende als auch die Teamarbeit bewertet. Kooperatives Lernen macht auf dieser Weise jeden Einzelnen nicht nur für die eigene Leistung, sondern auch für das Lernen und den Lernerfolg des Anderen verantwortlich. *Informelle kooperative Lerngruppen* werden für viel kürzere Perioden gebildet, sie sind ad-hoc-Bildungen für die Dauer von einigen Minuten oder einer Unterrichtsstunde mit der Zielsetzung, die Aufmerksamkeit der Lernenden aufs Lernmaterial zu lenken. Sie sind für den Einstieg ins Thema, fürs Lesen und Besprechen von Textfragmenten, für die abschließende Besprechung sehr gut einsetzbar. *Kooperative Grundformen* sind langfristige Bildungen (für ein Semester oder Jahr lang) mit stabiler Mitgliedschaft, in denen ein jeder die nötige Hilfe, Assistenz und Ermutigung für seinen akademischen Fortschritt erhält.

Zwar haben sich mit der Problematik der Zusammenarbeit mehrere Theoretiker auseinandergesetzt (Piaget, Vygotsky – kognitive, entwicklerische Perspektive), ist die wichtigste Theorie hinsichtlich der Kooperation doch die soziale Interdependenztheorie, die bis zum Anfang des XX. Jahrhunderts zurückgeht. Der Gründer der Theorie, Kurt Koffka und sein Mitarbeiter, Kurt Lewin, der diese Theorie erweitert und verfeinert hat, sind zu folgendem Fazit gelangt worden: aufgrund der Gruppe steht eine von gemeinsamen Zielen geschaffene soziale Interdependenz zwischen den Gruppenmitgliedern, die eine solche Gruppendynamik ergibt, – Wandel bei einem Individuum führt zu Änderungen auch bei den anderen Mitgliedern – die die ganze Gruppe zur Erfüllung der gemeinsamen Zielsetzung orientiert. Diese Theorie hat mit der Zeit weitere Ergänzungen erfahren. Morton Deutsch ('40er Jahre) teilte soziale Interdependenz in Kooperation und Wettbewerb auf und die Problematik wurde in den '70ern zum ersten Mal an der Universität von Minnesota auf didaktische Ebene übertragen (Johnson und Johnson). Dem Autorpaar Johnson gemäß zeigen Individuen 3 Verhaltensmuster: sie können zusammenarbeiten, um gemeinsame Lernziele zu erfüllen, gegeneinander arbeiten, um individualistische, schwer erfüllbare Ziele zu verwirklichen, oder individuell für die Erfüllung eigener Ziele arbeiten, die in keiner Verbindung mit den Zielen anderer Individuen stehen.

Beim ersten Verhaltensmuster sind Individuen in einer kooperativ gestalteten Situation, in der individuelle Ziele miteinander in wechselseitiger Beziehung stehen, d. h. individuelle Zielsetzungen können nur dann erfüllt werden, wenn auch die anderen Individuen in der Gruppe ihre Ziele erreichen. So erzielen die Einzelnen Resultate, die alle befriedigen, mit denen sie kooperativ verbunden sind. In der zweiten Situation haben wir mit Wettbewerb und im Falle des dritten Benehmenstyps mit individuell strukturierter Aufgabenstellung zu tun. Natürlich sind alle drei Verhaltensmuster und die dadurch erworbenen Fertigkeiten wichtig und haben ihre eigene Rolle, die letzten zwei sollten aber durch das Erstere erlernt werden, denn, was man sich durch Zusammenarbeit aneignet, wird später allein ins Praktikum gesetzt.

Diese drei Verhaltensmuster ergeben verschiedene Typs von Interdependenz, nämlich positive, negative oder keine Interdependenz. Im Falle der positiven Interdependenz, also kooperativen statt konkurrierenden oder individuellen Ansatzes, erzielen Gruppenmitglieder nicht nur größere Erfolge und behalten das Gelernte länger, sondern zeigen mehr Unternehmungslust, wenn es um schwere Aufgaben geht, längere Ausdauer, langfristige Behaltung des Gelernten, kritisches Denken, um Information auszuwählen, zu überprüfen und zu bewerten. Dank Gruppenarbeit entstehen neue, kreative Ideen, die ohne Interaktion nicht hervorgebracht wären. Ein anderer Vorteil des kooperativen Lernens besteht in der Generierung positiver Haltung der Aufgabe gegenüber und in fortlebender Motivation zur Verwirklichung.

Kooperatives Lernen verstärkt auch die zwischenmenschlichen Beziehungen und die psychologische Gesundheit. Im Zeitalter der wachsenden Isolation und der multiethnischen und –kulturellen Schüler- und Studentengruppen kommt es der Schule die Verantwortung zu, Lerngemeinschaften, positive Beziehungen innerhalb heterogener Gruppen zu bilden, die implizite offene Kommunikation und größere Akzeptanz dem anderen gegenüber resultieren. Positive zwischenmenschliche Beziehungen beeinflussen nicht nur die kognitive und

soziale Entwicklung der Lernenden, sondern auch ihre Bildungsziele und den Schulbesuch: „Im Allgemeinen, je positiver die Beziehung zwischen Gruppenmitgliedern (d. h. je kohäsiver die Gruppe), desto niedriger das Abwesenheitsniveau, es gibt weniger abbröckelnde Mitglieder und desto wahrscheinlicher ist, dass sich die Lernenden bemühen werden, die Unterrichtsziele zu erfüllen, persönliche Verantwortung Lernen gegenüber fühlen, schwere Aufgaben auf sich nehmen, motiviert sind zu lernen, (...) den Kamaraden und Lehrern zuhören und sich von ihnen beeinflussen lassen, sich für das Lernen und den Erfolg des anderen engagieren, leisten und schöpfen.“ (Johnson und Johnson, 1997: 16.)

Das dritte Gebiet, auf das kooperatives Lernen positiven Einfluss ausüben kann, ist die psychologische Gesundheit der Lernenden, ihre Selbstbewertung und soziale Kompetenz. Wir haben schon gesehen, was für Vorteile der Einsatz kooperativ lernender Gruppen bietet, deren Aufstellung und Betätigung sind aber alles andere als einfach, denn die meisten Individuen haben kein klares Bild darüber, was eine kooperative Gruppe bedeutet und es fehlt ihnen die zum Funktionieren nötige Disziplin. Dabei ist es zu vermerken, dass eine Gruppe noch keine kooperative Gruppe wird, nur weil man die Mitglieder zur Zusammenarbeit auffordert. Um besser zu verstehen, was eine kooperative Gruppe ausmacht, sollen wir die verschiedenen Gruppenkategorien sehen. Pseudogruppen bestehen aus Individuen, die zwar zusammenarbeiten sollten, aber kein Interesse daran haben. Da die Mitglieder miteinander konkurrieren, blockieren sie die Leistungen des anderen, sie kommunizieren schlecht und das Ergebnis der ganzen Gruppe ist weniger als die Summe des individuellen Potentials. In traditionellen Gruppen arbeiten Leute individuell, sie kommunizieren aber miteinander, indem sie Infos miteinander teilen und die Aufgabe besprechen. Ihre Leistungen werden auch individuell bewertet und belohnt. Als Fazit zieht man, dass manche Individuen viel produktiver sind, wenn sie allein arbeiten. In kooperativen Gruppen hingegen engagieren sich die Mitglieder fürs Erreichen des gemeinsamen Ziels und zur Maximierung des eigenen Erfolgs und des der anderen. Die Mitglieder unterstützen einander in der Erfolgserzielung, indem sie Ressourcen teilen, einander ermutigen und soziale Kompetenzen einsetzen, um die Ziele zu erreichen. Als Resultat ergibt sich mehr als das Potential der einzelnen Mitglieder. Wenn die Leistungen einer solchen Gruppe die Erwartungen überbieten, spricht man über eine hochleistungsfähige kooperative Gruppe.

2.1. Prinzipien kooperativen Lernens

Aufgrund einer kooperativen Gruppe stehen folgende „Bausteine“: positive Interdependenz, ermutigende Interaktion mit den anderen, individuelle und Gruppenverantwortung, soziale Kompetenzen und ständiges Bewerten der Gruppenarbeit. Werden sie streng verfolgt, stellen sie die Bedingungen für effiziente Kooperation her.

Für die Herstellung der positiven Interdependenz sollen Gruppenmitglieder ihrer doppelten Verantwortlichkeit bewusst sein: einerseits müssen sie die eigene Produktivität, andererseits die Leistung aller Gruppenmitglieder maximieren. Positive Interdependenz steigert individuelle Motivation, wenn die Mitglieder die eigenen Bemühungen als unerlässlich für den Gruppenerfolg empfinden. Dabei besteht eine klar verstandene Ziel-, Aufgaben-, Ressourcen- und

Rolleninterdependenz. Der Lehrer muss aber als Moderator beachten, dass die Belohnungsinterdependenz richtig strukturiert wird, nicht dass das Bemühen einiger Mitglieder das Bemühen anderer erübrigt. Die Minderbegabten sollen nicht etwa denken, ihr Beitrag sei unnötig für den Erhalt der Gruppennote und die Begabten sollen sich andererseits nicht ausgebeutet fühlen und als Resultat ihre Bemühungen verringern, damit weniger verantwortliche Mitglieder keine unverdienten Belohnungen erhalten.

Persönliche Verantwortung ist eine andere wichtige Komponente kooperativen Lernens, die eine doppelte Verantwortung voraussetzt: Verantwortung für die Erfüllung des eigenen Teils der Arbeit und Ermöglichen der Verrichtung der Arbeit durch andere Gruppenmitglieder. So basiert sie auf individueller Verantwortung, die umso größer ist, je kleiner die kooperative Gruppe. Wenn zwischen Lernenden eine ermutigende Interaktion besteht, bedeutet das, dass sie einander effiziente Hilfe und Unterstützung, sowie Feedback bieten, – was dann Verbesserung der darauffolgenden Leistungen ergibt, – die nötigen Ressourcen (Infos und Materialien) untereinander teilen, einander zum Denken und zu Schlussfolgerungen herausfordern, um qualitativere Entscheidungen zu treffen, die Bemühungen voneinander beeinflussen, um gemeinsame Ziele zu erreichen und eine starke Motivation in diesem Sinne haben.

Die soziale Kompetenz, die die Lernenden für die Kooperation aufweisen müssen, setzt voraus, dass sie einander kennen lernen und zueinander Vertrauen haben, miteinander rege und unmissverständlich kommunizieren, einander annehmen und unterstützen und eventuelle Konflikte konstruktiv lösen. Es gibt verschiedene soziale Fähigkeiten, wie Loben, Unterstützen, Auskunft verlangen und geben, um Hilfe bitten, Hilfe leisten, Gruppen führen, Entscheidungen treffen, Konfliktlösung, die von den Lernenden erlernt werden sollen. Diese werden sozial umso kompetenter, je größere Bedeutung der Lehrer dem Lehren und Belohnen des Gebrauchs von diesen Fähigkeiten zumisst. Zusammenarbeit und Konflikt gehen Hand in Hand, je größer das Gruppeninteresse an der Aufgabenlösung ist, je mehr es den Mitgliedern ausmacht, was in der Gruppe und mit der Gruppe geschieht, desto häufiger treten konstruktive, wissenschaftliche Konflikte auf. Die sollen kooperierend gelöst werden; dabei eignen sich die Lernenden die Fertigkeit zum Argumentieren für und gegen an, versuchen auch den Standpunkt des anderen zu verstehen, die besten Argumente beiderseits zu einer konstruktiven Synthese zu führen und erlernen zu verhandeln und in Konfliktfällen zu vermitteln.

Um wirksam zu sein, braucht eine kooperative Gruppe zeitweise ihre Arbeitsprozesse zu planen und darüber zu überlegen, wie gut sie funktionieren. So kann man die Bewertung der Gruppenarbeit als Reflexion über hilfreiche bzw. hilflose Aktionen der Mitglieder, über zukünftige Richtlinien oder Änderungen bestimmen. Ziel dieser Aktion ist, die Effizienz des Beitrags der Gruppenmitglieder in der Verwirklichung der gemeinsamen Pläne zu klären und zu verbessern.

2.2. Planung und Phasen des kooperativ strukturierten Unterrichts

Obwohl der Lehrende in der Klasse keine zentrale Stelle mehr einnimmt, kommt es ihm im Hintergrund als Lenker, Beobachter und Bewerter der Schüleraktivitäten eine sehr wichtige Rolle zu. Er soll vor dem Unterricht Entscheidungen hinsichtlich der Zielsetzung der Unterrichtsstunde, der Größe der kooperierenden Gruppe, der Formungsweise dieser Gruppe, der Rolle jedes Gruppenmitglieds in der

Gemeinschaft, der Einrichtung des Klassenzimmers, des Unterrichtsmaterials usw. treffen. Wichtig sind dabei nicht nur die informativ-erzieherischen Zielsetzungen, sondern auch die Art der sozialen Fertigkeiten, die verfolgt werden. In diesem Sinne sollten die für die Aufgabenlösung nötigen Fertigkeiten analysiert und die vorhergehenden Gruppentätigkeiten beobachtet werden, um die noch fehlenden Fertigkeiten zu ermitteln, oder die Lernenden sollten direkt befragt werden, was für Fertigkeiten ihnen bei der Gruppenarbeit behilflich wären.

Als zweiter Schritt folgt die Tätigkeits- und Aufgabenerklärung, bzw. das Vorstellen des kooperativen Lernens. Die Lernenden sollen auch die Bewertungskriterien für die Realisierung der Aufgabe, das Wesen der positiven Interdependenz und der persönlichen Verantwortung, das von ihnen erwartete Verhalten mitbekommen. Während der Aufgabenlösung wird jede Gruppe beobachtet und es wird wonötig für die Optimierung der Aufgabenlösung und der Funktionierung der Gruppe eingegriffen. Die Schlussphase steht für Bewertung und Analyse; der Lehrende bewertet Quantität und Qualität der Lernergebnisse, analysiert die Funktionierungsweise der Gruppen, fordert die Lernenden zur Erstellung eines Verbesserungsplans für die Funktionierung der Gruppen und zum gegenseitigen Beglückwünschen für den geleisteten Beitrag auf.

In der Festlegung der Gruppengröße sollte folgendes beachtet werden: je kleiner die Gruppe, desto besser und mehr die Interaktion zwischen den Mitgliedern, desto schwerer die Vernachlässigung der eigenen Aufgabe und leichter das Entdecken der etwaigen Schwierigkeiten in der Zusammenarbeit. So bestehen kooperative Gruppen für die Optimierung der Gruppenleistung meistens aus 2 bis 4 Mitgliedern. Für die Einteilung der Lernenden in Gruppen gibt es mehrere Methoden. Sie können zufälligerweise aufgeteilt werden, indem sie einer bestimmten Gruppe zugeordnet werden, oder zufälliger-, aber stufenweise – von jedem Leistungsniveau (höchste, mittlere, niedrigste) je ein Vertreter – in Gruppen organisiert werden, um eine leistungsmäßig ausgeglichene Verteilung zu erreichen. Natürlich kann der Lehrer auch eine bewusste Aufteilung der Lernenden anhand ihrer Fähigkeiten und Mängel durchführen, so werden in einer Gruppe solche Leute zusammengebracht, die wirksam miteinander arbeiten können. Die Zahl der „Faulenzer“ wird in jeder Gruppe begrenzt, so wie die Konfliktauslöser verschiedener Gruppen zugeteilt. Es wird davon abgeraten, die Aufteilung den Lernenden zu überlassen, sie sollten höchstens ein Mitglied auswählen können. In der Gruppenverteilung kommen weitere Aspekte zum Vorschein. Es stellen sich folgende Fragen: sollten Gruppen homogen oder heterogen aufgebaut werden, sollten motivierte Lernende mit Nichtmotivierten zusammen/getrennt arbeiten? Es gibt zwar Aufgaben, für die homogene Gruppen geeigneter sind, im Allgemeinen gilt aber: heterogene Gruppierungen haben eine weitere Perspektive über das zu lösende Problem, stellen öfter Fragen und verlangen Erklärungen, die zur besseren Vertiefung und langfristigen Behaltung des Lernstoffes führen. Lernenden mit fehlender Motivation tut es meistens gut, mit fleißigen Kollegen in kooperierenden Gruppen zusammen zu arbeiten. Wie lange kooperierende Gruppen bestehen sollten, entscheidet der Lehrer nach seinem Erachten, früher oder später sollten aber alle Lernenden mit jedem Kollegen zusammenarbeiten.

Die Einrichtung des Klassenzimmers sollte in den Dienst der Kooperation gestellt werden, so gelten folgende Faustregeln: die Gruppenmitglieder sitzen einander gegenüber und nahe zueinander um der guten Interaktion willen, der Abstand

zwischen den Gruppen sollte groß genug sein, damit sie einander nicht stören und der Lehrende Zugang zu jeder Gruppe hat. In der Herstellung der Zusammenarbeit und Induzierung der positiven Interdependenz spielen die Planung und Organisierung des Lernmaterials eine große Rolle. Dieses Letztere sollte so zusammengestellt und verwendet werden, dass es die Lernenden zum Kooperieren bringt. Bekommt die Gruppe nur eine einzige Kopie des Materials ausgehändigt, oder erhält jedes Gruppenmitglied bloß Teilinformationen, so entsteht die Interdependenz des Lernmaterials bzw. der Information und die Lernenden sind dazu gezwungen, miteinander zu kooperieren, um Erfolg zu erzielen. Besonders wichtig ist die Rollenauf- und Zuerteilung in der Gruppe, so bekommen die Lernenden verschiedene Aufgaben, wie die Rolle des ‚Zusammenfassers‘ (der synthetisiert die Gruppenantworten und Lösungen), die des Kontrollierenden (der versichert, dass jedes Mitglied die Antwort weiß), des Korrigierenden, des ‚Ermutigers‘ (der regt alle Mitglieder zur gemeinsamen Arbeit an), die Aufgabe des ‚Wortführers‘ (der kommuniziert mit anderen Gruppen und dem Lehrer), des ‚Beobachters‘ (der verfolgt die Weise, in der Mitglieder zusammenarbeiten). Diese komplementären Rollen tragen zur Übermittlung der sozialen Fertigkeiten und zum Herstellen der positiven Interdependenz bei.

In der eigentlichen Aufgabenerteilung sollte den Lernenden klar sein, was sie für die Aufgabenerfüllung machen sollten und wie das zu machen. Sie sollten auch die Bewertungskriterien kennen, diese können vom Erhalten von richtigen Lösungen bis hin zum Erzielen besserer Resultate variieren. Besonders ermutigend für die Interdependenz und Kooperation zwischen Gruppen wirkt das Bewertungskriterium: *Wenn 80% der Klasse richtige Lösungen hat, erhält ein jeder eine Belohnung für den jeweiligen Test.* Für die Herstellung der positiven Interdependenz sollten die Lernenden als eine Gruppe und nicht als Individuum an sich denken. Dabei haben sie drei Aufgaben, wofür sie verantwortlich sind, nämlich, dass sie selber den Lernstoff erlernen, dass sie den anderen Gruppenmitgliedern beim Lernen Hilfe leisten und zuletzt, dass sie der ganzen Klasse bei der Aufgabe behilflich sind.

Da im kooperativen Lernen der Interdependenz eine Schlüsselrolle zukommt, soll hier eine Auflistung der Interdependenzarten stehen. *Aufgabeninterdependenz* bedeutet, dass die Fortsetzung und Verrichtung der Arbeit in der Gruppe davon abhängt, dass das einzelne Gruppenmitglied seine Aufgabe zur Erfüllung bringt. *Identitätsinterdependenz* besteht im gemeinsamen, von der Gruppe gewählten Namen, Motto oder Slogan. *Ressourceninterdependenz* führt zur Kombinierung der Teilinformationen, über die ein jeder Lernende verfügt und zur Vervollständigung der Information. Das Einrichten des Klassenzimmers, so dass die Lernenden nahe zueinander sitzen und Kleingruppen formen, resultiert *Stätteninterdependenz*. Die Rollen, Aufgaben, die den Lernenden zuerteilt werden, ergänzen einander, so entsteht die *Rolleninterdependenz* in der Aufgabenlösung. Bei erfolgreicher Aufgabenlösung bekommt jedes Gruppenmitglied Pluspunkte bei einem Test, oder wird auf einer anderen Weise belohnt. Die Gruppenmitglieder feiern den Gruppenerfolg und man spricht über *Belohnungsinterdependenz*. Wenn verschiedene Gruppen miteinander im Wettbewerb stehen, entsteht *Wettbewerbsinterdependenz*, während zwischen den Gruppenmitgliedern eine *Zielinterdependenz* besteht, da sie alle an der gemeinsamen Aufgabe arbeiten.

Zusammenarbeit bedeutet weitaus nicht, dass manche faulenzten können, da die anderen auch ihre Aufgabe machen werden; so kommt der individuellen Verantwortung in der Aufgabenlösung eine große Rolle zu. Mittel zur Induzierung dieser individuellen Verantwortung sind: Kleingruppe, individuelle Bewertung durch Tests oder durch mündliche Rechenschaftslegung, Beobachtung des individuellen Beitrags zur Gruppenarbeit, Unterricht durch die Lernenden, Verwendung der erworbenen Kenntnisse für die Lösung neuer Aufgaben.

In einer kooperativen Situation kommt Lernenden eine doppelte Aufgabe zu, sie sollen nicht nur kognitive Bereicherung aufweisen, sondern sich auch soziale Fertigkeiten aneignen. Deshalb ist es besonders wichtig, dass sie genau wissen, was für Benehmensformen von ihnen erwartet werden. Die richtige, erwünschte Verhaltensweise kann in sichtlichen und hörbaren Äußerungen materialisiert werden. Vorsicht aber, Lernende nicht zu überlasten! Ein-zwei soziale Fertigkeiten pro Lektion sind genug; die sollten so lange geübt werden, bis sie sich gefestigt haben und zum Automatismus geworden sind. Während der Aufgabenlösung werden die Lernenden vom Lehrer ständig beobachtet, die Leistungen, die Häufigkeit in der Verwendung erwünschter Benehmensformen sorgfältig notiert. Diese Anmerkungen helfen dem Lehrer bei der Bewertung und dienen als ausgezeichnete Informationsquelle für die Feststellung der Fortschritte der Lernenden. Das Niveau der theoretischen Kenntnisse wird mitsamt des sozialen Benehmens verfolgt. Am Ende der Arbeitszeit sollten Lernende noch ein paar Minuten bekommen, um dem ‚Beobachter‘ über das Gelernte berichten zu können. Während der Beobachtung gibt der Lehrer Erklärungen, Anweisungen, stellt Fragen zum Arbeitsmechanismus, schlägt effiziente Arbeitstechniken oder geeignetste Verhaltensformen vor. Eine wirksame Methode der Datensammlung und Beobachtung ist der „5-Minuten-Spaziergang“. Der Lehrer wählt die verfolgten sozialen Fertigkeiten aus, plant sich eine Strecke im Raum, sammelt Daten über jede Gruppe, anhand welcher er die Gruppen und das ganze Kollektiv charakterisiert und trägt die Ergebnisse in eine Grafik ein.

In der Bewertungsphase wird sowohl die Lerntätigkeit als auch die Interaktion innerhalb der Gruppe ausgewertet. Als erster Schritt werden die Schlussfolgerungen der Lektion gezogen; die Lernenden fassen die wichtigsten Aspekte der Lektion kurz zusammen, identifizieren die Nützlichkeit des Gelernten mit Hinsicht auf die nächsten Lektionen. Für die Auswertung des Aneignungsgrades des Lernstoffes werden Tests geschrieben, Aufsätze, Berichte benotet. Ein mögliches Bewertungskriterium ist das erzielte Resultat: Lernende sollen ihre Tüchtigkeit und Geschicktheit belegen, sie sollen das Gelernte im realen Leben praktisch anwenden können. Wichtig sind weiterhin die ständige Steigerung der Lernqualität und die Optimierung der Funktionsweise der Gruppen. Die Bewertung der Gruppenarbeit ist deshalb von großer Bedeutung, weil Lernende dabei die positiven und negativen Aspekte der Gruppenarbeit analysieren und darüber entscheiden können, welche Benehmensformen zu bewahren und welche zu verändern sind. Wichtig ist dabei das spezifische, objektive und positive Feedback vonseiten des Lehrers sowohl an die Gruppe als auch an ihre einzelnen Mitglieder.

2.3. Arbeitstechniken im kooperativ strukturierten Unterricht

Die Think-Pair-Share-Methode (paarweise überlegen und arbeiten) ist für den Einsatz verschiedener Diskussionsthemen geeignet. Die Lernenden arbeiten paarweise: zuerst denkt ein jeder individuell über das Sujet nach, notiert Hauptideen, die er/sie dann dem Gesprächspartner vorstellt. Es wird über das Problem diskutiert, die eigenen Ideen mit den besten Ideen des anderen bereichert. Während der Diskussionen beobachtet der Lehrer die Kollektivität und tritt wonötig ein. Am Ende der Tätigkeit fordert er/sie die Lernenden auf, ihre Ideen der ganzen Klasse vorzustellen. Damit wird die individuelle Verantwortung gesichert. Die paarweise Wiederholung wird dann als Arbeitstechnik eingesetzt, wenn das Ziel die Wiederholung des früher Gelernten ist. Die Lernenden formen Paare und Gruppen von je zwei Paaren. Im Paar wird dem einen Individuum die Rolle des ‚Erklärers‘, dem anderen die des ‚Überprüfers‘ zuerteilt. Die Aufgabe ist Problemlösung mit Verwendung früher gelernter Techniken. Die eine Person erklärt Schritt für Schritt die Arbeitsstrategien und das Verfahren, mit denen die Aufgabe zu lösen ist, die andere überprüft die Richtigkeit der Lösung. Im Laufe der Aufgabenlösung werden diese Rollen getauscht. Am Ende stellen die Paare in den Gruppen ihre Lösungen gegenüber, besprechen sie und versuchen auf einen gemeinsamen Nenner zu kommen, falls es Meinungsunterschiede gibt. Dass der Lehrer am Ende der Tätigkeit stichprobenartig Lernende darum bittet, Erklärungen für die Problemlösung zu geben, macht ein jedes Individuum für die eigene Arbeit, den eigenen Beitrag verantwortlich.

Das paarweise Lesen und Erklären dient dem besseren Textverständnis, denn Lernende verstehen Texte leichter, wenn sie sie paarweise lesen als im Falle des individuellen Lesens. Kriterium bei der Aufstellung der Paare ist, dass ein besserer Leser mit einem Schwächeren zusammenarbeitet. Die Aufgabe ist, das Lesematerial zu verstehen und es zusammenfassen zu können. Die Paare erzielen Erfolg, wenn beide den Sinn des Textes mitbekommen haben und ihn erklären können. Zuerst lesen alle den Text paragraphenweise und individuell, dann fasst der eine den ersten Paragraphen zusammen und der andere überprüft das Textverständnis. Beim nächsten Abschnitt werden die Rollen getauscht. Der „Zusammenfasser“ erklärt dem Partner das Gelesene mit den eigenen Worten, der „Überprüfer“ korrigiert eventuelle Fehler, ergänzt das Gesagte und versucht das Material mit schon bekanntem Stoff zu verbinden. Die kooperative Zielsetzung ist, dass beide Gruppenmitglieder über den Sinn des Gelesenen übereinstimmen und zusammen ein Resümee zusammenstellen. Die individuelle Verantwortung wird hier auch, wie oben vorgestellt, gesichert.

Kooperative Arbeitstechniken können natürlich auch in größeren Gruppen eingesetzt werden. So führt man folgende Übungen in Gruppen von 3 durch. Die Aufgabe ist, einen Text, ein Gedicht zu lesen, das Textverständnis zu überprüfen, indem man eine Liste von Fragen beantwortet. Die Unterrichtseinheit verfolgt als kooperative Zielsetzung, dass die Gruppenmitglieder die Antworten auf die Fragen zusammen ausarbeiten, alle mit den Lösungen einverstanden sind und ein jeder Erklärungen zu den Lösungen geben kann. Die Gruppenmitglieder können auch Rollen bekommen: der eine liest, der andere schreibt auf, der dritte überprüft das Textverständnis. Die Gruppen dürfen jederzeit auch andere Gruppen zu Rate ziehen. Gruppenerfolg ist dann erzielt, wenn alle Gruppenmitglieder die Fragen richtig beantworten. Nach der Aufgabenlösung muss jede Gruppe ihre Antworten mit wenigstens einer anderen Gruppe besprechen und überprüfen.

Mit einer anderen Methode lassen sich Schreibfertigkeiten paarweise üben. Alle Gruppenmitglieder haben die Aufgabe, einen Aufsatz/Text/Bericht zu schreiben und den Aufsatz des anderen Kollegen zu überprüfen, damit am Ende alle einen gut zusammengestellten Text haben. Als Bewertungskriterien für die Texte können die grammatische Richtigkeit, der Aufbau, die inhaltliche Fülle, usw. gelten. Die Texte werden individuell bewertet, so müssen alle einen eigenen Aufsatz haben, der Lehrer kann aber auch eine Gruppenbewertung durchführen, indem er die Punktzahl im Verhältnis zur Gesamtzahl der Fehler in beiden Aufsätzen berechnet. Das Verfahren folgt diesen Schritten: zuerst werden die Paare gebildet (in jedem Paar sollte ein Lernender mit guten Schreibfertigkeiten sein), der eine Lernende stellt dem Partner das Sujet seines Aufsatzes vor, der andere folgt ihm aufmerksam, stellt eventuell Fragen und macht eine Skizze des Aufsatzes. Dasselbe wird auch umgekehrt durchgeführt. Die Gruppenmitglieder sammeln sich Stoff für den Aufsatz und schreiben den ersten Abschnitt beider Texte zusammen. So wird für beide ein guter Anfang gesichert. Die Texte werden danach individuell fertig geschrieben. Am Ende der Tätigkeit werden die Aufsätze paarweise überprüft, Fehler besprochen, Korrekturen gemacht. Ein jeder bearbeitet das Besprochene und schreibt eine endgültige Fassung des Textes, die noch einmal durchgelesen, als „druckreife“ Fassung unterschrieben und dem Lehrer übergeben wird. Während der Aufgabenlösung beobachtet dieser Letztere die Lernenden und greift wonötig mit Vorschlägen, Bemerkungen ein.

Eine interessante Alternative zum klassischen Frontalunterricht oder zur individuellen Arbeit ist die „Mosaik“-Methode. Die Lernenden werden in Gruppen aufgeteilt, jede Gruppe erhält dasselbe Lernmaterial in Abschnitten aufgeteilt. Jedes Gruppenmitglied liest und lernt einen Abschnitt, so dass es – nach vorherigen Besprechungen mit einem Lernenden mit derselben Aufgabe, aber aus einer anderen Gruppe – seinen Gruppenmitgliedern vorstellen kann. Kein Lernender kennt das ganze Lernmaterial, bekommt es aber dank des Unterrichts durch die Gruppenmitglieder mit. So ist Bedingung für das Erlernen des Stoffes für alle Lernenden, dass ein jeder seine Aufgabe und Pflicht erfüllt. Als kooperative Zielsetzung konturiert sich, dass alle Mitglieder versichern, dass die ganze Gruppe den Lernstoff beherrscht. Nachdem jeder Lernende seinen Lernstoff bekommen hat, sucht er sich einen Partner mit demselben Fragment aus einer anderen Gruppe aus. Anhand der Methode des paarweisen Lesens machen sie Bekanntschaft mit dem Lese- und Lernstoff, eignen sich ihn an und arbeiten zusammen einen Plan für dessen Vorstellung vor den anderen Gruppenmitgliedern aus. Der Plan und die einzusetzenden Unterrichtsmethoden können mit einem anderen Lernenden besprochen werden, der denselben

Fragment im Auftrag hatte. Dank der Ideengegenüberstellung gibt es für alle Lernenden die Möglichkeit, den eigenen Unterrichtsplan zu verbessern. Die erworbenen Kenntnisse werden durch einen Test kontrolliert und die Leistungen individuell bewertet.

Obwohl die Untersuchungen hinsichtlich der sozialen Interdependenz und des kooperativen Lernens an sehr heterogenen Gruppen geführt wurden, was Alter, Geschlecht, kulturellen und sozialen Hintergrund, Nationalität betrifft, freuen sie sich laut des Autorpaars Johnson einer weiten Anwendbarkeit und Verallgemeinerungsfähigkeit. Diese zwei Aspekte werden m. E. auch vom Kulturtyp beeinflusst, aus dem die Untersuchten stammen: Studierende aus

individualistischen Kulturen, wie z. B. Amerika, Holland, Deutschland, usw. werden auf größere Schwierigkeiten in der Annahme und im Erlernen kooperativen Handelns stoßen als Vertreter kollektivistischer Gesellschaften, wo zwischen den Mitgliedern sowieso eine starke soziale Interdependenz besteht (z. B. Japan, Indien, arabische Länder, usw. - siehe Hofstede, 1991). Jedoch ist kooperatives Lernen an jedwelcher Stufe und Form des Unterrichtswesens einsetzbar, man muss nur damit rechnen, dass es anfangs zeitaufwendiger ist als traditionelle Methoden, langfristig lohnt sich aber sein Einsatz in den Unterricht. Spätestens im Hochschulwesen sollten Jugendliche wirksame Methoden und Formen der konstruktiven Zusammenarbeit mitbekommen, deren sie sich im zukünftigen Berufsleben immer öfter bedienen werden. Das ist für Wirtschaftsstudenten umso gültiger, denn Teamarbeit setzt in allen Wirtschaftssektoren effiziente Kooperation voraus, die zur Synergie der individuellen Leistungen führen kann.

3. Praktische Anwendbarkeit. Eigene Erfahrungen

Mit dem Einsatz von Elementen kooperativ strukturierten Unterrichts oder einer den eigenen Zielsetzungen und den Umständen entsprechenden Adaptierung der Mosaik-Methode habe ich etliche, nacheinanderfolgende Jahre Erfahrungen gemacht.

An der Wirtschaftswissenschaftlichen Fakultät der Universität von Debrecen (Ungarn) habe ich als Gastdozent 2010 und 2011 beim Unterrichtsmodul: Knigge im internationalen Geschäftsleben, bzw. 2012 beim Thema: Knigge in Deutschland, Schwerpunkt Geschäftsleben eine von mir überarbeitete Variation der Mosaik-Methode verwendet. Im Durchschnitt unterrichtete ich je drei Gruppen pro Jahr, eine Unterrichtseinheit (anderthalb Stunden) lang. Das Sprachniveau der Studenten war sehr unterschiedlich; im Prinzip hatten alle ein Sprachzeugnis in deutscher Sprache Stufe B1 (gemäß dem Gemeinsamen Europäischen Referenzrahmen), aber sie wiesen abhängig von der Regelmäßigkeit und Intensität des Sprachgebrauchs seit dem Erwerb des Zertifikats sehr unterschiedliche Sprachkompetenz auf.

In der Aufteilung der Studentengruppe in kleine kooperante Gruppen hatte ich den beachtlichen Nachteil, keine vertiefte Kenntnis über ihre sprachlichen und nichtsprachlichen Kompetenzen, Stärken und Schwächen zu haben, so war die Zuweisung der Lernenden einer bestimmten Gruppe eher Zufall als Resultat der Überlegung. Nach der einleitenden Diskussion zum Thema erhielten die Studentengruppen (3 bis 5 Mitglieder pro Gruppe) unterschiedliche Abschnitte des Lesestoffes, die sollten sie individuell oder paarweise lesen, in der Kleingruppe besprechen und eine kurze Zusammenfassung dazu erstellen. Nach Ablauf der Arbeitszeit sollte jede Gruppe ihre eigene Passage im Plenum vorstellen, so dass am Ende des Unterrichtsmoduls die ganze „Klasse“ den Gesamtinhalt des Textes mitbekommt.

Da alle Gruppenmitglieder dazu aufgefordert waren, ein paar Sätze zum Gelesenen zu äußern und alle dessen bewusst waren, dass außer der eigenen Gruppe niemand dieselbe Textpassage hat, also es von ihnen abhängt, ob die Gesamtinformation allen vermittelt wird, bestand sowohl die individuelle als auch die Gruppenverantwortung. Während des Lesens erhielten sie nötige Erklärungen, Sinndeutung zu den unbekanntenen Wörtern durch das von mir zusammengestellte Wörterverzeichnis oder durch persönliche Betreuung. Um die Interaktion zu

ermutigen und Ressourceninterdependenz zu schaffen, haben die Studenten nur zu zweit ein Handout bekommen. Leider ist es uns nicht jedesmal gelungen, das Lernmaterial zu beenden, was die Gesamtbeurteilung stark beeinflusst, man kann aber sagen, dass der Unterricht in großen Linien sein Ziel erreicht habe. Davon zeugt auch das durchschnittlich positive Feedback der Studenten; mitunter wurden folgende als Mängel empfunden: zu wenig Zeit für die Bearbeitung, zu große Komplexität der Texte, die Notwendigkeit der Teilung des Handouts mit dem Kollegen. Diese letzte Bemerkung beweist noch einmal, dass Kooperationsfähigkeit nicht angeboren, sondern zu erlernen ist.

An der Wirtschaftswissenschaftlichen Fakultät der Universität von Großwardein (Rumänien) habe ich 2011 und 2012 Experimente mit dem Einsatz des kooperativ strukturierten Unterrichts gemacht. Als Thema habe ich Landeskunde Deutschland – Projektarbeit gewählt. Nach der kurzen Präsentation des Wesens kooperativen Lernens sollten die Studenten in kooperanten Kleingruppen zum von ihnen ausgewählten Sujet aus dem Bereich Deutschlandkunde Material sammeln, Informationen bearbeiten, einen kurzen Aufsatz zusammen- und ihn im Plenum vorstellen. Jedes Gruppenmitglied hatte seine eigene Aufgabe/Rolle – es gab Verantwortliche für die Materialsammlung, fürs Nachschlagen und Erklären der unbekanntenen Wörter im Plenum, für die Überprüfung des von der ganzen Gruppe verfassten Textes, Schreiber, die den Aufsatz notierten, usw. Außerdem musste jedes Mitglied eine Passage aus dem Gruppenaufsatz vorstellen. So entstand sowohl individuelle als auch Gruppenverantwortung und die Studenten waren auf rege Interaktion in der Gruppe angewiesen. Wenn dasselbe Thema von mehreren Kleingruppen aus unterschiedlichen Serien aufgegriffen wurde, gab es sogar die Möglichkeit, die Leistungen der einzelnen Gruppen noch genauer und objektiver zu vergleichen. Obwohl die schwache Sprachkompetenz (A1 bis A2) einen großen Nachteil und eine besondere Schwierigkeit bildete, zeigten sich die meisten Studenten zur Kooperation mit ihren Kollegen und zur Mitarbeit am Projekt bereit, teilweise auch froh, mit der gewohnten Routine im Deutschunterricht brechen zu können. Natürlich gab es auch einzelne Faulenzer, Außenseiter oder Gruppen, in denen während der mehrwöchigen Tätigkeit bald das eine, bald das andere Mitglied fehlte, und im Falle einer ganzen Serie musste man allgemeines Desinteresse, Verantwortungslosigkeit und Mangel an Ernsthaftigkeit mit in Kauf nehmen.

Auf heimischem Boden hatte ich manche Vorteile, deren ich mich während meiner Gastdozentur in Ungarn nicht freuen konnte. Die Kenntnis über die Kompetenzen der Studierenden bzw. die ständige, semesterlange Arbeit mit ihnen hat eine bewusste Aufteilung in heterogene und ziemlich ausgewogene Gruppen und die Bewertung der Leistungen am Ende des Moduls ermöglicht. Die Studenten haben nämlich einen Test zum Thema Landeskunde Deutschland geschrieben, in dem auch Fragen aus den von ihnen behandelten Themenbereichen zu beantworten waren. Dadurch, dass die Gruppenmitglieder je nach Gruppen- und individueller Leistung am Ende des Semesters einen halben, bzw. einen ganzen Pluspunkt zur Schlussnote erhielten, ist auch die Belohnungsinterdependenz entstanden.

Schließlich lässt sich folgendes Fazit ziehen: der Erfolg kooperativen Lernens besteht im Zusammenwirken mehrerer Faktoren wie: Erfahrung des Lehrers mit kooperativ strukturierten Unterrichtsmodulen, gründliche Planung der Aktivität, Bereitschaft zur ständigen Beobachtung, zum Zeitaufwand und nicht zuletzt

vonseiten der Studierenden Kooperationsbereitschaft, Verantwortungsgefühl und Ernsthaftigkeit.

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AROUSING NON-PHILOLOGICAL STUDENTS' INTEREST IN LEARNING A FOREIGN LANGUAGE

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Abstract: *Considering the degree of implication and the interest of non-philological students in learning foreign languages, they can be classified into several categories. From the categories found as best represented in the practice of teaching to economic students and not only, we identified that a valid target group for the approach of our current study would be the category proving not very much interest in, nor a propensity for, the foreign language, though quite interested in the other disciplines of specialty. The focus of the study is to find the most appropriate ways we, as teachers of languages to students at non-philological specialisations, can address the category aforementioned, as well as to identify more general and comprehensive aspects, of an administrative nature, that can effectively cause a mentality change beneficial to the typology indicated. We began with an overview of the typologies of students. We enumerated several reasons the target group may serve as arguments for their reluctance with respect to learning foreign languages with the same diligence and seriousness as any other of the specialization disciplines in their curricula. Then, we presented a series of factual exemplifications meant to dismantle their erroneously founded grounds. Next, we showed that the need of a shift in consideration of the foreign languages disciplines is becoming more and more evident and is felt to be most effective if performed at decisional levels. Traditionally, foreign languages have not been given the appropriate importance in the consideration, promotion and evaluation of academic disciplines at other specializations than the philological ones. Against the evidence of foreign languages having historically been allotted a rather secondary level of relevance, there is now a strong endeavour to raise awareness of their right place in the formation of the skills and competences necessary to a complete specialist, particularly in the economic fields nowadays. The study presents models of several beneficial changes that have occurred within the Faculty of Economics in Oradea, where the positive effects witnessed are proofs of the successful shift of an obsolete mentality. As several methods of practical class approach were merely overviewed in the final part of the study, extended analysis on such methods shall constitute the object of further research into the matter.*

Key words: *foreign language learning; typology of non-philological students; awareness of language importance.*

JEL classification: Y80; Z00; K00.

1. Preliminary remarks on the categories of learners

Along our more than sixteen years of experience of teaching English to non-philological students, at the Faculty of Economics, the Faculty of Law, the Faculty of Sciences, the Faculty of Political Sciences or the Faculty of Textiles and Leatherwork, we have come across different students. Assessing their degree of implication and consideration of the learning of foreign languages, they can be classified into several categories. From a pedagogical view point, we shall make allowance for more typologies of learners from which the most relevant for our approach shall be identified and addressed.

1.1. Learners' typology and motivation

Literature of specialty in the field of pedagogy and adult education has discussed a series of typologies of learners and implications of motivation. If some types – though very distinct in terms of manifestation – such as the goal oriented, the learning oriented, or the activity oriented types (Houle, 1961; Boshier & Collins, 1985) – are nevertheless positive ones from the point of view of the final result (the knowledge acquired), other types are rather negative from this respect – as is the reluctant learner type (Thomas, 1990: 17).

Researchers argue that in order to describe and understand the connection between students' personal characteristics and their academic achievement it is very important to examine the student motivation, considering their individual differences (Pintrich & de Groot, 1990). Motivation “refers to the combination of effort plus desire to achieve the goal of learning the language plus favorable attitudes toward learning that language” (Gardner, 1985: 10) and is, as seen by psychologists, one of the major determinants of academic achievement and work productivity (Keller, 1987). There has been noted that there is a proportional relation between the motivation and the positive learning attitudes EFL learners have, and the effort and the progress they'll make (Dulay and Burt, 1977).

When it comes to foreign language learning we can consider as relevant the following major categories of students:

- students interested in all disciplines and thus implicitly in the foreign language – as either being intrinsically studious and diligent learners or only struggling for high grades);
- students interested in the foreign language in particular (regardless of other disciplines), this occurring either from private reasons (a need or a desire to know a foreign language) or from the consciousness of the necessity of this knowledge in the field of specialisation;
- not interested in the foreign language, perceived as not relevant for their domain, though interested in other disciplines;
- not interested in any / most of the disciplines in the curricula (the apathetic type).

Other researchers have also noticed that “many students who are non-language majors appear to lack enthusiasm and interest in their language classes. Although students are obligated to regularly attend classes, nevertheless, teachers [...] have consistently complained that the level of participation of students is relatively low as is the level of effort in class assignments” (Matinović and Poljaković, 2010: 146). In their study, Matinović and Poljaković also assessed distinct attitudes of the students, one of their preoccupation – of more relevance for our current research – being to find if the lack of effort of students is related to their negative attitudes

toward English and/or the ESP course, as they also tried “to understand attitudes among first year university students who were non-language majors toward learning English, that is, English for Specific Purposes (ESP) within the context of changes that have occurred since the introduction of the Bologna process” (Matinović and Poljaković, 2010:147).

1.2. A category to address most effectively

The target group for our endeavour – the attempt to ‘convert’ learners to a more rewarding attitude towards the learning of a foreign language – is constituted from students as yet of the reluctant learner type but of an oriented reluctance, directed particularly to the foreign language learning rather than to learning in general. With regard to language acquisition, researchers noted attitude to be an important factor (Bobkina et al., 2013: 3), as being an essential component of motivation (Gardner and Lambert, 1972).

As the first two categories identified in the typological breakdown of the current study are represented by students already convinced of the usefulness of learning a foreign language while the last category described would be hard to persuade into getting down to work for any academic subject whatsoever, the target group for our approach is the category proving not very much interest/propensity for the foreign language though quite interested in the other disciplines of specialty. Besides the solid factual grounds that their opinion – of lack of importance of the foreign language for their career – is erroneous, this category of students provide actually a good potential of work, proving interested and normally above average in grades at other academic subjects, and being thus characterised, most probably, by a quite high level of volatility in altering perspectives and reconsidering subjective matters. So, the focus of the approach is to find the most appropriate ways we, as teachers of languages to students at non-philological specialisations, can address the third of the categories aforementioned, as well as to identify more general and comprehensive aspects, of an administrative nature, that can effectively cause a mentality change beneficial to the typology indicated. This ‘addressing’ process boils down to persuading and demonstrating the students in the said category that the knowledge of the foreign language is highly relevant for their field of specialty.

2. Dismantling of hindering arguments

During the last ten years, working with students in economics, for instance, we witnessed a series of apathetic attitudes towards the lesson of foreign language (English in the particular case of our expertise), or towards the idea of an active implication in learning it. We could sense that students have somehow expected a more relaxed atmosphere and laxer criteria for assessment in what the classes and evaluations of foreign language were concerned.

By and large, the students considered are in their first or second year, – as it is during these years that languages are taught in Romanian higher education – so most of them are aged around 19 or 20. Their majoring is in various economic specializations, such as: Finances, Management, Marketing, International Business, Tourism a.s.o., and their level in ESL is normally B2, at least B1 (as of the CEFR).

2.1. Grounds for belittling

The category that makes the object of the current research is represented by students not so keen on learning the language with the same consideration as a discipline in the field of their specialization. Among the reasons generally given by these students for their lack of participation and their reluctance to put any effort for language acquisition the most common are:

- the foreign languages classes should be only supplementary – providing relaxation and fun, entertaining activities – as a break from the serious learning;
- the foreign language only makes the curricula more loaded than necessary;
- it is useless from the point of view of what their future career may imply;
- it only spoils their average grade since they are not too good at it and they cannot start learning it now, at this level when they have so many speciality disciplines to cover and so little time;
- it's not languages that they chose to study but economics (for instance). That is why they came to this faculty and didn't go to the faculty of letters;
- they cannot see how they would ever need a foreign language in their future work and they think that if they ever get in this situation they will learn it then.

Thus it is students of this category that need to be identified and somehow made conscious of their wrong opinion and of the mistake their attitude leads them to, on a long term.

2.2. Assertion of the foreign languages' role in economic fields

As for the counter-arguments, it is obviously wrong to consider any type of knowledge as not useful, let alone that of a foreign language, so, a straightforward answer to start with is the outlining of the unfounded character of the opinion of irrelevance. A foreign language can be anything but useless, especially in the field of economics. It has been proven especially in the current environment to be vital in most approaches and activities, from getting a job to working in a company, from searching simple information to getting involved in research.

From the various aspects of motivation that have been explored in research upon second language learning, specialists include the "variable of instrumentality". "Instrumental orientation or motivation refers to the practical benefits of attaining proficiency in a second language, such as obtaining a better job or higher salary" (Martinović and Poljaković, 2010: 147). Indeed, as several researchers note, instrumental motivation can well be related to language achievement (Gardner and MacIntyre, 1991; Masgoret and Gardner, 2003).

The knowledge of a foreign language comes handy in finding better job opportunities; it can be a plus for the CV of the job applicant and along the interviews in a recruitment session. Working abroad or just in an environment that is multinational, pluri-cultural or in any other form open to foreign affairs, as well as working in presumably the most insignificant firm that at a point can however get foreign contacts for a reason or another will, at some point, mean relying on the knowledge of a foreign language. Engaging in partnerships or connections on the foreign market, opening a business at international level shall require the practicality of being able to communicate in a common language, a lingua franca to ensure understanding of all aspects that can derive from such human interactions and transactions that prove necessary in establishing a connection at whatever level, be it formal or informal.

Circumstances such as documentation and research shall certainly come useful or necessary at one moment. They cannot be thorough or relevant unless considering materials published in relevant journals or in international magazines (hence in a foreign language).

So the two main categories of reasons why knowledge of a foreign language is vital for a good specialization in any field are:

- openness to international work environment;
- possibility of proper documentation and research.

It is thus on these two aspects that all didactical, administrative and psychological approaches of 'rehabilitation' of students' motivation towards more active participation to language classes and all the attempts to build and back up their willingness to put in more effort for language acquisition should focus on.

3. The need of a mentality shift

A need of a shift in consideration of the disciplines of foreign language is becoming more and more obvious and it is felt to be most effective if occurring at the high levels – e.g. institutionally -, not only in the small units of the system – the class: educator and students.

3.1. Curricular shortcomings

We consider that the perception of foreign languages learning at an academic level of non-philological specializations becomes, ultimately, an issue of mentality, as, traditionally, languages have not been given the appropriate importance in the consideration, promotion and evaluation of academic disciplines, at other specializations than the philological ones. They have most often been perceived as complementary and of a lower rank and even marginalised by all layers of the system: from decision makers to academics of other specialty and – which is worst – to the students. The latter are though the ones who actually lose a great deal by this attitude, but this comes as a direct (and only logical) consequence of the approach on the higher levels, the general 'picture', that has managed to gain field and to become a 'trend' along years, depriving them of motivation. The common mentality causes them to start lacking interest and to lose the willingness to engage in any effort just for the sake of acquiring such knowledge which should in their opinion come somehow passively, through fun, entertaining activities, no effort or work and, at any rate, with high grades.

Thus, a historical handicap comes to harden the foreign language teacher's endeavour to attract students towards the study of the language as long as the latter have constantly felt it as less relevant among the disciplines in the curricula. Some of the facts they could perceive about the disciplines of foreign languages and that constituted solid grounds for their erroneous interpretation were: fewer classes, fewer credits, complementary type discipline -even optional in some cases-, of less importance if asking teachers of other disciplines or considering its position in the curricula - the last but one discipline to be studied in each semester. Against this evidence of a rather secondary level of relevance, there should be a stronger strive for raising awareness of the true place of the foreign language in the big picture of necessary skills and competences in the formation of a specialist particularly in the economic fields nowadays.

3.2. Curricular improvements

A change in mentality can only be achieved by addressing more levels at once: from the direct interrelation of the student with the teacher of foreign language to the more complex organizational, institutional frame of reflecting the importance of the discipline in the curricula. If the former has a mere persuasive nature being felt as rather subjective or of a personal interest, the latter shall be more effective as understood to be more significant and generalized due to its institutional character. First steps in this respect have recently been taken in our faculty and relevant results are expected to be seen soon with regard to the students' consideration of the foreign languages classes.

Very positive aspects that have occurred after the alterations produced in the curricula of the Faculty of Economics concerning the foreign languages prove to be the following:

- introducing both **lectures** and seminars of **specialised language** (for business) instead of only seminars of standard foreign language;
- consequently, the consideration of the language as a **subject of speciality** instead of complementary;
- allotting similar **number of credits** to the foreign language disciplines as to other disciplines of speciality (4 or even 5 at the level of first cycle instead of 2 or 3);
- introducing a **second foreign language** (optional: French or German) besides the compulsory English language to the specialization of International Business (the specialization most requiring languages for a good specialist in the field).

3.3. Class approach

New methods shall be employed by teachers of languages to students of non-philological specialization, in order to raise students' interest and make classes more appealing to them to insure active participation and at the same time to facilitate natural assimilation of the material. Introductory discussions following visual and audio materials, guided discovery through puzzle games and quizzes, all sorts of and brainstorming activities are helpful and useful as well. "Fresh, creative, sometimes unconventional methods when teaching foreign languages" (Sim and Pop, 2012: 76) have become a common practice.

Teachers are key factors in student motivation as they play an important role in students' perception of the language class as whole and their reactions in this respect; thus, negative teacher attitudes can significantly demotivate learners (Nikolov, 2001). On the contrary, teacher's use of motivational strategies can increase motivation (Dornyei and Csizer, 1998). Building empathy, "in the sense that the teacher experiences a shift from his own perspective ... to the students' perspective," (Hamburg, 2011: 5.112) and making use of disclosure by sometimes exposing some instances of private data, can represent very useful and effective approaches in the case of the students belonging to the category specified. Meant to strengthen the relationship students – teacher, such shared familiarities are sensed by the former as a sign of 'coolness' and this has the power to maintain a healthy class environment, as it is well known that "the atmosphere in the class that has to be cooperative and friendly so as to eradicate the students' fear of failing" (Abrudan, 2012: 174). Teacher's communicative style is seen by researchers as of utmost relevance and those educators who were perceived by the class to be

controlling and less informative induced lower student motivation (Noels et al, 2000).

Still, limits should be very clear and sure not to be crossed as that might degenerate into anarchy, with students and teacher getting too close for the latter to be able to impose the former's respect and a lucrative atmosphere of order in the class.

4. Conclusions

In order to understand and describe the connection between non-philological students' individual features and their academic achievement in the acquisition of foreign language for specific purposes, it is quite relevant to examine their motivation and to consider their way of approaching the foreign language classes, in terms of attitude and expectations.

The target group of the study was constituted by the category of students not very enthusiastic about the language classes though interested in other disciplines of their specialization. It was noted that they have various misjudgements, preconceived ideas and erroneous reactions given by a faulty perception of the relevance of the disciplines of foreign language in their curricula.

The grounds for their misperceptions were analysed and most of them proved to be of a deeper psychological nature, given mostly by some flaws at a macro level that were traditionally rooted in the collective view.

The improvements that have been brought to the curricula of the specialisations of the Faculty of Economic Sciences in Oradea are analysed and their beneficial results are emphasised. It is also strengthened that their effectiveness has to be corroborated with the teachers' modern approaches and their use of various methods meant to improve students' motivation towards learning foreign languages for business purposes. These practical class approaches were merely overviewed by the current paper and further studies need to be undertaken regarding the methodological aspects involved.

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BENEFITS OF ENGLISH LANGUAGE LEARNING - LANGUAGE PROFICIENCY CERTIFICATES – A PREREQUISITE FOR THE BUSINESS GRADUATE

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Abstract: *Learning a new language at any age is an enormously rewarding experience in many ways. Studying a foreign language helps students understand English grammar better and improves their overall communication and problem-solving skills. Beyond the intellectual benefits, knowledge of a foreign language facilitates travel, enhances career opportunities, and enables one to learn more about different peoples and cultures. In Romania, languages continue to struggle to gain the status of key learning area in many primary, secondary schools and even universities, while many countries in the European Union have adopted a policy which requires ‘mother-tongue plus two foreign languages’, introducing languages from the earliest years of primary education. This is due to the fact that contacts between people of different cultural and linguistic backgrounds have increased in the past few decades, a number of factors like advances in technology – the internet, telecommunications, travel – increasing international migration and the trend towards economic globalization contributing to it. As these trends continue into the future, the need for intercultural competence will be heightened. Due to growing economic relations between Romania and various countries of the world, knowing a foreign language gives one the much-needed edge. This paper attempts to provide language teachers and language learners with accessible, concise information about the benefits of languages learning and the advantages of having a certificate proving proficiency in a particular foreign language, with emphasis on English. It draws on literature in a number of fields including second language acquisition, language education, presenting key arguments which are fundamental to supporting and promoting the benefits of languages. Also, it draws on the results of a research performed at the Faculty of Economics with 1st and 2nd year students. The research is based on the assumption that the language courses offered at the Faculty of Economics should provide students with internationally comparable proof of their language competence. This is extremely valuable for students who wish to obtain a language proficiency certificate which represents, in our opinion, a must for the Business graduate.*

Keywords: *English proficiency; language certificates; ESOL; IELTS; TOEFL.*

JEL classification: Y091.

1. Introduction: Language Proficiency – General Considerations

The beginning of the 21st century has showed a renewed interest in language learning. As Met and Galloway (1992) state, “political and economic concerns play a major role in the nation’s perception of the value of learning a second language”. In addition, there is an increasing acceptance of the role that multilingual individuals can play in an increasingly diverse society, with emphasis on the academic and cognitive benefits that may derive from learning other languages.

Many monolingual speakers of English are not very comfortable with the need to learn another language. They consider that if they speak English, the global lingua franca, it means that they are lucky and do not see any reasons in learning another language, considering that there is no need for them to learn English as the entire world is learning it. However, a number of linguists and economists have admitted that monolingual English speakers will be disadvantaged in an increasingly globalized world. As English becomes the basic, ‘must-have’ skill, those who speak a second or third language in addition to English will have the competitive edge. This is being increasingly recognized in countries such as India and China, who are already moving beyond learning English to embrace other emerging languages of importance such as Spanish (e.g. Graddol 2006; Clyne 2005).

Yet, not all the students/people learning a foreign language get to the level of language proficiency. But what is language proficiency? Let’s take a look first at the word, *proficiency*. According to *Collins Dictionary*, *proficiency* means “the quality or state of having great facility (in an art, occupation, etc.) or being skilled” (<http://www.collinsdictionary.com/dictionary/english/proficiency>). In turn, language proficiency represents the measurement of how well an individual has mastered a language. Generally, proficiency is measured in terms of receptive and expressive language skills, syntax, vocabulary, semantics, and other areas that demonstrate language abilities. Language proficiency includes four domains: reading, writing, speaking, and listening. Proficiency in a foreign language depends on the individual who may be proficient in a particular foreign language but not in another language. Yet, we might ask ourselves: why is there nowadays so much talk about being proficient in a foreign language? And the reasons are multiple, with cognitive, academic or social benefits. There are many companies requiring knowledge of a foreign language, but multilingual applicants have more chances of getting the position. Knowing a second language can give people a competitive advantage in the work force by opening up additional job opportunities. (Villano, 1996:45-49) Also, studying or travelling in a foreign country can be an incredibly rewarding and enriching experience. European students may enrol in Erasmus programs all over Europe. Speaking a foreign language provides additional opportunities for internships, research or service learning abroad. Definitely, advanced study of the literature, history, politics or culture of a particular country requires proficiency in a language. Individuals who speak and read more than one language have the ability to communicate with more people, read more literature, and benefit more from travel to other countries. Knowing other language provides access to the cultural treasures of other countries, opening up opportunities in business. “The positive impact of cultural information is significantly enhanced when that information is experienced through foreign language and accompanied by experiences in culturally authentic situations.” (Curtain and Dahlberg, 2004)

Then, learning a second language helps improve memory, critical thinking and study skills. According to Pop (2011), “[s]tudying a foreign language, from kindergarten to university, provides an individual with a better understanding of grammar, which in turn will train him or her to clearly express their thoughts. It will give them strong vocabulary skills and a broader perspective in their thinking.”

Research suggests that students who receive second language instruction are more creative and better at solving complex problems than those who do not (Bamford and Mizokawa, 1991:413-429). Therefore, many students discover that the effort required learning a foreign language might help them succeed in other academic tasks. In Curtain and Dahlberg’s opinion (2004), “[e]xposure to a foreign language serves as a means of helping children to intercultural competence. The awareness of a global community can be enhanced when children have the opportunity to experience involvement with another culture through a foreign language.” Also, academic and cognitive skills transfer readily between languages. While there may be differences in the vocabulary, grammar and writing systems of languages, all languages with writing systems have in common that the reader must learn to make meaning from the text. Concepts and strategies are easily transferred from one language to another, for example, ‘scanning, skimming, contextual guessing of words, skipping unknown words, tolerating ambiguity, reading for meaning, making inferences, monitoring, recognizing the structure of text, using previous learning, using background knowledge about the text’. (Baker, 2006:330)

Considering the aspects mentioned above, the goal of the present paper is to present the benefits of second language learning, with emphasis on language proficiency certificates. The paper draws on literature in a number of fields including second language acquisition, language education, presenting key arguments which are fundamental to supporting and promoting the benefits of languages. Also, it draws on the results of a research performed at the Faculty of Economics with 1st and 2nd year students. The research is based on the assumption that the language courses offered at the Faculty of Economics should provide students with internationally comparable proof of their language competence. This is extremely valuable for students who wish to obtain a language proficiency certificate which represents, in our opinion, a must for the Business graduate.

2. The Common European Framework of Reference for Languages: Learning, Teaching, and Assessment

The Common European Framework of Reference for Languages was developed by the Council of Europe to establish international standards for Language Learning, Teaching and Assessment in all modern European languages. It provides a common basis for the drafting of language syllabuses, curriculum, examinations, textbooks, etc. across Europe. It also describes in a comprehensive way what language learners have to learn to do in order to use a language for communication and what knowledge and skills they have to develop so as to be able to act effectively. The description also covers the cultural context in which language is set. (Council of Europe, 2013)

Since the 1970s the Council of Europe has promoted an action-oriented approach to the description of language use. One of the characteristics of this approach is

that language is used to perform *communicative acts* which can be either external or social. People interact with their families, friends and colleagues, hold meetings, give speeches or lectures, write letters, publish articles or books. Communicative acts can also be internal and private, including forms of reading and some forms of listening. Secondly, communicative acts comprise *language activity*. Language activity is divided into four categories: reception, production, interaction and mediation. *Reception* refers to understanding language produced by others, whether in speech or in writing. *Production* means producing speech or writing. *Interaction* refers to spoken or written exchanges between two or more individuals, and *mediation* (often involving translation or interpretation) makes communication possible between individuals or groups who are unable to communicate directly. Then, language activity implies *communicative language competence*, which includes knowledge of the words, sounds, and syntactic rules of the language used, together with the ability to use such knowledge in order to understand and produce language. Language activity always occurs in a *context* that imposes *conditions* and *constraints* of many different kinds. The CEFR suggests four main *domains* of language use: *personal*, *public*, *educational* and *occupational*. Also, communicative language competence includes sociolinguistic and pragmatic components. *Sociolinguistic competences* allow people to deal with the social and cultural dimensions of communicative behaviour. Last but not least, communicative acts brings about the performance of *tasks*, which make people use strategies in order to understand and/or produce spoken or written *texts*. (Little, 2006)

In the same time, language learners should be aware that it is essential to apply their knowledge in foreign languages in writing, reading and speaking. These three categories can be evaluated according to the person's level language, so that the assessment is individual but with reference to general terms. The CEFR uses some parts of its description to define language proficiency at six levels arranged in three bands – A1 and A2 (basic user); B1 and B2 (independent user); C1 and C2 (proficient user). These common reference levels are generally used for the elaboration of language syllabuses and curriculum guidelines, the design of learning materials, and the assessment of learning results. In the same time, the progress of individual language learners can be evaluated over time according to these levels. Yet, these levels are not normative. The CEFR should rather be thought of as “a concertina-like reference tool that [...] educational professionals can expand or contract, elaborate or summarise, according to the needs of their context”. (North, 2007:19) According to Taylor (2004a), “making comparisons between scores on different tests is challenging because many of the current range of test products differ in their design, purpose, and format.” Candidates' aptitude and preparation for a particular type of test may also vary and individual candidates or groups of candidates may perform better in certain tests than in others.

3. The Benefits of Foreign Language Learning for Business Students. Is a Foreign Language Proficiency Certificate a Must?

Today, there are many institutes and universities offering a number of courses in languages, among them foreign languages like English, German, French, Italian, Spanish, Chinese or Russian are now gaining ground. Information on reasons for studying languages was collected from language learners themselves, students of the Faculty of Economic Sciences, University of Oradea by means of focus group interviews. The focus group consisted of 1st year and 2nd year BA Business

students. They were asked to express their opinions on the gains they might have if speaking a foreign language and whether a certificate proving proficiency in a foreign language is an essential requirement when graduating or applying for a position in a company. The answers to these questions were interesting and showed, to a certain extent, the common belief that speaking a foreign language is, indeed important for a Business graduate and the proof (a certificate) of their skills becomes a must. "I believe that knowing a foreign language is like having a travelling passport. Nowadays having this knowledge is very important for your own development and more and more employers have this requirement for their applicants. So, it is something that you need to know if you want to succeed in almost everything" says Nicoleta, a first year BA student who is learning English. Ioana, a first year BA student, considers that "it is important to know foreign languages because it gives you a better understanding of the world and how we are all connected by being able to communicate with people from different countries. Furthermore, I feel more confident when I can speak more than one language and it also improves my memory. Moreover, being able to speak more than one language could help us to get a scholarship and of course, is essentially for getting a job." A large percentage of students expressed an expectation that a language would be helpful to their future career goals: "I think nowadays it is more than necessary to know foreign languages because we don't live separated by the rest of the world, so we need to be able to communicate with people all across the globe. Moreover, getting a well-paid job is often conditioned by speaking at least two different foreign languages." says Florina. Others, like Cristina, take into consideration the cognitive and social benefits of language study: "Well, firstly, by knowing a foreign language or many others, you improve your own way of thinking; you learn not just to speak, but think in that certain language before speaking. Secondly, if you want to make performance, having a big company, for example, an accounting firm, knowing several foreign languages will put you in a good light for a foreign client because it is very important to make a client feel *like home* while working with you." However, in terms of motivation to study languages, the prospect of gaining an employability advantage was less important for these learners than the personal satisfaction resulting from language learning.

Differently from the first year BA students, second year students become aware of the higher chance to get a well-paid job and the opportunities that foreign language proficiency can provide. Alexandra, a second year Finance-Banking student says that speaking a foreign language "offers a lot of opportunities, for example, if you want to work outside the country or if the company you work for wants to relocate." One of her fellow students, Roxana considers that it's very important for us to know at least one foreign language because nowadays this is an important criteria for our employment, so having a foreign language certificate will be a big advantage for us." Adina shares the idea: "In my opinion knowing a foreign language is very important because it helps you in your professional career. Nowadays you should speak a foreign language when you want to get a job at the shop at the corner of the street and even more when you want to get a job as an economic director at a very important company."

When asked about the importance of a certificate proving their proficiency in a foreign language, students were two-sided. For Andrada, a first year BA students, the existence of a certificate is a proof "that you are capable to

communicate/collaborate with foreign people. Also, there are more chances to have a good job. It shows that you are responsible and that you want to do something in life." For Nicoleta, "having a foreign language proficiency certificate it's important because it helps you to prove your skills not only in a direct mode but also you are able to show the proof of your knowledge. If we speak about Cambridge certificate or TOEFL or others, almost anyone knows that there are not so easy to pass." Denisa considers that "having a foreign language proficiency certificate is important for your résumé because you'll be more likely to be hired by a company to the detriment of a person who doesn't have that certificate, and is also a proof of your skills." For other students, like Florina, the certificate gives them the boost they need when expressing themselves in public. She says: "[h]aving a foreign language proficiency certificate is a great advantage when applying for a job and, personally, it gives me some courage when it comes to expressing in public my opinions in a foreign language."

For second year students, like Marius, "knowing a foreign language is also important for our future career and offers us new perspectives in this particular aspect of our life. In my opinion, having a foreign language certificate is important only for proving an employer our knowledge." Cătălin, a student who has travelled and worked in New York for 4 months with Work&Travel Programme, believes that speaking a foreign language "is ... a way to improve your communication skills, making new friends, learn new cultures, and, if needed, gain some help in crucial situations. A certificate in this domain could help you even more. There will be a lot of important people you don't meet face to face, so make sure you use every opportunity." Alexandra says that having a foreign language proficiency certificate "gives you a plus in case of a job interview, it proves that you have skills and qualities which can be useful for the company."

Yet, there are students for whom a foreign language proficiency certificate is not important. Cristina, a first year BA student does not find a certificate "quite important, but a lot of multinational companies are asking for one."

The answers show that the students are aware of the fact that languages promote better relationships with others (individuals and countries). Reasons for studying languages which stress the importance of relationships with people, such as cultural understanding of others, wanting to communicate, meeting people and making friends also featured prominently. We can conclude that the strongest reasons for students to learn a foreign language are the personal benefits (communication, economic, social and political dimensions, diversity, employability, globalisation, identity, key skills, language awareness, mobility, personal and social development) and enjoyment that they gain from it. A language proficiency certificate is important (for 1st year students) while it becomes a must for 2nd year students.

4. English Language Certificates

Learning a foreign language gives students an opportunity to appear for international examinations like ESOL, IELTS, TOEFL, etc. A good alternative for those who can prove their English and want to enhance their level quickly is to do English courses and prepare for these exams. These courses offer the opportunity to prepare the exam in one's native country, so people have become more fluent and achieved the necessary level in the shortest time possible.

Several European institutions made official language examinations, some of them achieved easier, faster, while others have worldwide recognition for a lifetime. In order to understand the advantages and disadvantages of the various official English tests and equivalencies between each of them, we provide next a brief description of what we consider to be for Business students the most important examinations and the equivalence between different language certifications (see Table 1).

4.1 English for Speakers of Other Language – ESOL

The official Cambridge exams degrees from the University of Cambridge are considered the most reliable evidence of English proficiency. The great advantage of the Cambridge exams and one that differentiates them from the rest of English exams is that the tests are valid for life. The learners have the opportunity of obtaining an internationally recognised English language professional or university certificate, which will enhance their chances to continue their education in Romania or abroad and to improve their employment prospects. (*British Council, 2013*) Cambridge exams are offered through the British Council in each country in the world. Cambridge English examinations are taken by over four million learners in more than 130 countries each year. The exams cover general English, business English, academic English and English for young learners. In Romania, learners can sit any British examination in any of the British Council's centres: Bucharest, Cluj-Napoca and Iasi.

The exams are produced by Cambridge ESOL (*English for Speakers of Other Languages*). Cambridge ESOL is one of the world's leading educational assessment agencies, producing exams for the secondary, further and higher education sectors, both within the UK and internationally. The range of Cambridge ESOL exams includes specialist exams for business and academic purposes, covering all four areas of language skills: speaking, listening, reading and writing. The emphasis is on the candidate's ability to communicate effectively in English. There are six Cambridge ESOL exams:

- The *Key English Test* (KET) is an elementary level examination for learners of English. Learners are expected to have developed many of the basic linguistic 'survival skills' needed to interact socially or at work in an English speaking environment. A minimum of 10 candidates is required for this exam to take place.
- The *Preliminary English Test* (PET) tests language ability at lower-intermediate level (after approximately 375 hours of study) and is about two-thirds of the way to the very popular FCE. A minimum of 10 candidates is required for this exam to take place.
- The *First Certificate in English* (FCE) is a Cambridge level 3 exam at the upper-intermediate or 'independent user' level. FCE is the most widely taken exam and has the most widespread recognition. It is taken for employment and study purposes.
- The *Certificate of Advanced English* (CAE) offers a lower-advanced language qualification for those who need to use English in their jobs. It is mostly taken by university students and young professionals. Many universities recognise CAE as an English language entry requirement.

- The *Certificate of Proficiency in English* (CPE) is a top grade exam certifying that the candidate has near-native speaker ability; therefore it fulfils entry requirements in English language by British universities and many universities in other English-speaking countries and by other professional bodies worldwide.
- The *Business English Certificate* (BEC) is suitable for people aged 16 and over, who are either preparing for a career in business or are already in work. The candidates can choose three levels: Preliminary, Vantage and Higher, considering the level that matches their level of English language skills and the professional needs.
- The *International Certificate in Financial English* (ICFE) is a high-level qualification that demonstrates that the candidate has the language skills for a successful career in international accountancy and finance. (*British Council, 2013*)

For business students and business graduates it would be advisable to sit the Business English Exam. Recognition of BEC is increasing rapidly in Romania as a growing number of companies are using the examination as a focus for in-company training courses. Also, many universities in Europe recognise BEC Higher as a suitable entry requirement for international students to business-related courses of study. The Business English Certificates are certificated examinations which can be taken on six fixed dates per year at approved centres authorised for BEC (in Romania – Bucharest, Cluj, Timisoara). They are aimed primarily at individual learners who wish to obtain a business-related English language qualification.

4.2 The International English Language Test - IELTS

The International English Language Test (IELTS) is now the world's leading English language test for candidates who want to study or work abroad or in their home country. As it is advertised on the website, IELTS is "the world's most popular language test for education and immigration." (*British Council, 2013*) IELTS test is a quality English language calling for admission to the universities and higher education internationally. IELTS calls are made once a month through the British Council and the result is obtained after 13 days so it is a flexible test that can be obtained fairly quickly. IELTS is recognized by the vast majority of universities around the world and also, more and more companies use IELTS as a recruitment tool. In comparison to FCE or BEC, the disadvantage is that IELTS expires in two years. The IELTS test evaluates the level of international English (no preference for British or American English).

As a test, it has grown exponentially in recent years to almost a million and a half candidates per year. Companies and educational institutions in other countries have set standards and requirements to be completed before an individual is accepted. As a matter of fact, nowadays, the IELTS test certification has been one of the English proficiency tests taken by many working professionals and students in Romania. Taking the IELTS test is very important since it is one of the requirements an individual needs, and it is, also, an advantage to learners so that they can prove that they are globally competitive in other countries.

4.3 The Test of English as a Foreign Language - TOEFL

The Test of English as a Foreign Language (TOEFL) is a test that measures fluency and knowledge in the English language. TOEFL calls are made several times a month through internet by ETS.org and the candidates get the result after about 5 weeks. In Romania, candidates can sit the exam in Arad, Baia Mare, Bucharest, Constanța, Galați, Iași, Oradea and Timișoara. The results are based on a score and each score corresponds to a particular language level. Just like IELTS, the disadvantage of TOEFL test is that results are valid for 2 years. More than 27 million people from all over the world have taken the TOEFL test to demonstrate their English-language proficiency. The average English skill level ranges between Intermediate and Advanced. The candidates are: students planning to study at a higher education institution, English-language learning program admissions and exit, scholarship and certification candidates, English-language learners who want to track their progress, students and workers applying for visas, etc.

The certificates provided by the test are recognized internationally, especially by educational institutions, which are those for which is primarily directed.

There are three types of TOEFL: Paper Based TOEFL (PBT). This is the first type of test set, and runs on paper; Computer Based TOEFL (CBT). This is the second set. As its name suggests, is done on a computer with a CD; and Internet Based TOEFL (iBT). It is the third and most modern of the three. It consists of an online survey, conducted, as above, using a computer. (<http://www.ets.org/toefl>)

Table 1: Equivalences between the different degrees of English certificates

University of Cambridge Exams	IELTS	TOEFL	European equivalents
CPE Certificate of Proficiency in English	IELTS 6.0 - 6.5	TOEFL(PBT) 550-600+ TOEFL(CBT) 230-250+ TOEFL (IBT) 88-100+	C2
CAE Certificate in Advanced English	IELTS 5.5 - 6.0	TOEFL (PBT) 525-550 TOEFL (CBT) 195-230 TOEFL (IBT) 70-88	C1
FCE First Certificate in English	IELTS 5.0 - 5.5	TOEFL (PBT) 450-525 TOEFL (CBT) 145-195 TOEFL (IBT) 50-70	B2
PET Preliminary English Test	IELTS 4.0 - 5.0	TOEFL (PBT) 310-450 TOEFL (CBT) 50-145 TOEFL (IBT) 10-50	B1
KET Key English Test			A2
Beginner			A1

Source: <http://www.where-what.com/en/news/444.html>

5. Conclusion

Research has shown that second language study offers many benefits to students in terms of improved communicative ability, cognitive development, cultural awareness, and job opportunities. People speaking a second language can take advantage of the many available opportunities and resources that this linguistic advantage might bring them. For Business students, a language proficiency certificate has become a necessity if they wish to enjoy the benefits of a good

position on a multinational company and not only. In this respect, we hope that this paper will make a contribution to the effective promotion of languages and to facilitating discussion on the reasons why languages are important and should be studied. Finally, it is perhaps worth remembering that there are students out there who really value languages, who enjoy them sufficiently to choose to study them and who are aware of their importance in a successful career, at least in business.

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**SECTION: ECONOMICS, BUSINESS ADMINISTRATION,
TOURISM AND ECONOMIC STATISTICS**

SUB – SECTION: ECONOMICS

A TERRITORIAL ANALYSIS OF THE ECONOMICALLY ACTIVE POPULATION IN ROMANIA DURING 2000-2011

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Abstract: *The economically active population is part of the human potential of a country or a region and constitutes the available labour force involved in the production and provision of goods and services. The active population is one of the main production factors, but it is also accompanied by other, equally important factors: capital and nature. The economically active population can also be calculated as the sum encompassing the employed and the unemployed, and these conditions are sometimes hard to define, as the standards in this field are mainly related to the estimated degree of employment and even to the legitimacy of the activity being developed – if we take into account those individuals involved in the underground economy. A thorough outlook at the economically active population is conditioned by the analysis of the information related to the size and the structure of the active population in terms of several criteria, such as: age, residence, sex, level of education, national territorial units, etc. One of the criteria used for assessing the development level of a country is the occupational structure of the economically active population, i.e. the grouping of the active population in each of the three economic sectors: primary sector (agriculture, forestry, fishing and hunting), secondary sector (manufacturing and constructions) and the tertiary sector (services). The historical development of the size and structure of the economically active population is best revealed by an analysis of the time series that have alternated during the reference period 2000-2011, based on the information presented in the Labour Force Balance. The structuring of the active population by development region was based on the identification of the relative measurements of structure according to a number of social and economic characteristics. The analysis of the ratio of the economically active population to the total population as a general indicator needs to be accompanied by the analysis of the specific activity rates by group. Sustained development requires the involvement of all the policymakers in an joint effort to reduce the demographic decline that is affecting both our country and the other EU member states. This decline must be stopped by making investments in: health and science, as well as in labour force employment policies.*

Keywords: *economically active population, general activity rate, development regions, level of education.*

JEL classification: J21

1. Theoretical approaches of the economically active population

The economically active population, in terms of economic standards, comprises all individuals who furnish the supply of labour force (either employed or unemployed) for the production of goods and services during the time-reference period.

The civilian active population includes the potential supply of labour force and the status in employment of the population which covers both the employed and the unemployed individuals.

The economically active population of a country encompasses both the employed and the unemployed population. This active population is a subdivision of the total population, as the latter also encompasses dependent individuals consisting of young people, senior citizens and adults who are currently both unemployed and not seeking employment. (Bathelemy et al. 2009).

The UN methodology recommends two measures for the economically active population:

- the usually active population;
- the currently active population;

The first group is measured in relation to the employment in the production of goods and services during a reference time-period of one year, while the second is measured in relation to the employment in the production of goods and services during a short reference period of one week.

The economically active population includes the unemployed and the employed population, as can be seen in Figure 1.

The employed population, which includes individuals above a specified age and able to work who engage in economic or social activities in the production of goods and services for at least one hour during the time-reference period in return for remuneration as wages, salaries, pay in kind or other benefits.

The employed population includes civilian employees, employers, own-account workers, unpaid family workers, paid apprentices and residents, armed forces.

The unemployed economically active population includes unemployed persons.

According to the standards developed by the International Labour Organisation, the unemployed are defined as individuals aged 15 years or older who, during the specified time-reference period, meet all of the following criteria: have no paid employment and do not engage in activities in return for remuneration; are seeking employment, taking various steps to seek paid employment in a four week reference period; are available for work in the following 15 days, if employment becomes available.

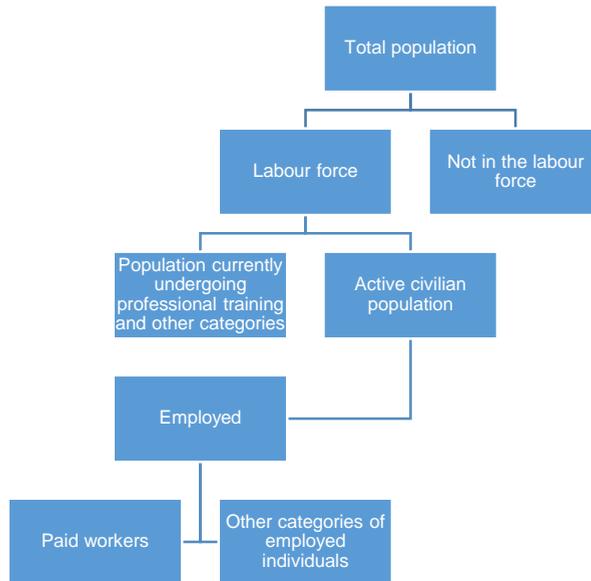


Figure 1: Population structure by status in employment
Source: developed by the authors

The measurement of the labour resources in Romania is based on two sources of information managed by the National Commission for Statistics: Household Labour Force Survey (AMIGO) and the Labour Force Balance. There are significant differences between the two sources, in terms of absolute employment rates. These differences are mainly caused by the different definitions given to the employed population in the two approaches.

In the AMIGO survey, the employed population includes persons aged 15 years and above, while the Labour Force Balance sets the lower limit to 16 years of age. The employed population in the latter case refers to civilian employed individuals. Moreover, the sources of information used by the two are different as well: the civilian active population is measured based on administrative data, while AMIGO measures the economically active population based on a quarterly selective research that bears a 3% margin of error.

The EU Labour Force Survey (EU LFS) is conducted quarterly at the EU level and provides essential data on the trends recorded on the labour market in the Union.

In order to have a comprehensive outlook on the economically active population and the labour force, the information related to the size of the labour force must be accompanied by the data related to the structure of the active population in terms of several criteria. (Ghiță, 2005).

The active population can be measured according to several criteria: age and sex groups, industry, national economic sectors, etc.

The analysis of the frequency distribution series for the economically active population by age group enables the measurement and interpretation of significant indicators, such as the average age of the economically active population.

An analysis by sex group allows the measurement of the ratio of men and women to the total active population, both for the overall domestic economy and for each industry.

The comparative analysis of the structure of the economically active population in countries with different economic development levels emphasizes the fact that developed countries have a higher ration of active population in the third sector and a low percentage of workers employed in the primary sector.

The structure of the economically active population by industry sectors allows the classification of the various sectors in the overall domestic economy in terms of ratios of active population employed in each.

In economic analyses and in international comparative studies, the economically active population is correlated with the total population or with certain segments of it, based on the activity rates (Sora, 2005).

- The crude activity rate is the ratio of the economically active population to the total population ;
- The activity rate by working age group is calculated as the ratio of the economically active population to the number of individuals within the working age range.
- The specific activity rates are calculated:

by sex

The male and the female economic activity rate is the ratio between the economically active male and, respectively, female population, to the total male and, respectively, female population.

The male economic activity rate is similar in various countries in the world, regardless of their level of economic development, as the male labour force need to be engaged in activities and perform some kind of work in social production. The female economic activity rate differs significantly among countries, as it is influenced by the demographic structure of the population, by the women's levels of education, by traditions, religion, etc.

by averages

The urban and, respectively, rural economic activity rate is calculated as the ratio of economically active individuals in the urban and, respectively, rural regions to the total population in urban and rural regions.

by age group

The activity rate at age "i" is the ratio of the active population aged "i" to the total population aged "i".

These rates enable the identification of the activity patterns that are the graphic depictions of the specific activity rates by age and sex group. Among these patterns, the activity rates of the marginal age groups (under 20 years of age and over 60) are particularly important, as they show, on the one hand, the effect of education, i.e. the "entry" into the economically active population, and, on the other hand, the effects of the work regulations and of the standard of living, i.e. the exits from the labour force (Mihăescu, 2001).

The activity rates of the population aged below 20 are quite low in developed countries, while the activity rates for the population aged over 60 are rather high. In less developed countries we'll find that the opposite is the case.

The activity rates of those aged between "20-24" in developed economies are decreasing both for men and women alike. The decreasing "spontaneous" education (optional

education) largely accounts for the more or less delayed time of employment (Bathelemy et al. 2009).

2. Analysis of the economically active population in Romania

The civilian economically active population amounted to 8826,5 thousand individuals at the end of 2011, thus accounting for 41,33% of the total population of the country, of which 4645,5 thousand male (52,63%) and 4181 thousand female (47,37%).

Table 1: Economically active population by sex 2000-2011

Years	Total -thousand individuals-	Male -thousand individuals-	Female -thousand individuals-
2000	9636,4	4983,9	4652,5
2001	9389,4	4854,4	4535
2002	9089,6	4737,9	4351,7
2003	8964,4	4751	4213,4
2004	8796,2	4641,3	4154,9
2005	8913,4	4728,9	4184,5
2006	8929,8	4728,3	4201,5
2007	9093,7	4845,4	4248,3
2008	9150,4	4919,2	4231,2
2009	9120,1	4854	4266,1
2010	8998,3	4781,8	4216,5
2011	8826,5	4645,5	4181

Source: Labour Force Balance, INS - <https://statistici.insse.ro>

The economically active population decreased in 2000-2011, as a consequence of the decrease in the total population. As compared to the reference year 2000, the economically active population decreased in 2011 by 809,9 thousand individuals, thus accounting for a decrease of 8,38%. The male economically active population diminished in 2011 by 6,78% (338,4 thousand) as opposed to the year 2000, while the female economically active population diminished by 10,13% (471,5 thousand).

The increased share of the ageing population in the general population actually leads to an increased share of retired individuals. Moreover, the share of the ageing population also increases in the median aged working population, and, therefore, in relation to those who contribute to pension funds. The age dependency ratio thus declines and the increasing ageing of the population has negative consequences on the pension fund system.

The ageing process in those developed countries where the share of the older population has increased significantly has been accompanied by the lowering of the retirement age, the

shrinking of the weekly working hours and the annual reduction of the working schedule and increased vacations. Increased work productivity could allow for additional duties assigned to active individuals without affecting the standard of living (Rotariu, 2009). The economically active population by development region decreased between 2000-2010, while the Bucharest– Ilfov region was the only one that increased significantly during the specified time-reference period, as seen in Figure 2.

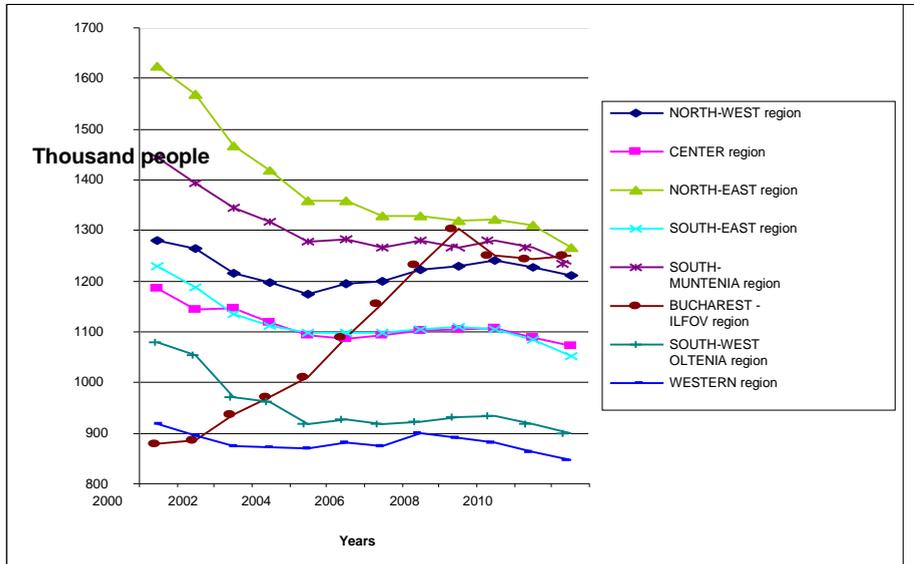


Figure 2: Changes in the civilian economically active population by development regions 2000-2011

Source: developed by the authors based on the information presented in the Household Labour Force Survey (AMIGO) 2000-2010

A comparison of the ratios of each region to the total economically active population on a domestic level in 2011 will show that the North-East region has the highest weight (14,34%) immediately followed by the Bucharest – Ilfov region (14,15%) and by the South Muntenia region (13,99%), as shown in Figure 3.

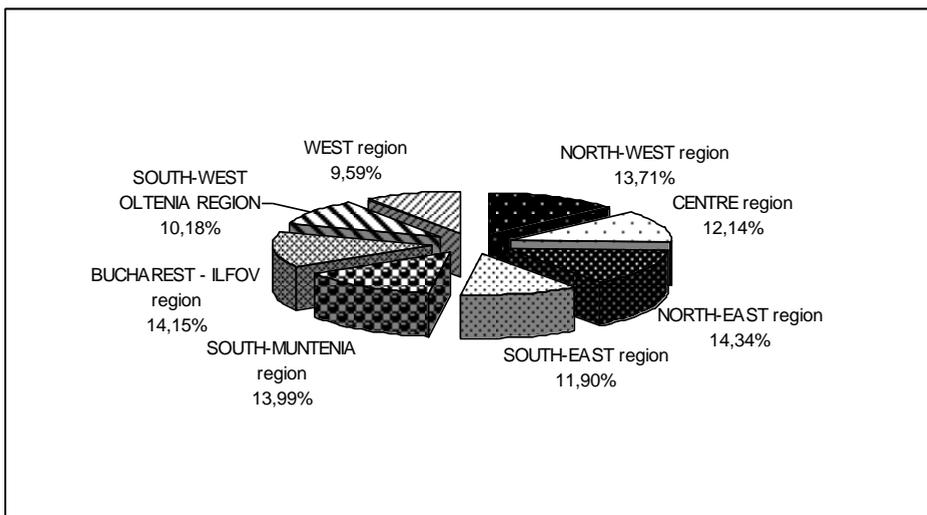


Figure 3: Structure of the economically active population by development region in 2011

Source: developed by the authors

The comparative analyses by development region require the calculation of the crude activity rates by identifying the ratio of the economically active population to the total population in the region. The activity rates of the population aged 15 and above by development region in 2000-2011 are shown in Table 2.

Table 2: Crude activity rate by development region during the time-reference period 2000-2011

Year	North-West	Centre	North-East	South-East	South-Muntenea	Bucharest-Ilfov	South-West Oltenia	Western region
2000	63,2	58	69,4	61,5	65,2	55,1	70,3	60,6
2001	63,7	57,1	68,4	59,4	64	52,5	70,7	58,5
2002	55,7	53,4	59,5	54,6	57	52,4	59,9	53,4
2003	54,1	51,8	58,4	53,7	55,5	51,8	58,9	52,3
2004	52,4	51	59,8	53,2	55,5	54	57,6	52,7
2005	52	50,5	58,6	51,7	55,1	53,4	57,2	51,5
2006	53,2	52,5	57,4	53,8	56,2	55,3	57,3	53,1
2007	52,3	51,5	58,3	52,3	56,8	54,6	56,6	53,9
2008	51,2	52,6	57,2	51,7	56,7	54,9	57,2	53,3
2009	50,9	52,3	57,8	51,6	56	55,6	57,1	52,8
2010	53,7	50,5	58,5	52,2	55,6	56,5	57	52,2
2011	53,6	49,6	59,4	51,5	52,4	57,4	57,2	52,5

Source: Household Labour Force Survey (AMIGO)

The study of the activity rates by age groups in Romania in 2000-2011, reveals a downward trend for all age groups, as shown by the data in Figure 4.

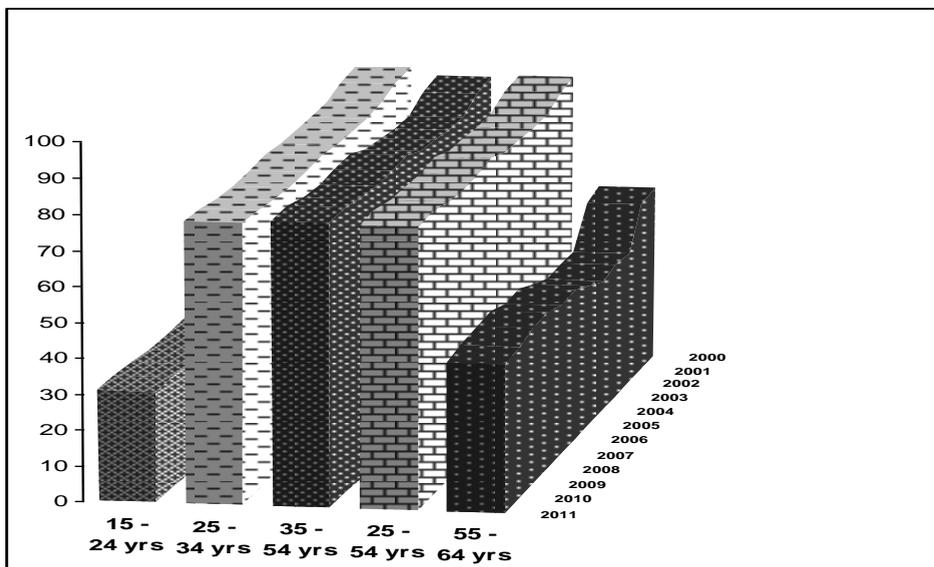


Figure 4: Activity rate by age groups in Romania in 2011

Source: developed by the authors based on the information provided in the Household Labour Force Survey (AMIGO) for the reference period 2000-2011

The size of the economically active population has been mainly affected by the massive decline in the number of working age individuals. One solution that society may have for at least partially covering the work force deficit is to increase the participation in economic activities of the economically inactive population (Ghețău, 2012).

The comparative data on the participation of the population in economic activities for the reference period 2010, reveal the considerable delay between Romania and the other EU countries, as shown in the centralised data in Table 3.

Table 3: Activity rates by sex and age groups in 2010

	Total 15-64 years	Male	Female	Age groups		
				15-24 years	25-54 years	55-64 years
EU	71	77,7	64,5	43,1	84,9	49,7
Romania	63,5	71,5	55,8	31,2	79,5	42,5

Source: European Commission, Labour Market Statistics, Eurostat, Luxembourg, 2011

The activity rates are lower in our country, both for the overall population and for each age group. The participation of the economically inactive population in the economic circuit entails the development of strategies directed at the professional training of the population according to the needs of the domestic market.

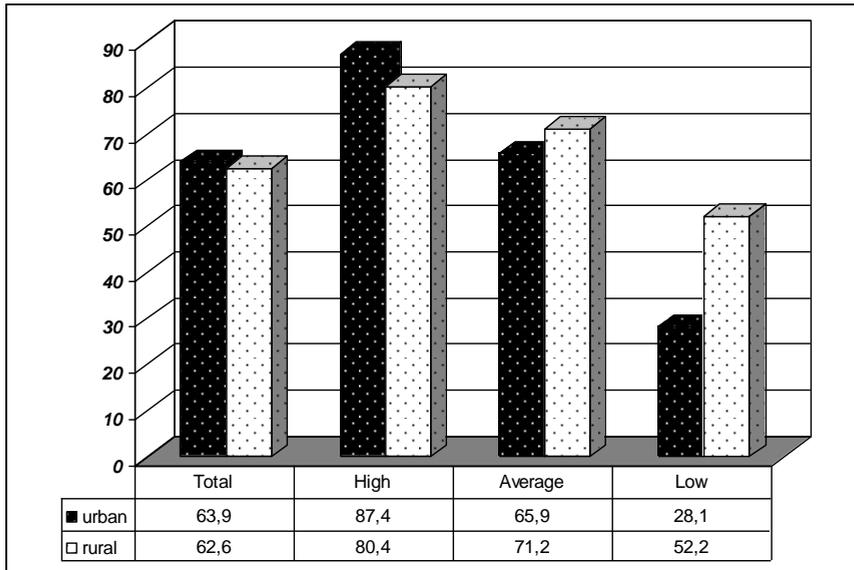


Figure 5: Activity rates by averages, according to level of education in 2011
Source: developed by the authors based on the Household Labour Force Survey (AMIGO) - 2011

The young and young-adult segment of the working age population will undergo a significant decline in the following decades as a consequence of the reduced birth rates. Thus, the economically active young population will be reduced, while the education of this segment will entail specific requirements. The education system will have to develop particular training programmes that best meet the needs and requirements of the labour market (Ghețău, 2009).

The inclusion of young individuals who are currently undergoing higher education programmes is considerably lower in Romania as compared to other developed economies. The negative consequences of the declining number of young individuals on the young labour force could also be diminished by strategies and programmes directed at stimulating and encouraging the access to higher education in general and particularly that of children from rural areas or of those raised in economically deprived families.

3. Conclusions

The size of the economically active population has been mainly affected by the massive decline of the working age population. One solution that society may have in order to at least partially cover the work force deficit is to increase the participation in economic activities of the economically inactive population.

The economically active population accounts for the maximum or prospective employment available in a specific field but also for that part of the total population the inactive individuals depend on.

The total demographic dependency ratio of the inactive population shows that each active and employed individual accounts for a certain number of economically

dependent individuals, apart from accounting for their own needs. In the future, the weight of the dependency ratio will highly depend on the evolution of the productive efficiency and on the activity rates, as these may be alleviated for adults through the increased involvement of both women and senior citizens in economic activities.

An analysis of the evolution of the total dependency ratio could provide information on the distribution of the global income between active and dependent individuals, as it takes into account the evolution of all the categories of dependent individuals (dependent young people and adults).

The decline of the economically active population may have very serious consequences on the economy unless measures are taken for encouraging the participation in economic activities and the employment rate for all segments of the labour force. The rapid technological development, globalization and financial crises are factors that will also trigger the restructuring of economic activities.

The aging of the population also entails a series of challenges: for the labour market, for health systems and also for the quality of life after retirement.

The increased life expectancy in Europe will also extend the retirement age and will augment the fear of losing one's job or of the inability to find another job that would provide a decent retirement scheme. The various parties involved will need to make a joint effort and collaborate.

The decline of the economically active population will lead to a reversal of the economic dependence relationship, and this decrease will influence the crude activity rate.

The current migration of the labour force makes it difficult to forecast the changes that may occur in the economic activity rates. Consequently, a realistic opinion on the future economic and social development of Romania must definitely be formulated.

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CONCEPTUAL DELIMITATIONS OF DIRECT COMMUNICATION, MASS COMMUNICATION AND MASS MEDIA

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Abstract: *In this paper we have tried to define the notion of communication and delimit the concepts of direct communication, mediate communication and mass media communication. Unlike usual approach, we have brought to light the economic elements of the communication process. In this respect, we have tried to show that both linguistic structure and the subsequent definitions of the communication notion contain an ample economic feature. The means of communication have always been important, whether we speak of agrarian, industrial or informational society. In the first stage, companies that provided transport services had to handle the agricultural products which were supposed to be carried to the markets or consumers. In order to carry out these services efficiently, roads were built to enable merchandise transport. During industrial age, the necessity of transport still remained crucial, but there was a slight change in products. This time energy was the main product which needed transporting. Whether we speak of the transport of coal, oil, gas or electrical power, the industry dependence on energy and, implicitly, on energy transporters is indisputable. This situation led to the building of main pipe lines for energy transport. Nowadays, informational society needs information transport. Of course, goods and energy are still being transported today, but our society will hardly do without communication main lines. In order to meet the existing needs in this respect, we witness a development of the communication infrastructure. Contemporary progress is strongly connected to network communication development. Whether we refer to internet, fiber or wireless networks, all of them transport each and every second huge amounts of information. Society, conquered by communication, discovers each passing day new elements and creative approaches through which the communication process between people can be catalyzed and maximized. In all these attempts, the communication process is only the means to achieve higher goals. These interests cause an increase in performance of the communication system. Whether we speak of local, national or global interests, the key factors for mass control are ontologically related to the communication system. This field has been explored by researchers over centuries, but not enough, because today's background and challenges are more complex than yesterday's. In the present paper we are placing ourselves somewhere between the collection of past experience and future uncertainty, marked by the passion and duty to explore. In the communication field, we are in a similar position to medical research; when we discover a treatment, we realize that new types of viruses have appeared which require new solutions. The working ground of mass media is extremely moving. Whether we speak of technology, finance, competition, interests, demand and supply or all of them, the cycle of changes happens more and more rapidly, almost stunning. The above mentioned ideas have motivated us in approaching this topic, which we invite you to study.*

Keywords: *communication; mass communication; mass media.*

JEL classification: L82; D83.

1. Introduction

Communication is one of the main characteristics of human beings. All relationships between people involve a communication link, which can cover a huge diversity of forms and patterns. Society, conquered by communication, discovers each passing day new elements and creative approaches through which the communication process between people can be catalyzed and maximized. In all these attempts, the communication process is only the means to achieve higher goals. These interests cause an increase in performance of the communication system. Whether we speak of local, national or global interests, the key factors for mass control are ontologically related to the communication system. This field has been explored by researchers over centuries, but not enough, because today's background and challenges are more complex than yesterday's. Nowadays, we are placing ourselves somewhere between the collection of past experience and future uncertainty, marked by the passion and duty to explore. In the communication field, we are in a similar position to medical research; when we discover a treatment, we realize that new types of viruses have appeared which require new solutions. The working ground of mass media is extremely moving. Whether we speak of technology, finance, competition, interests, demand and supply or all of them, the cycle of changes happens more and more rapidly, almost stunning.

In the present paper we will try to define the notion of communication and delimit the concepts of direct communication, mediate communication and mass media communication. Unlike usual approach, we will bring to light the economic elements of the communication process. In this respect, we will try to show that both linguistic structure and the subsequent definitions of the communication notion contain an ample economic feature.

In the first part, we are going to present the linguistic structure starting from the etymology of the word „communication“. In the second part, we will outline a few approaches to direct communication concept. In this section we will describe a starting model (Lasswell's), specific to any kind of communication. Then we will mention a model which reflects human complexity: Berlo's model. In the third part of the paper, we will try to approach mass communication, defining and illustrating this type of communication. In this section we will describe Shannon and Weaver's model, which emphasizes the jamming aspect of the communication process. This type of communication, force involve factors to use technological equipments witch have the purpose to intermediate the communication process. Acquisition of the equipments, maintenance, and the operation personal needed, create the premise of an important economic component, without witch communication is impossible. In the last part, we will review briefly the way mass media concept has been defined. We will focus on details relating to the economic aspect of this concept. During mankind development, the communication process passes through a transition from direct communication to technologically mediated communication and than to mass-media communication. These three different types of communication are differentiated by the economic contribution. In the case of direct communication, the economic contribution is almost insignificant. In technologically mediated communication, the economic contribution is substantially larger but in mass-media communication, economic contribution is capital.

2. Communication

The communication between people, as well as the means by which it is carried out, has got a strong economic feature because it uses resources and generates material benefits for the parties involved in this process.

Etymologically, the word „communication“ is of Latin origin and has the meaning of „to make common, to be in relationship with“. Dictionarul Explicativ al Limbii Române defines the verb „to communicate“ from the French word „communiquer“: (1) To make known, to pass on the news; to inform, to notify, to tell. 2) To be connected with, to be in contact/touch with, to speak, to carry on a conversation with.

The meaning shown by the dictionary reveals, on one hand, the connection which exists between the parties involved in the process and, on the other hand, the content of the information transfer.

Although there is wider material regarding the research of the communication process, in the present paper we will limit our study to direct and mediated communication. We are in favor of this division because the objectives of our research relate to the economic aspects generated by mediate communication.

3. Direct communication

„Communication is something which enables the building of a relationship between people, between objects or between people and objects. It designates either the action of communicating, or the result of this action. What is communicated can have either a material nature (documents, data), or an immaterial one (ideas, feelings). This transmission and exchange is done mainly by means of signs and sounds, requiring the presence of a transmitter and a receiver.“ (Bertrand 1999:18)

The meaning that is suggested by Remy Rieffel brings into discussion direct communication. This type of communication implies a transfer of information from one person to the other without an intermediary. Direct communication can be non-verbal, that is the message is conveyed through mimics, gestures or tactile contact. We can also have direct communication when in the communication process we transmit verbal messages.

3.1. Lasswel's model

This model presents, in a simplified manner, the communication process, intended to answer five questions: Who? What does he/she say? By what means? To whom? To what effects? The model is rooted in the concepts promoted by behaviourist school, namely the stimulus-answer principle. In Lasswel's model, communication is seen as the route of a stimulus (information) which causes a reply (the receiver's reaction).



Figure 1

Source: Werene J. Scerin, James W. Tankard, jr., Perspectives on mass communication.

„Lasswell's model was criticized because it seems to imply the presence of a deliberate communicator and message. It was said about this model that it is oversimplified, but, just like any other good model, it focused on the essential aspects of communication.“ (Secerin, Tanksrd 2004:54) This model remains in actuality because it catches the most important elements of the direct communication process.

3.2. Berlo's SMCR model

This model, which appeared in 1960 in the United States, points out the psychological nature of communication; it emphasizes different components, attitudes and intentions and specifies the conditions of an efficient transmission. „Berlo sees communication as a dynamic and continuous process between two people who can separately and simultaneously be both transmitter and receiver. However, his model presents communication as a linear and sequential process and we cannot see any retroaction between receiver and source. Also, no dynamic relationship is established among the different elements which build up the model.“ (Lohise 202:73)

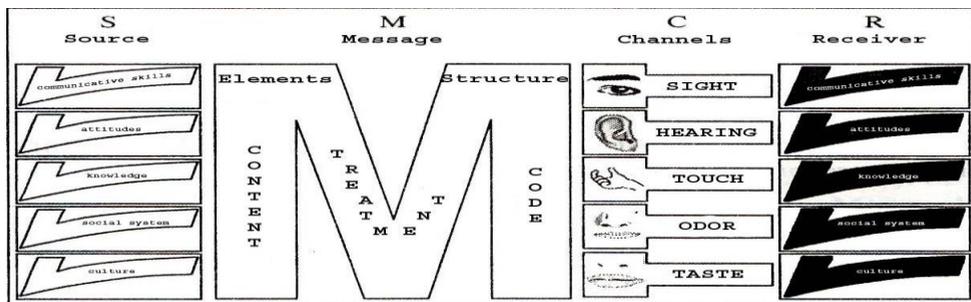


Figure 2
Source: Jean Lohisse, Communication from mechanic transmission to interaction

Berlo's model pictures the complexity of human personality, indicating in this diagram that the source, the message, the channels and the receiver are organically correlated.

The people involved in economic activities will always be interested in the study of human complexity as well as the individual features. In negotiation steps, economic interests demand a solid training of the communication process. Managerial functions can not be separated from the communication process. The exploitation of direct communication in all its complexity, demand resource finding, contracts negotiation and brand building. Most of the time, the purpose is an economic one and direct communication is needed to accomplish that purpose.

4. Mass communication

Mass communication is an economic, social and political reality. Communication mediated by the media industry is part of every day life both in family and business and also in state administration. In this context, there is a wide interest for the mass communication study; that is why many authors have attempted to define this process. Thus, Gerbener, in 1967, in the article „The study of mass

communication“, defined communication as being „the social interaction through messages.“ (Gerbener 1967:2) Perhaps the most quoted definition remains the following: „Mass communication includes the institutions and techniques by which specialized groups use technical means (press, radio, film, etc.) in order to convey a symbolic content to various, heterogeneous and strongly dispersed audiences. (Janowity, 1968)

This definition emphasizes the idea that, in the mass communication process, „the transmitter“ belongs to a specialized group, an enterprise which, besides communication, has other functions, too. Actually, communication represents only that part of the product which is delivered to the consumer public, that is to the media market. „The receiver“ is individual, although the press institution transmits messages to people with similar interests and expectations. In this situation, „the channel“ doesn't reside in the social relationship, but is managed by intricate technical processes. These are set in function by technologists, who spread the message on a large scale. The communication system has a social component related to expectations and legislation. „In mass communication, the message is not an unique and transitory phenomenon, but a symbolic structure, often of high complexity, produced in mass proportions and repeating itself endlessly.“ (McQuail, Windahl, 2010:13)

5. Technologically mediated communication

In this type of communication, the transmitter and receiver are interfered by an instrument which mediates communication. Once the technology developed, more precisely once the telegraph, the telephone, the computers and the internet appeared, we are the witnesses of the mediated communication process. Even though this type of communication has a lot of deficiencies, it seems that the advantages are bigger than the costs. Without the economic element, the mediated communication process is not possible. Claude Shannon was one of the first researchers on the mediated communication. „Among all the contributions to the present increase of interest in models, that of Shannon's is the most important. Based on the technical part of communication, Shannon's mathematical formulations motivated most of the subsequent research.“ (Johnson 1961:13)

The model he designed was the result of the research done in mediate communication in Bell Telephone laboratories. The questions this model is trying to answer are the following: How many of the signals broadcast by a transmitter are disturbed by jamming, so that in the end they are altogether cancelled? What kind of channel can broadcast the greatest number of messages? „Communication is characterized here as a linear and one-way process. The model establishes five functions which must be fulfilled and identifies a dysfunctional factor: jamming.“ (McQuail 2010:22)

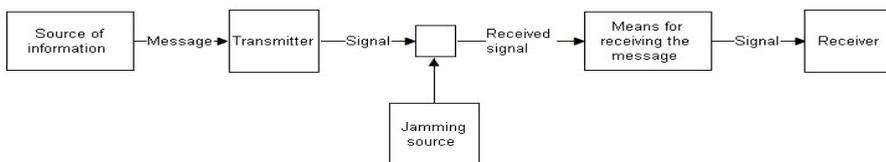


Figure 3
Source: Denis Mcquail, Communication models

The element which Shannon and Weaver's model points out is the emphasis on jamming in the communication circuit. Only by investments in communication equipments we can eliminate interference and achieve a quality communication. Through these investments we will have products which satisfy the market demand. This way we enter in the economic process of technologically mediated communication. This type of communication increases commercial exchanges as well as the number of the people involved in the process so that all the involved factors have costs and economic benefits.

6. Defining the mass media concept

The concept of mass media has been taken over in Romanian current speech only after 1990, when the supply of newspapers, radio and TV stations extended. Although this term is currently used, it is neither easily expressed nor familiar to our culture, therefore it is little understood. The term „mass media“, deeply rooted in American specialized culture and literature, has been brought together with the development of Romanian media institutions. Actually, we are dealing with a term made up of two parts: the English word „mass“, meaning „the mass of consumers“ and the Latin word „medium“ with its plural form „media“, meaning „means“. It's a concept which points to the support on which messages are fixed. „If the first element of this structure is clear, the second one proves to be a source of conceptual and linguistic ambiguities“ (Coman 1999:19). Obviously, this word symbiosis from different languages and cultures leaves a lot of room for further discussions.

Yves Lavoine analyzes a few different possible interpretations of this term. The concept of „media“ refers simultaneously to several things:

- a technique or a set of message generating techniques and designing of manageable supports – which involves a certain time of transport;
- an instantaneous message transmission to a terminal (screen, receiver) via a specific channel (Hertzian waves, cable);
- a set of messages generated with the help of these techniques;
- a set of organizations which create or treat these messages.“ (Lavoine 1997:34-35)

From an economic perspective, this concept is very rich, comprising both the production aspect, „the designing of messages“ and the distribution aspect, „the message transmission“. At the same time, the word „media“ includes the

technological set, that is the technical and managerial aspects. In the extended sense, presented by Lavoine, the term „media“ seems to comprise as in a capsule the richness of economic information which accurately depicts the media industry. The authors of the Mass media Dictionary show that „the concept *media* refers simultaneously to a certain technique, a way of using the technique, an established public, some specific institutions and certain types or forms of expression.“ (Balle 1997:149)

According to this definition, the concept of „media“ includes several economic elements. The „technical aspect and the way of using the technique“ suggests the idea of organization, a crucial element of the managerial process within the enterprise economy. This element involves the necessity of purchasing technical equipments both by the institution which generates media content and by the people interested in receiving these messages. So, a chain of producers and beneficiaries is present in this system, which contributes to commercial exchange and afflux of capital.

As far as the „established public“ is concerned, we have in mind the potential beneficiaries of the services provided by the press institutions, in other words the target market. Another market related aspect is suggested by the public, who will buy the required devices in order to receive the messages in accordance with the channel by which they are broadcast. Here we refer to radios, TV sets, computers, tablets, smart phones, etc. This market is in full progress and is diversifying; the demand is growing and the supply is more and more adapted to the market requirements.

The „institutions“ the above definition refers to direct our attention to the industrial nature of media institutions. „All the system is set into motion by an industrial logic and is based on the freedom of speech and freedom of information exactly in the way they are influenced and protected by political regimes and in the way they are understood both by generators and distributors of information and culture and their public.“ (Radu, Preoteasa 2012:10)

7. The economic extend of communication

Direct communication is a base element in the interpersonal economic coherency. Direct communication is a human characteristic whereby man is distinguishable from the animals, as Aristotel stated: „As long as the voice does not serve but to express joy and pain, it belongs also to other animals...speech serve in expressing useful and useless thoughts, therefore, just and unjust. Compared to other animals, a characteristic of the man is the sense of good and wrong, the sense of just and unjust and the sense of other moral concepts. The family and the citadel are born through these senses.“ (Aristotel cited by Gheorghe Popescu 2009:39) A family or a citadel is created with the help of economic activity of production or by economic exchanges. When we refer to the family, we have economic overtones starting from the wedding. These economic overtones are managed by relationship and communication. A home, raising children, education and the daily life are targets we can reach to, only by economic means. In terms of the citadel, things are mostly the same only to a larger scale, depending on the size of the citadel. Communication plays an important role through this process. Without

communication, the economic losses are huge. In some cases, appropriate communication can bring to profits or loosing.

Unlike direct communication, mediated communication has more economic elements. In this case, communication assumes equipments which need production, marketing and exploitation costs. If we stick to the cellar phone and to the tablet, industry developed on this segment had responded to the market demand. The demand is generated by the behavior of the communication equipment consumer. This demand has extended to the market of voice and data telephony services. These kinds of companies gain high profits through phone subscription. The market demand has brought to establishing national and multinational companies which have the purpose to product and merchandise the instruments that mediate interpersonal communication. This way, the distance is reduced and the communication process is facilitated. In the same time, mediated communication process is an economic accelerant.

Mass-media communication has much more economic substance than direct communication or mediated communication. Mass-media industry occupies an important space in the public and economic life. Mass-media economy is part of every country's economic system because of the investments that are needed for establishing the media company's and by rolling business from media area. Picard gives the following definition of mass-media economy: "The way mass-media operators try to fulfill the information need as well as the entertainment desire of the audience, of the advertisers and of the society using the resources they have. Mass-media economy studies the factors that influence the production of mass-media goods and services and the way in witch these products are allocated to consumers." (Picard 1987:7) Media institution is an economic entity. In Romania, any media business is running with the help of a commercial company. This way, media industry interrelates with other components of the economic system. „Media economics provides a means to understand the activities and functions of media companies as economic institutions. Only by understanding individual media companies as business entities can one fully appreciate their conduct within society. An understanding of media economics strengthens our understanding of the role and function of mass media in society. At a theoretical level, media economics complements existing mass communication theory by adding important dimensions regarding the structure, conduct, and performance of media firms and industries; the interplay of economics, policy, and regulation; and audience behaviors and preferences." (Albarran 2004:305)

8. Conclusions

The means of communication have always been important, whether we speak of agrarian, industrial or informational society. In the first stage, companies that provided transport services had to handle the agricultural products which were supposed to be carried to the markets or consumers. In order to carry out these services efficiently, roads were built to enable merchandise transport. During industrial age, the necessity of transport still remained crucial, but there was a slight change in products. This time energy was the main product which needed transporting. Whether we speak of the transport of coal, oil, gas or electrical power, the industry dependence on energy and, implicitly, on energy transporters is indisputable. This situation led to the building of main pipe lines for energy

transport. Nowadays, informational society needs information transport. Of course, goods and energy are still being transported today, but our society will hardly do without communication main lines. In order to meet the existing needs in this respect, we witness a development of the communication infrastructure. Contemporary progress is strongly connected to network communication development. Whether we refer to internet, fiber or wireless networks, all of them transport each and every second huge amounts of information.

In the present paper we have tried to define the notion of communication and delimit the concepts of direct communication, mediate communication and mass media communication. Unlike usual approach, we have brought to light the economic elements of the communication process. In this respect, we have tried to show that both linguistic structure and the subsequent definitions of the communication notion contain an ample economic feature.

In the first part, we have defined communication starting from the etymology of this word. In the second part, we have outlined a few approaches to direct communication concept. In this section we have described a starting model (Lasswell's), specific to any kind of communication. Then we have mentioned Berlo's model, a model which reflects human complexity. In the third part we tried to present technologically mediated communication. This type of communication, force involve factors to use technological equipments witch have the purpose to intermediate the communication process. Acquisition of the equipments, maintenance, and the operation personal needed, create the premise of an important economic component, without witch modern communication is impossible. In the last part, we have reviewed briefly the way mass media concept has been defined. We have tried to focus on details relating to the economic aspect of this concept.

Communication among people can be achieved on the basis of direct and indirect relationships. As far as direct relationships are concerned, personal communication takes place when people are in immediate proximity of each other and in the communication process they interact and influence one another. Nowadays, mass media is both a producer and a distributor of information in a communication based society.

From an historic point of vew, during mankind development, the communication process passes through a transition from direct communication to technologically mediated communication and than to mass-media communication. These three different types of communication are differentiated by the economic contribution. In the case of direct communication, the economic contribution is almost insignificant. In technologically mediated communication, the economic contribution is substantially larger but in mass-media communication, economic contribution is capital. Having this context in mind, we wonder if economic interests are more important than the cultural interests, politic interest or any other kind of interests.

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BETTING MARKETS: OPPORTUNITIES FOR MANY?

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Abstract: *The paper deals with the opportunities to make risk free profits from sports arbitrage betting and bonuses. Different questions arise around the topic: how common are these chances? Can these really be considered as free risk investments? Can cooperation among bettors influence them? Answers involve betting markets, which have received much attention in the recent economic literature due the fact that betting has become a multi-billion dollar industry. Betting markets have experienced an extraordinary growth over the last years due to extensive deregulation, abolition of national monopolies and the advent of internet gambling. Part of published research has focused on agents behaviour (typically bookmakers and bettors) and markets inefficiency. A betting market is expected to be efficient, since it involves public information and numerous participants; it is usually quite large; it is characterized by limited transaction costs; it offers readily observable market expectations and outcomes; its odds and payoffs are fixed and they cannot be influenced by bettors. Despite of these characteristics, sports arbitrage opportunities happen regularly, hundreds of times every day in a betting market. Adjustment processes are usually rapid but not instantaneous. Specific software applications exist which show sport arbitrage situations in real time. Hence creating an income via sports arbitrage betting is possible, even if this can not be considered as a riskless investment. Suitable preparation and knowledge, enough time spent in the activity, adequate financial resources are indeed necessary. Essentially risk free profits can be made by bettors from bonuses (particularly deposit bonuses and risk free bets) offered by bookmakers, by means of the adoption of specific profitable cover strategy. Cooperation among bettors may help in realizing greater advantages both from sports arbitrage betting and from bonuses. Cooperation may allow bettors to share information and knowledge about the sports arbitrage betting. This may enhance the effectiveness and efficiency of this activity by reducing the so called "execution risk". Moreover, if some conditions take place, a bettor could achieve higher profits cooperating with other punters rather than using a bonus alone.*

Keywords: betting markets; arbitrage; cover strategy.

JEL classification: D03; D84; L83.

1. Introduction

Scholars have long been interested in the economics of betting markets as exemplified by Sauer (1998) and Vaughan Williams (1999). Over the past few years researchers have invested an increasing amount of effort to the study of betting markets. The interest of economists has generated from the fact that betting has become a multi-billion dollar industry.

Betting markets have experienced an extraordinary growth over the last years due to extensive deregulation, abolition of national monopolies and the advent of internet betting. Particularly the availability of online betting leading to a higher liquidity and reduced transaction costs, this was the main reason why betting has grown from minor black markets into large legal markets.

Part of published research has focused on social benefits and costs of gambling (among others, Goodman, 1994; Thompson et al., 1997; Walker and Jackson, 2011). The supposed economic benefits from betting include tax revenues, increased employment, higher wages and enhanced economic growth. Unfortunately, these benefits are not necessarily produced without some undesirable socio-economic problems. For example, the betting industry may partially or entirely “cannibalize” other industries; individual expenditures on betting markets and compulsive sports gambling may cause financial, physical and emotional problems that must be addressed by public support programs; big businesses usually attract criminal elements and foster corruption.

Other studies have focused on agents behaviour (typically bookmakers and bettors) and markets inefficiency (among others, Pope and Peal, 1999; Franck et al., 2009; Vlastakis et al., 2009). Like a classical capital market, a betting market is expected to be efficient, since it involves public information and numerous participants; it is usually quite large; it is characterized by limited transaction costs; it offers readily observable market expectations and outcomes; its odds and payoffs are fixed and they cannot be influenced by bettors. In this context, arbitrage opportunities and risk free profits should be not considerable.

In a betting market, arbitrage may occur when two or more bookmakers set different odds for the same event and a bettor can make a risk free profit by placing a combined bet on all outcomes of an event. For example, consider a basketball match (with no draw option); Team A has the odds 2.10 at Bookmaker 1 and Team B has the odds 2.10 at Bookmaker 2. By betting € 500 at both bookmakers (for a total bet of € 1.000), the bettor has a net profit of € 50 regardless of the outcome of the event (with a return of 5%).

This paper will focus on the sports arbitrage betting as potential risk free activity (see par. 2), on the function that bonuses assigned by bookmakers could have in creating risk free profits (see par. 3) and on the potential effects of bettors cooperation on the two previous factors (see par. 4). Could these elements create more and/or greater opportunities of risk free profits for many people in a betting market?

2. Searching for betting arbitrages: software applications

The wide diffusion of web gambling has not passed unnoticed by the betting industry. The traditional barriers of entry are not applicable in the online gambling. The increase in the number of bookmakers has generated a more intense competition, pushing their margins down for the benefits of bettors. Nowadays situations for betting arbitrage profits are more common than in the past in betting markets.

From a formal point of view, given a sport event with n outcomes, an arbitrage occurs if

$$\sum_{i=1}^n \frac{1}{O_i} < 1 \quad [1]$$

where O_i is the maximum odds on outcome i reported by all the available bookmakers.

Sports arbitrage opportunities happen regularly, hundreds of times every day (see Figure 1 and Figure 2). Usually each arbitrage will have a short duration, especially if its rate of return is relatively high (in other words, the age of sports arbitrage is negatively related with its own rate of profits). Marshall (2009: 913) states: "The market does not instantly converge to an efficient level after mispricing occurs, but the adjustment process is rapid. Arbitrageurs remove many of these opportunities within minutes of them being created and the majority are gone within an hour". Moreover, it is very hard to find sports arbitrage bets manually by a sole bettor (he should compare the odds proposed by dozens of bookmakers on hundreds of sport events!).

Specific software applications exist which indicate sports arbitrage situations in real time. These powerful tools (Rebelbetting and Mathbet are probably the most common) provide the bettor with useful details about each arbitrage: the bookmakers with the highest odds, the kind of bet, the rate of return, the division of stakes (depending on the bettor's budget), the age, etc.

The monthly price of these software applications is between \$ 70 and \$ 130 (the bettor should theoretically easily cover this cost with the profits provided by the arbitrage activity). Anyway, free versions of the tools are also available, with some restrictions with respect to full editions (particularly, free versions only provide the bettor with details about sports arbitrages with a rate of return lower than a specific level).

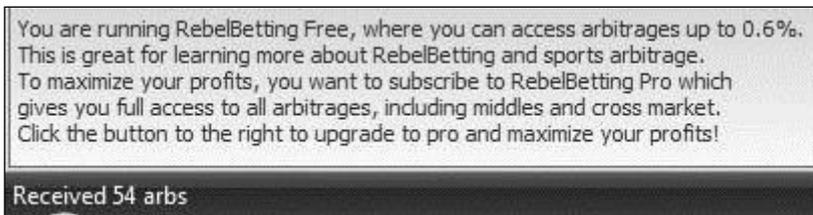


Figure 1: Number of sports arbitrages found by the free version of Rebelbetting (rate of return up to 0.6%) on April 6th, 2013 (h. 10:00)

Source: www.rebelbetting.com



Figure 2: Sports arbitrages found by Mathbet on April 6th, 2013 (h. 10:00)
 Source: www.mathbet.com

Could sports arbitrage trading, also by using these tools, really be considered as a risk free activity? In other words, is sports arbitrage betting a riskless investment? As in a financial market (Thaler and Ziemba, 1988), the main risk involved with sports arbitrage betting is the so called “execution risk” (among others, Engle and Ferstenberg, 2006; Kozhan and Tham, 2010). A bettor could make mistakes (accidentally betting on the wrong team; not being aware of specific rules regarding betting on some sports; etc.). A bookmaker can void a bet if he made an obvious error (reversed odds on a match; typing error in quoting odds; etc.). Odds can change (moving down) during the execution of a sports arbitrage, so that any profit can disappear or a small loss may result. A bookmaker can close a bettor’s account or limited stake amount.

However, Marshall (2009), by examining arbitrage opportunities in internet sports betting markets, shows that average arbitrage revenues of 3.35% are available; moreover, relatively low transaction costs and the short time horizon of sports bets allow arbitrageurs to reinvest and earn sizeable annual returns. Hence creating an income via sports arbitrage betting is possible, even if this can not be considered as a riskless investment. Suitable preparation and knowledge, enough time spent in the activity, adequate financial resources are indeed necessary.

3. “Creating” risk free profits: the bonuses

Many bookmakers offer bonuses to attract customers. These offers have different rules depending on the bookmaker providing them (conditions are usually related to a minimum deposit, to a wager amount, to minimum odds, etc.). There are different types of bonuses, even if the most common are deposit bonus and risk free bet (this last will be introduced in the par. 4). A deposit bonus is a bonus related to a deposit in a certain percentage α up to a maximum amount; for example, a bookmaker offers a deposit bonus of 50% (α); the maximum amount of the bonus is € 50; therefore, after depositing € 100, the bettor will play with € 150 (€ 100 deposited plus € 50 bonus).

Bonuses can be useful for making risk free profits (in these cases, the “execution risk” is normally very low), as shown below. In the next algebra, stakes/deposits are denoted with S , odds with O , deposit bonuses with B , profits with Π , and subscripts indicate the related outcome of a sport event. Moreover, for an easier exposition, suppose that the whole available sum (deposit plus bonus) is wagered on the outcome x of a sport event, so that if x happens, the bettor will realize the profit:

$$\begin{aligned}
\Pi_x &= (S_x + B)O_x - S_x \Rightarrow \\
\Rightarrow \Pi_x &= (S_x + \alpha S_x)O_x - S_x \Rightarrow . \\
\Rightarrow \Pi_x &= S_x [(1 + \alpha)O_x - 1]
\end{aligned}
\tag{2}$$

The bonus can not guarantee a risk free profit without any cover bet (bettor loses his stake/deposit plus the bonus if x does not happen). Consider however that it is usually possible to bet against x (say y) somewhere else (also in a betting exchange market), with the profit:

$$\begin{aligned}
\Pi_y &= S_y O_y - S_y \Rightarrow \\
\Rightarrow \Pi_y &= S_y (O_y - 1) .
\end{aligned}
\tag{3}$$

By the adoption of a full cover strategy (that is, by playing a complete cover bet), if x happens the new net profit will be:

$$\Pi'_x = S_x [(1 + \alpha)O_x - 1] - S_y .
\tag{4}$$

If x does not happen, the new net profit will be:

$$\Pi'_y = S_y (O_y - 1) - S_x .
\tag{5}$$

It is possible to equal [4] and [5] in order to obtain the stake S_y so that the same net profit is achieved, regardless of the outcome of the event:

$$S_y = \frac{S_x (1 + \alpha) O_x}{O_y} .
\tag{6}$$

For example, a bookmaker provides a first deposit bonus of 50% (α); the maximum amount of the bonus is € 50 (i.e. deposit € 100 and play with € 150). Given a two outcomes sport event, outcome x has odds 2.00 on the bookmaker providing the bonus, while the opposite outcome y has its best odds 1.90 somewhere else.

Applying the previous equations [4] or [5] and [6], yields that $S_y = € 157.89$ and $\Pi'_x = \Pi'_y = € 42.10$. Roughly speaking, adopting the full cover strategy, the bettor gains € 42.10 with respect to the original bonus amount of € 50, essentially without risk.

Note that, in absence of arbitrage opportunities and deposit bonuses, a full cover strategy generates a loss c whose amount depends on the odds.

4. Bettors cooperation

Cooperation may allow bettors to share information and knowledge about the sports arbitrage betting. This may enhance the effectiveness and efficiency of this activity by spreading good ideas and practices. Knowledge may be developed and then re-used by many bettors. Cooperation may also generate time savings, since the bettor might learn from his mistakes and those of others. More sophisticated ideas are applied to problems resulting in better solutions.

Cooperation may generate advantages for joined bettors also in using a bonus, such as, for example, a risk free bet. This is obviously a riskless bet; suppose that a bookmaker offers the bettor a risk free bet and the punter bets it on the outcome x . If x happens, the bettor will win and could normally withdraw his winnings; stake will be refunded otherwise, and (usually) it should be bet again (in a second step), before any withdrawal will be possible.

The sole risk free bet can not guarantee a sure profit without any cover strategy. If x does not happen, the bettor will have back the stake but he will risk to lose it in the second step.

In absence of arbitrage opportunities and deposit bonuses, the adoption of a full cover strategy (see par. 3) will be profitable only if x does not happen, but not otherwise. Hence the bettor should adopt a partial cover strategy (bet against x only partially) in the first step and, in case, a full cover strategy in the second one (with a loss of c), in order to achieve a profit, no matter of the outcome of the event.

If x happens, the net profit will be:

$$\begin{aligned}\Pi_x'' &= S_x O_x - S_x - S_y \Rightarrow \\ \Rightarrow \Pi_x'' &= S_x (O_x - 1) - S_y\end{aligned}\quad [7]$$

If x does not happen, the net profit will be:

$$\begin{aligned}\Pi_y'' &= S_y O_y - S_y - S_x + S_x - c \Rightarrow \\ \Rightarrow \Pi_y'' &= S_y (O_y - 1) - c\end{aligned}\quad [8]$$

Note that, in this last case, stake S_x is lost but later refunded; once back, it must be bet again, with the adoption of a full cover strategy in this second step, generating a loss c .

Knowing the amount of S_x (that is the risk free bet), it is possible to equal [7] and [8] in order to obtain the stake S_y so that the same net profit is achieved, regardless of the outcome of the event:

$$S_y = \frac{S_x (O_x - 1) + c}{O_y}\quad [9]$$

Inserting equation [9] into [7] or [8], the same net profit is obtained, no matter of the outcome of the sport event:

$$\Pi_x'' = \Pi_y'' = \Pi^L = \frac{S_x(O_x - 1)(O_y - 1) - c}{O_y}. \quad [10]$$

Suppose now that, given a risk free bet, two bettors decide to cooperate, everyone betting on each side of a two outcomes event proposed by the bookmaker. In order to achieve the same maximum shared profit, regardless of the outcome of the event, they will search for the maximum

$$O_x = O_y^* \quad [11]$$

with

$$S_x = S_y^*. \quad [12]$$

Note that in identities [11] and [12] odds and stakes concern the same bookmaker (particularly underlined by the use of * for odds and stake related to y). Regardless of the outcome of the event, each bettor achieves the shared profit from cooperation:

$$\Pi^C = \frac{S_x(O_x - 1) - c}{2}. \quad [13]$$

In absence of sports arbitrage opportunities, the difference $\Pi^C - \Pi^L$ may be positive, that is a bettor might be interested in cooperating rather than betting alone.

Particularly, all odds being equal,

$$\begin{aligned} \Pi^C - \Pi^L &= \frac{S_x(O_x - 1) - c}{2} - \frac{S_x(O_x - 1)(O_y - 1) - c}{O_y} \Rightarrow \\ &\Rightarrow \Pi^C - \Pi^L = \frac{S_x(O_x - 1) - c}{2} - \frac{S_x(O_x - 1)^2 - c}{O_x} \Rightarrow \\ &\Rightarrow \Pi^C - \Pi^L = \frac{S_x(O_x - 1)(2 - O_x) + c(2 - O_x)}{2O_x} \end{aligned} \quad [14]$$

which is always positive, since S_x and c are positive, O_x is greater than 1 by definition and, in absence of arbitrage, based on condition [1]

$$2 \frac{1}{O_x} > 1 \Rightarrow O_x < 2. \quad [15]$$

For example, suppose that a bookmaker offers a risk free bet of € 100. A punter can wager one of the two outcomes of a sport event, with all odds 1.90 (no arbitrage opportunities). Playing alone, he can adopt a partial cover strategy (in case, suppose $c = € 10$ in the second step). The opposite outcome has odds 1.90 somewhere else and, based on equation [9], the punter should bet € 52.63 on it. Regardless of the outcome of the event, the bettor achieves a profit of € 37.37.

Suppose now that two bettors agree on taking advantage from the same bonus. Each bettor uses his risk free bet on one side of the two outcomes event, sharing a riskless profit of € 40 (based on equation [13]). The difference between the two profits can also be calculated by equation [14].

In the end, by the adoption of a partial cover strategy, a bettor can achieve a sure riskless profit from this particular kind of bonus (the risk free bet); cooperating with another punter, both could realize a greater advantage if specific conditions take place.

5. Conclusions

Betting markets have received much attention in the recent economic literature due to the increasing importance of the related industry. Betting markets have experienced an unprecedented growth over the past few years due to extensive deregulation, abolition of national monopolies and, overall, the advent of online betting.

Sports arbitrage opportunities are very common in betting markets, despite their characteristics (typical of efficient markets). When an arbitrage occurs, the adjustment process is usually rapid but not instantaneous: as a result, there are chances to make profits. Specific software applications can help in finding arbitrage opportunities. Nevertheless, sports arbitrage betting can not be considered as a riskless investment, due to the presence of the so called “execution risk”. Essentially risk free profits can be made by bettors from bonuses (particularly deposit bonuses and risk free bets) offered by bookmakers, by means of the adoption of specific profitable cover strategy.

Cooperation among bettors may help in realizing greater advantages both from sports arbitrage betting and from bonuses. Cooperation may allow bettors to share information and knowledge about the sports arbitrage betting. This may enhance the effectiveness and efficiency of this activity by reducing the “execution risk”. Moreover, as formally demonstrated, if some conditions take place, a bettor could achieve higher profits cooperating with other punters rather than using a bonus alone.

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PRODUCTIVITY AS REGISTERED TRANSFERS BETWEEN ECONOMIC ENTITIES. A THEORETICAL INTUITIVE APPROACH

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Abstract: *This paper aims at courageously building the design of a conceptual system of thinking economics, conceived as an alternative to the routine one. In this purpose, methodologically, the paper is, pointing out several of our main conceptions that are developed in our researches, also several recent set of ideas and most recent works in the economic literature concerning the topic of productivity. Part of a larger research, our approach blame the common practice in economic life and, as well, in economics theoretical analyses concerning the conceiving and assessing productivity, as being almost exclusively quantitative and formal (ignoring important qualitative and causal aspects of the economic complex process). The organization and building of the paper is made in the logic of presenting the key concepts that are the pillars of the presented system of thinking, starting with the recent context of the New Long Crisis, with the requirements of the concept of knowledge society, with references to the European Union approaches, presenting our opinion concerning the value state and meaning, and finding them in the actual economic growth concept, which is presented as responsible for the entering in the New Long Crisis. Several roots from the genuine liberalism are invoked, in the more recent scientific environment of the service economy, which brought important new ideas and understandings concerning the general design of an economic activity (be it material or immaterial), the intellectual core of all human acts, the servicity approach, recovering the genuine conception on value and productivity. The debate results in pointing out several capital common misunderstandings which give occasion to (and even require) alternative approaches and conclusions, approaches which are conceived as (and can be) useful for developments in better directions that are solving problems on the very long time. The occasion is used also for reminding a most recent conception on an alternative economy.*

Keywords: productivity; value; growth.

JEL classification: D29; O49.

1. Introduction

The common manner of conceiving and perceiving productivity (and, as well, value and growth) changed the economic existence of humans in the last hundreds of years. Several problems concerning such indicators are debated in this paper, in the purpose of revealing better alternatives. Present paper is partly a synthesis rather than an analysis (also taking into account the dimensions allowed for it); certain of the approaches in present paper and connected to ideas thereof can also be found – developed in various formats – in several of the author's studies (for instance, core ideas grounding the present paper were partly discussed in Jivan, 2012).

2. Inside the Service Economy: the Intellect core

We live at a time when major information and communication technological developments break through and quasi-generalize, powerfully impacting our whole economic and societal life. Such developments are the most recent variant of the services economy; their strong impact *does not change the* economic and social *nature* of the *services economy* and of the *services society*, concepts which still are not enough studied (and valorised) and have a long life ahead with economics.

All our researches are providing the core role of intellect-intensive activities, resources and approaches in our world (Jivan, 2012). Among services, the intellect-intensive ones are the core of the human action (economic included), involving conception and pre-figuring of the activities, action decision, programming if the case be, and such like (Jivan, 1995). Even in the extreme case of the most hard or hack work (the labour of ditch diggers and such like) which is, at least apparently, totally directed by an outer deciding commander the intellect is the core; of course, at the opposite extreme there is the case of the production processes highly (or even completely) automated.

The human being takes part in economic activities differently than as just labour factor, as physical effort: not only in the activities that are *services* in the most obvious way (in the meaning of being effected on direct order and customerized), and also our focus is not on the only material and quantitative features: the horizon of human life is much wider and richer and should not be simplistically reduced to the lowest (see our concept of the general design of an economic activity, developed in Jivan, 1996).

The conceptual contribution is increasing with the complexity of the human activities augmenting from one sector to another, of the human society as a whole, and from one epoch to another.

Intellectual services are developed in the most powerful economies, thanks to the high developing level of such rich countries. But intellectual services are also, as well, the main factor (cause) of every development. Development comes from intellectual services, and they are, themselves, based on the growing of the contribution of economic activities, in the servicity approach (see *infra*, Chapter 3) – opposed to the market approach, *i.e.* by other criterions than the routine ones. It means the focus on the role and responsibility. Such contribution is larger or smaller function of the actual needs and of the general development of society. Conclusions are obvious: in the poor countries, intellectual resource does exist, which must not be wasted by selling it as simple *labour* factor or migration to the

developed countries, but needs to be saved and turned to the best account, in the benefit of the origin (poor) countries, as the most valuable capital such countries own. Conclusions also result concerning immaterial investments and consumption society. In a synergetic conception, a suitable model can be quoted (as it is in Jivan, 1995, p. 95 and next). The approach of such model is different by comparison to the traditionalist economic thought (see *infra*, Chapters 3, 4).

We strongly highlight *factor I (intellectual)*, in the light and developments in Jivan, 1996) in all of such aspects, revealing once more the inadequacy of using, in services, the same recording and computation system like in material production (Jivan, 2012).

Performance is *per se* able to generate better performance, not only proving itself valid, but also self-perpetuating. An index may make sense as a performance criterion in so far as it measures the progress made in novel areas opened up and at higher scientific and intellectual level, the latter being the one and only apt to provide to the economic agents implied, to society and to Mother Nature a stance that deserves being called *improved*.

Information resource tends to increasingly complete and increment the valences of the common material resources (*K*, *L*, and such like), respectively the money capital and other physical/material types, physical work and other types of energy); also tends to decrement quantity thereof, practically by substitution.

Thus the production/creation of such resource turns into the centre, the essence and the bulk of the future economics. The classical laws of the material production become a particular case. Classical factors *K* and *L* are now only part of the material factor *M*, which combines with immaterial factor *I* (Jivan, 1996): idea, intellect, intelligence, inspiration, imagination, innovation, initiative, enterprising spirit, information, knowledge, science. The economy will have to consider a much larger *production*, *i.e.* the very creation and salvation of the resources *I*, respectively *M*, the non-entropic global effect. Conceptually, the criterion of value creation is the individual merit that is substantiated in the social (collective) scientific environment, the core place being attributed to the intellect factor here defined. In a Pareto approach, nothing is/can be of value if it is not a generally valid good or if it is against (or destructive) for the environment of the individual. Our perception of value supposes certain supreme criteria or requirements to be taken into account, such as human nature and God, *i.e.* in the objective meaning of value, consistent with our trust in the natural forces, and opposed to the unilateral subjective approach, that we consider as being unilateral, by definition; because it means thinking of value “in terms of a personal stance occupied as a kind of choice, and immune to rational argument” (Blackburn, 1996, p. 390). We conceive that any approach on value productivity and such core economic terms should consider and respect referred meaning; because else it is denying the essence of these words.

The principles specific to the service economy should be extended to the whole economy and economics. Incomes are coming from specialized value creators and induced to the “productive” economic actors, by market mechanisms.

3. An uncommon manner of approach

By the servicity indicator (Jivan, 1993 and other most recent developments of ours), we are trying to reveal a mix of realities that is still left in the background of the private interest. Only impartial researchers have such concerns and, therefore, they are ignored by the mainstream economics.

The gold utility (in the Mercantilists' era) and the grains' utility (in the Physiocrats' era) can be synthetically reduced to today's utility approach. In François Quesnay's *economic table*, the landlord provided part of the wheat to the farmer, for the latter's personal (and family) usage, but also for the sowing. Later Smith was to use such vision for defining the components that "enter into the production process" *i.e. inputs, in spe* materials and wages. Yet, such was the very foundation of Smith's economic theory, *i.e. owner's start provided wheat buying farmer's labour*, which Ricardo was to name as *ordered labour-value*. Smith keeps a privileged place for agriculture, by compared to other economic activities, and trade comes only third, after the industry (Smith, 1992), probably function of the labour amount such activities take; but agriculture coming first is surely due to the bigger contribution of nature in such activities – a Physiocratic heritage. On the grounds of moral approach, Veblen is apt to take the blame for initiating a diversion from rigour as assessing the Physiocrats' net produce, by stretching the *newly created value* to imply *non-destructiveness*, in keeping with the Physiocrats' vision on productivity; at least a clarification was operated: introduced by adopting the classical and ulterior variants of value perception, especially for value production.

Service economy allowed the conceiving of the general design of service (Jivan, 1995), by strengthening the role, rather than the formal aspects of an economic activity. It also promotes the distinction between the proper creator's (producer's) and the holder's, profiteer's or user's perceptions on value: they are not exactly identical (see Jivan, 2012). We delimit value *production* (*i.e. bringing advantages to the environment and, therefore, having a protective behaviour*), from value *appropriation* (*i.e. getting grown advantages for himself*). Such perceptions are, firstly, *concrete* reality, particularized, *de facto*, in practical life and, secondly, *in abstracto* (in principle, *in absoluto* – an approach we deemed basic, philosophically).

The Physiocratic roots of our servicity approach consist mainly in:

- the causal (interconnected and complex) approach on economic activity;
- the core role of creation acts: from land cultivating (tilling) on the bases of God's laws (in Physiocrats' view), respective from intellect-intensive cultivating and creative acts, on the bases of science and of ethical principles (in servicity approach);
- the covering of the needs of the whole society from (by) this value created – through the means of natural (market) spreading (distribution) process: all the members of the society attend them; *i.e. the feeding (nourishing) needs* (as the main concerned by Physiocrats and, respectively, all the natural human needs: we called it the servicity spreading or *transfers* (Jivan, 2013).

The businessman is interested in his profit and such individual interests; that is why the productivity (and the profitability ratio as well – see Djellal&Gallouj approach, 2008, p. 6, 7) are the common useful indicators for him (individually) – see Jivan (2013). Yet economics cannot be partial when analyzing scientifically, *i.e. examine*

both sides of the story, not only the enterpriser's, at a certain time, but also the aggregate effects of the activity of an economic entity; for which goal economics should find out and define all causes and influences of the economic game (causal study), the contribution of each economic contributor (active or passive, present or not), *i.e.* merits of each and role of each within the societal economic system.

We believe that the enterpriser tends to fend for himself: economics should not care do it for him (management, marketing and such like being well developed sciences suitable enough to do it). Economics should therefore preponderantly care for angles of analysis commonly less considered so far, specifically in the purpose of *discovering which aspects are ignored by the enterpriser*, by the business approach for various reasons and in the purpose of *studying such aspects*, too.

Income resources like theft or begging are also covering a large part of the total incomes obtained in the economy than it is usually take into account by the mainstream economics. Cunning actions on the market, power mechanism and constraint (constraint for some, advantage for others, left-right symmetry) caused by various differences of circumstances are conditions under which value brings its actual concrete form (the prices) implacably generating inequity. Promotion are more or less honest, more or less truthful, more or less insistent or overwhelming for consciences and for the independent freedom of decision), possibly even by decision which is thus taken under the pressure of promotions, or not (consequently the economic agent may choose, being truly informed or formally averted, *i.e.* by emotional impulse, artificially generated). Much gain may be brought by cheating. Such normal and common actual circumstances are amplifying the phenomenon of servicity transfers from an entity to another, be they companies, regional or national economic or administrative areas or entities, human society and natural environment, present and next generations of humans (see developments in Jivan, 2013).

Another illustration concerns the decreasing returns of technology. When such decreasing returns are mentioned, actually the industry's returns are meant, not the intellectual services'. Intellectual services becoming more and more expensive expresses the increasing efficiencies thereof, correlated with the decreasing efficiencies in industry per unit expenditure for technology: consequently, out of the general returns, the share endorsed by such services is on the rise, while the industrial production gets relatively less, a fact invisible with the industrial enterprisers which contain intensive-intellect services, but obvious where such services are externalized and the economic *facta* are seen larger than the purely industrial. From the viewpoint of avangarde services, things enrich their meanings and it becomes obvious that accountancy should adapt.

Thus the surplus effects tend to accumulate on the client's side; or, the largest consumers of modern society, *ergo* consumers of services, are the industrial type producing agents, industry as a whole, not the services performers. Such *faulty distribution of effects* is the source of the critical stances, crises included, *in spe* the goods overproduction crises, especially when such production in excess of the needs is financed by mortgaging the future, *i.e.* on credit, as it happens now, the world being confronted by a debts crisis (by *excess* of the needs we mean over the real ones, but artificially incited by market means).

To conclude with: under the circumstances of such mechanism, based on the industrial way of distributing values, with productivities recorded in the vision of the dominant economic theory, *i.e.* equated with prices (at subsistence level for the service providers, and higher than life in industry) immaterial services will always be below the level of the *real needs*, while goods will come in excess.

Yet, if watching close from a different angle, not from the industry side but from such intellectual services' (in a vision encompassing industry as well) assessment would prove valid with such enlargement and accuracy: the particular case would find its place within the general, no longer antagonizing it.

Hence the tendency of the services prices to rise, as they develop and as certain countries become richer. Unfortunately, in the market mechanisms of selling, even if prices rise (as specific to services) stimulates development of services, not the most useful are stimulated, but the short term. That is to say not of priority, scientific research or education, but rather legal assistance, telecommunications (and others of the surface), insurance and banking operations, *i.e.* material investment for the relatively short term run.

We debate on an indicator that is more comprehensive than productivity: *servicity*. The case of cutting the goods produced by Mother Nature (or of other ways of damaging it, *i.e.* causing costs to Mother Nature), as well as the case of robbery, inheriting, re-selling and other such benefitting from the other entities, shows the requirement of delimit *producing* from *appropriating*. *Servicity* implies a system of values which discriminate between the possible personal goals and the societal roles of the economic action, as assessing such action from the viewpoint of the people who benefit from it. *Servicity* is more than *efficiency* in the *production* process, meaning plus genuine value and sustainable utility.

In the *causal* meaning of the *natural source* or creation on the natural way, in the continental European logic (Latin, Cartesian...) vision (Jivan, 2012); not strictly in the light of the *goals*, *i.e.* the manufacturing (industrial, lab, shop...) of copy-cats of the natural, like *soft* drinks are compared to *natural* juices. Such latter meaning is, of late, in current use rather in the logic of result-focused economics, and one more illustration in point would be the (artificially) obtained colours, smells and tastes that seem to be like those given by Nature, the logic of such logics saying that yellow lemon colour and an imitation of a lemon taste are *natural*, no matter how they were produced and no matter the source of the substances that are used, no matter the creation or the producing process (but only the end matters).

As against market simplistic assessment, *e.g.* rewards and hierarchies made by the market, which work on recorded effects system, the complexity of Smith's approach also requires that each action be assessed considering, besides quoted effects, intent as well (firstly) and external effects (externalities, appeared as a consequence of the action concerned); to such issue see Smith, 1830, pp. 168 and the next: "Ces conséquences, dépendent presque toujours de la fortune, et non de la personne qui agit [...] Les seules conséquences [...] qui peuvent lui faire mériter la louange ou le blâme, sont celles qui étaient dans son intention, et dans son vœu; celle enfin qui résultent évidemment de quelque qualité [...]." Yet Smith admits, already at this point in time, that such principles are not always what their applying mechanisms – contradictory at times – is based on: see, to such effect, Smith, 1830, p. 170 and next.

4. The Growth Approach. Bad Effects on Economic Behaviour

We underline the forgotten moral principle in economics: the original liberalist approach on the economy was a God-founded one; the God's ("natural") laws were applied by people, were generating the creation, the food and all the value. Unfortunately, the humanity's perspective and the "God" from this genuine liberalism was replaced by the market (Jivan, 2007).

Even Smith based his invisible hand principle on moral principles. But the natural functioning principle (under God's laws) was replaced with Mandeville's approach on the "invisible hand".

Even if, in the present article, the issue of economic growth is not developed, here we must notice that economic growth is the major topic of most economic research, after extremely sophisticated models. However, often times, such studies focusing on methods and case study, despite of the extreme formalization and impressive mathematical patterns, the conceptual progress results thin. Long pages of modelling and computations, a-top of bulky electronic data processed after generally accepted algorithms though little is revealed in the appendices of the research reports, much too often end in predictable conclusions easily guessed out in advance. True, such analytical computations are an important plus, in terms of accuracy. Yet, inevitably, the stricter the pattern, the narrower the life slice fitting in. Seeing the quantitative meaning of all economic acts, in the approach of servicity we can say that the nowadays crisis (that is grounded on the market mechanisms and on the common economic thinking) will not actually pass (in the usual terms): *i.e.* the economy will not come (back) to a new advance and growth as it was usual in the last decades (and as it used to do after other crises). As, unfortunately is the manufacturing industry; and as agriculture has become, by industrialization, ruining the land, the woods... generating ever more harmful goods (mainly for health, in the long run); plus, above all, ruining – by market competition (by market criteria) – the natural productions (*i.e.* ecological, healthy, yet *non-competitive* in strictly money terms); but an approach different from intrinsic value must become actual. At least, such development will not be in the usual terms, *i.e.* as shown by quantitative indicators (in such topic see the critics made by Jean Gadrey and the alternative he proposed in his *Adieu a la croissance* – Gadrey, 2010). There will be a kind of stagnant economy, an economy of survival (quantitatively) and an only qualitatively growth (*growth in quality, in connections and in service, and not any more in quantity* – the concept of "relational growth", from Jivan (1996).

In the light of knowledge society, such growth will be intellect-intensive, but in another meaning than the common/routine one: the responsibility will (should) be the core, not the competition. It will mean contribution must come firstly, not profit.

Claiming a *general* validity in (strictly) money terms is relatively recent, pertaining to the civilization dominated by material consumption and by the money profit urged by the specific culture of the consumption society and after the exchange economy became generalized. It is important not to generalize a concept dominant over a certain lapse of time, as being unique, permanent and for ever ... as people in fact often tend to; of course, only in the circumstances of the narrow perception manifested in the case of conceptual-scientific limited horizon, the limits being culture specific. Such narrow perception has its limits, being culture specific too.

Suppose, for an illustration, that a market actor *did not create anything*, he will still be assessed – in market terminology as well as in the dominant economics – by a

certain “productivity” (like a producer of value), coming from his simply getting income and computed based on his after-sale cashing in. Productivity is no more a suitable indicator: economics should widen the horizon to the servicity approach.

The *economic entity* may be an individual person (natural person or corporate body/legal entity), or even a more complex entity, like a big (even multinational) organization or a whole national economy.

The fact that competition procedures are tolerated (by competitors) on the market and that also the imposed prices (imposed by the analyzed economic entity) are *accepted* (by its suppliers and customers) does not mean that they actually are *advantageous for suppliers and customers too*: they result from negotiation, thus often they can rather be the result of imposing the interest of the most powerful, of some black-mail or cunning behaviour (as, for instance, the effects of a nice and well-set – but possibly deceptive – label can have; the theory of the buyer's gain (advantage) can also be invoked herein).

In computing productivity, Manoilescu (2012) already operated with “all the productivity's factors” for the given logistics, man being assumed as an economic agent, only as simple labour factor. “Each ware is, thus, a two factors function: labour quantity and that what could be called labour quality used for its production”. We believe that Mihail Manoilescu distinguished between physical energies (material, resource) and intellectual resources we already spoke (see *infra* Chapter 2). Manoilescu thinks more profitable (to the national economy) an industrial entity than a farming/mining, one, as “not exhausting the limited stock of national resources”, *i.e.* is, in our terms, more intellect-intensive, less material-intensive. The development of intellectual activities itself, as well as highlighting thereof (by individualization-externalization), was possible only by transforming the industrialized sector into a number of its activities.

We followed Manoilescu's logic and extending it to today's specific economic structures, developing the servicity approach.

The *mutual interest* presumed by the dominant economics is, to say the least, *idealistic*. Reality is rather tough (as Thorsten Veblen described the actual market fight is: see, for instance, Veblen, 1953). It would be a good thing if economic agents could thrive by *own value and personal contribution* (“give”), *i.e.* their capacity to do good (generally speaking: not only to them, but to others too), rather than to “take” from them and from other components of their environment. More realistically put, an enterprise should have limits set to how much it can gain by taking from others or from impoverishing others, so other economic agents can survive by its side, saving thus the idea of fair competition and the necessary benefits there attached (a well set competition legislation must work). The *equitable trade* in current use defines precisely such point made, aiming at promoting the lesser economic agents on the market and protecting them from diminishing their market share or losing it to the biggest and financially and negotiating strongest. The clients then will decide for themselves who to bet their money on, *i.e.* who they choose to buy from and support for fairer chances against the competition.

It is important that servicity should not be seriously affected. Performance should increase, as benefit for the entire human society.

A new economic growth model results in a synergetic conception, as we already quoted (Jivan, 1996, p. 95 and next): Approach of such model is different by comparison to the traditionalist economic thought based on the new conception of

servicity and of placing the intellect at the core of value generation and development.

5. Concluding remarks

Unfortunately, economists are routinely thinking on short and medium run terms, not only at the level of the economic actor, but even at the level of economic science, for a *very big* part of it. Such approach can be found in the human behaviour and had (and has) a destructive impact on the whole planet, starting with the industrial revolution; and a not enough stimulating impact on intellect-intensive services.

Our approach is rather *causal*; we underlined as quite important the idea that gaining from economic activities is implicitly a gaining *on others* than respective economic entity. It implies the *servicity* approach and the “transfers” we spoke about (exemplifying transfers from intellectual services to other industries). The theoretical analysis and debate are correlated with the theory of externalities, resulting the conclusion of the possibility of perceiving common “production” as an income that is “brought about”, on the base of the intra-relational service effect and of absorbing from the environment (Jivan, 2012). The debate on such topics brings interesting openings for a deeper and applied analysis.

Economics should be more interested in other approaches than the routine view of the enterpriser, in widening its angles of perceiving the facts and thus in deepening analyses.

Present essay states a personal vision, mostly; therefore bibliography should be indicated only as actually quoting specific authors’ ideas or statements (as already practiced) corresponding to our approach. Our theoretical principles are the same in several of our studies, of which a selection was made: of the most comprehensive (Jivan, 1996) or most representative (the most recent Jivan 2012 and 2013). The tomes basic for our vision on value and productivity, mentioned in the bibliography, are first of all Manoilescu’s (2012) and Georgescu-Roegen’s (2009). Also important contribution brought is the history of economic thought literature (we quote here only one of the most helpful Gide&Rist, 1926). I was glad to meet ideas close to our own – and developments and elaborated detailed arguments there included – in valuable research, such as Sedlacek’s (2012), for instance, are also mentioned in our bibliography. Including recent titles of Djellal&Gallouj’s (2008) testifies to our esteem for such important researchers of services economics we all have much to learn from. Our special gratitude goes to Gadrey (2010 and others), Giarini (2006) plus several such authors in their generation (and not only) for their important role played in shaping our heterodox thought and enthusiasm for services economics.

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ANALYSIS OF THE INTELLECTUAL DEVELOPMENT AND EVOLUTION OF RESEARCH SYSTEMS IN EUROPEAN RESEARCH AREA IN THE LAST DECADE

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Abstract: *In the present paper will be presented an analysis of the open, excellent and attractive research systems based on the economic indicators taken from IUS2010, IUS2011 that uses the latest statistics from Eurostat and other internationally recognized sources as available at the time of analysis. The datas are taken from the Proinno Europe site: <http://www.proinno-europe.eu/innovation/page/innovation-union-scoreboard-2011>, the last document introduced by European Commission for research development and innovation. International scientific publications per 1 million inhabitants (IUS 2010, IUS 2011) and 10% most cited scientific publications with values taken from IUS 2010 and IUS 2011 is analyzed too. By studying IUS 2011 and IUS 2010 we be made a conclusion for the period 2000 to 2010. In respect of the 10% most cited scientific publications, these values are analyzed in the period between 2000 and 2007. These datas are taken at European Union level only for the period 2004-2009. The evolution of doctoral graduates from non-EU countries which are represented as a percentage (%) of the total number of students, according to IUS 2011 is done too. A conclusion concerning the trend for the period 2005 to 2009 is made here too. Analysis of graduates of doctoral internships which belongs to ISCED 6 per 1000 inhabitants aged 25-34 years, based on data taken from the database IUS 2010 and IUS 2011 may represent the evolution of EU doctoral internship graduates during 2000-2010. Were reported in the EU only data from 2002 to 2009. It is done the analyse of the trend from 2002 to 2008. Intellectual development respectively publications made in public-private partnership to 1 million inhabitants which are assigned to countries where are research in companies and other private sector organization is done too. But we have here an analysis done only to European area. The analyse of scientific publications made in public-private partnership to 1 million in the period from 2003 to 2008 is done too. The present study is part of Doctoral Grant "Implications for innovation, research and development role in the development of Romania's economic competitiveness", having Director: Prof. Dr. Alina Badulescu in Oradea University, Faculty of Economic Sciences.*

Keywords: Higher Education and Research Institutions, Economic Growth of Open Economies, Economic Development, Analysis of Education, Human Capital; Skills; Occupational Choice.

JEL classification: I25 ,I23, F43, F63, I21, J21, J22, J23, J24.

1. Introduction

A knowledge-based economy is a basic factor to strengthen the competitiveness of that economy. Economic growth is the increase of activities and their results in the national economy that are closely related with factors contributing to this increase. Growth is interpreted as a positive, upward macroeconomic outcomes expressed by the dynamics of macroeconomic activity results in real terms. Economic growth is measured by the growth rate of gross domestic product, the gross national product or national income per total and per capita. Economic growth is seen as a long-term process. It is the increase in potential output and potential output. Growth is a conditional existing potential resources and how they are made (Dachin&Popescu, 2009).

A key aspect of economic growth based on innovation in the firm has to do with specific industry environment. Competitive advantages of a company come and experience management team.

A greater technological capacity and reduced unit costs raises the demand curve of the firm. There is a tendency formation and spread of scientific and professional communities. When analyzing the evolution RDI sector is considered and historical changes in industrial leadership models across countries. The role of education in economic specific types of skills helps in removing discrepancies and innovative potential in the industry. It is interesting to study university-industry relationship, namely science-technology in as many countries (Mowery & Sampat, 2006).

In the present paper after a short presentation on the literature review concerning the the origin of relationship between economic growth – research development and innovation (RDI) and competitiveness, it will be presented an analysis of the the Open, excellent and attractive research systems based on the economic indicators taken from IUS2010, IUS2011. This analysis will be done on the international scientific publications per 1 million inhabitants and 10% most cited scientific publications based on datas from IUS 2010 and 2011.

The present paper will analysis graduates of doctoral internships which represent ISCED 6, per 1000 inhabitants aged 25-34 years based on datas from IUS 2010 and 2011. It will be analysed too Intellectual development especially publications made in public-private partnership to 1 million inhabitants based on datas from IUS 2010 and 2011 too.

2. Literature review

The origins of economic growth theory, studied from one country to another, appearing in works of Abrambwitz from 1956, Solow from 1957, Denison from 1967 respectively. Technological improvements and increased productivity generated changes in accounting means substantial residual economic growth. These have the effect of increasing input factors. Thus the accumulation of capital to expand the scale of the activities undertaken relative unit labor costs are based on "price competitiveness", while the contribution of corporate research and the ability to "catching up" through imitation of a leader achievements are "non-price" technological competitiveness. technological competitiveness is considered to be more important than relative unit costs of labor. Fagerberg model introduced in 1988 is based on estimating the empirical model of international competitiveness. This was decomposed model of world trade for each country. Decomposition predicted growth rates for national market and is based on an empirical model.

This model was estimated by analyzing competitiveness from one country to another to increase technological capabilities, increasing unit labor costs relative to initial capacity, the share of investment in GDP and rising global demand. Increasing total market share was predicted by the model (Cantwell, 2006).

Competitiveness is studied to understand whether there is capacity to sustainable economic growth in a competitive environment achieved internationally. Competitiveness is studying environment there are other countries, groups or individual companies. It is studied differentiated set of capabilities appropriate for each economy separately. (Cantwell, 2006).

More important is the increased role of innovation in modern knowledge-based economy. Even countries that start from an unfavorable position wish to catch necessary to implement innovation in their economies. Competitiveness must be designed so that they assume a relative comparison of growth rates or performance benchmarking of each participant made to build capacity for innovation and economic growth (Fagerberg&Godinho, 2006).

At the national level, competitiveness reflects how international trade evolves over time, so that it reflected the competitive advantage. Technological gap approach is closely related to model production cycle. When the model appeared in the 1970 production cycle due to the recurrence of multiple centers where to study the process of innovation in a number of international industries, modified versions of the model is based on the strategy of oligopoly rather than on theory revision based innovation and competitiveness (Cantwell, 2006).

Each national RDI efforts are necessary to promote competitive businesses and are complementary to those at the local level. Scientific and engineering community are becoming international. Border flows of knowledge are becoming increasingly common. Competition between companies stimulates RDI. The innovation reduces costs and improves product quality in the industry, and therefore increases the demand of the industry. All benefits companies successfully contribute to the process of innovation combined and interactive (Narula&Zanfei, 2006).

Long-term technological competitiveness is the relationship between RDI and competitiveness. Appropriate price competitiveness term competitiveness. Faster growth in productivity and trade, a trend appears to increase the value of the national currency, reflect competitiveness. Competitiveness is defined as a relatively rapid increase productivity and export value (Cantwell, 2006).

Concerning the technological gap between countries international competitiveness, Fagerberg formulated in his works of 1987 and 1988 increasing impact on national rates of innovation and technological leadership distance are treated primarily as additive elements that will be added to the traditional determinants of economic growth in the form of capital accumulation (investment share in national output) and relative labor costs and unit.

Innovation is seen as a source of economic growth. Technological competitiveness is a function that depends on the cost. Relationships between technological innovation capability development in firms and institutions are responsible for the company's competitiveness varies from country to country. They tend to be different in countries belonging to the group of industrialized countries who are leaders and those who are trying to catch up (Fagerberg&Godinho, 2006). There have been many cases where governments economies from "catching-up" internal

protection measures have contributed actively to the promotion of local industries capacity early and domestic companies. This was done in Germany, and Great Britain in the nineteenth century. Germany is known for its focus on a broad and deep skills acquired by emphasizing the general and engineering. Basic education standards for the population as a whole are high. The UK tends to be elitist and focuses on developing high-tech skills for a smaller group of people. The German system has a competitive advantage in the automotive and engineering based on calificare.Sistemul UK has a competitive advantage in aerospace, software, pharmaceuticals, biotechnology, medical equipment. These companies rely on individuals involved in the RDI.

Examined patterns of technological specialization among national groups were from the largest companies in countries such as Germany, UK, France, Switzerland and Sweden. These models are based on models of corporate patenting. These profiles are made for periods of sixty years from the interwar period to the present (Cantwell, 2006).

Relationships between companies and scientific infrastructure, between producers and users of innovations in the companies favor polarization and accumulation processes (Lundvall, 2008). Economies which have the effect of attracting all types of economic activity in certain regions, which would determine if corporate integration, the location of new research units.

3. Methodology of research

Analysis of relevant indicators of european competitiveness is done based on the IUS2010 and IUS 2011. Here they are 25 indicators that comprise the national performance of RDI. 19 indicators were carried over from previous EIS2009 and 12 indicators were not modified, two indicators were merged and 5 indicators were partially modified using broader or narrower definitions or different names. Taking into account the fusion of two indicators 18, indicators are equivalent to those of IUS2010 EIS2009 and in addition have been introduced 7 indicates. IUS2011 uses the latest statistics from Eurostat and other internationally recognized sources as available at the time of analysis. IUS2011 distinguish between three main types of innovation indicators on eight dimensions, for a total of about 25 different indicators. The main input factors in the analysis of external innovation performance of companies covers three dimensions of innovation. These are: human resources, research systems open, excellent and attractive, and finance and support. Business activities relate to the company's innovation efforts, grouped into three dimensions of innovation as follows: investment firms and spirit connections antreprenorialși intellectual assets. Output factors relate to effects on innovation activities of firms in innovation: innovators and economic effects. The 25 performance indicators show the RDI status. Some indicators of innovation at EU level such as public spending on RDI may be more easily influenced by policy interventions than others, such as private SMEs with innovation.

Determinants of competitiveness indicators at European level will be grouped as follows:

- *Influencing Factors* which are dealing with: Human Resources (New graduate doctoral Population that has attained tertiary education Youth with upper secondary education); Open systems, excellent and attractive research (collaborative international scientific publications, top 10% most cited scientific publications, doctoral students from non-EU countries); Financing and support (Public expenditure on RDI, Venture Capital)
- *Business companies* which are dealing with: Investments in the companies (companies with RDI expenditure, non RDI expenditure of Companies); Links and entrepreneurship (internal innovations SMEs Innovative SMEs collaborating with others, public-private partnership represented in the co-publications); Intellectual Evolution (PCT patent applications, PCT patent applications in societal challenges, Community Trademarks, Community Models)
- *Results* which are dealing with: Innovative enterprises (SMEs introducing product or process innovations, SMEs introducing organizational innovations on the market); Economic effects (Employment in knowledge-based activities, exports of medium and high-tech, export of knowledge-intensive services, sales of new market innovations and new companies, revenue derived from licenses and patents obtained from abroad).

The datas were taken from the Proinno Europe site: <http://www.proinno-europe.eu/inno-metrics/page/innovation-union-scoreboard-2011>, respectively from Innovation Union Scoreboard 2011(IUS 2010 and IUS2011), the last document introduced by European Commission for research development and innovation.

4. Results

Open, excellent and attractive research systems

It will be presented indicators from IUS2010 and IUS2011 to analyse Open, excellent and attractive research systems

International scientific publications per 1 million inhabitants (IUS 2010,2011) and 10% most cited scientific publications (IUS 2010,2011)

Studying IUS2011 and IUS2010 we can conclude that collaborative international scientific publications represented 1 million inhabitants are increasing from 132 to 1 million inhabitants in 2000 to 301 in 2010. In respect of the 10% most cited scientific publications, these values are increasing from 981 in 2000-1073 to 2007. Although these datas from IUS2010 and IUS2011 are for 2000-2010 for this indicator. These datas are taken at EU level only for the period 2004-2009. Figure 2 presents the evolution of doctoral graduates from non-EU countries. They are represented as a percentage (%) of the total number of students, conformcu IUS2011 and can see an increasing trend from 17.1% in 2005 to 19.2% in 2009.

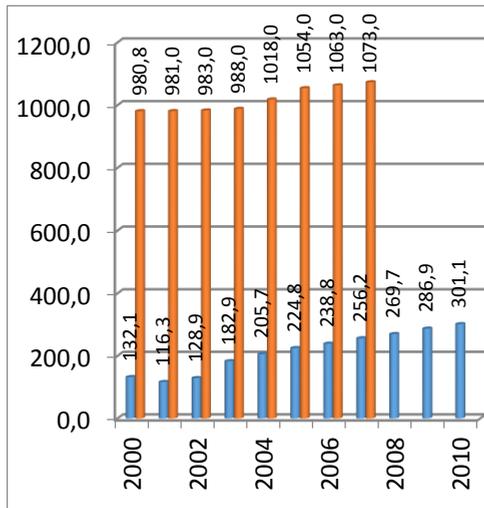


Figure 1: International collaborative scientific publications on 1 million inhabitants (IUS2010, IUS2011) is presented in blue. 10% of the most cited scientific publications (IUS 2010,2011) are presented in red.

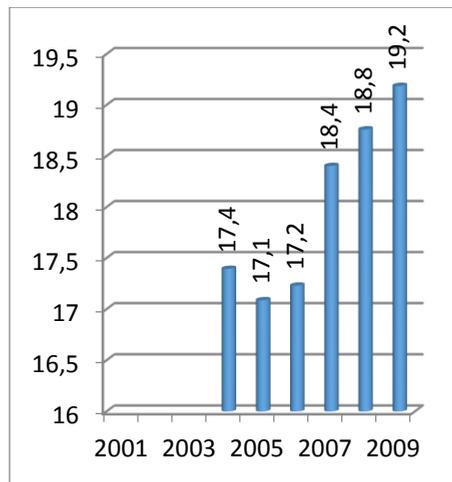


Figure 2: Doctoral graduates from non-EU countries (% of total number of students) evolution in the period 2000-2010 (Source: IUS2011 and Author's calculations)

Graduates of doctoral internships (ISCED 6) per 1000 inhabitants aged 25-34 years. Based on data taken from the database IUS 2010 and IUS 2011 may represent the evolution of EU doctoral internship graduates during 2000-2010. Were reported in the EU only data from 2002 to 2009. We can see that in 2002 there were values of 1.1 % and in 2008 there were 1.5 %.

Intellectual development respectively Publications made in public-private partnership to 1 million inhabitants (Source: IUS2010, IUS 2011). The definition of "private sector" excludes private health sector and health. Publications are assigned to countries where there are research in companies and other private sector organizations. Scientific publications made in public-private partnership to 1 million increased from 31.7% in 2003 to 36.3% in 2007 and then decline again in 2008 to 36.2%.

Was done an analysis of evolution of human resource in the period 1990-2010. We It is done an analysis for doctoral internship graduates aged 25-34 and science and engineering graduates aged 20-29 based on the next official documents EIS2004,EIS2005,IUS2010, IUS2011.

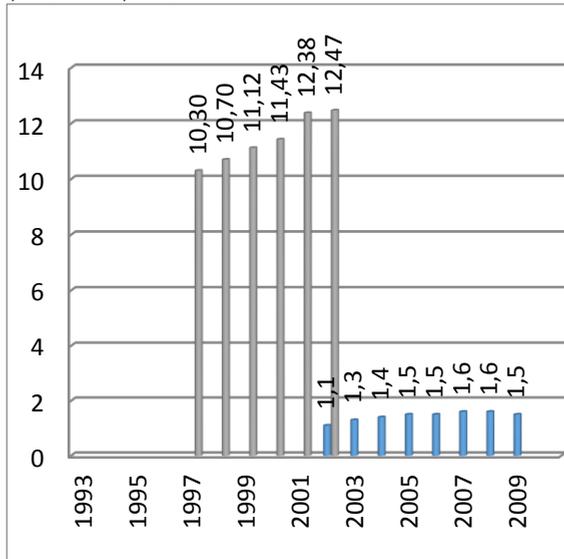


Figure 3: Evolution of human resource in the period 1990-2010. We used as follows dark blue for doctoral internship graduates aged 25-34, green for science and engineering graduates aged 20-29. (Source: EIS2004,EIS2005,IUS2010, IUS2011 and author's calculations).

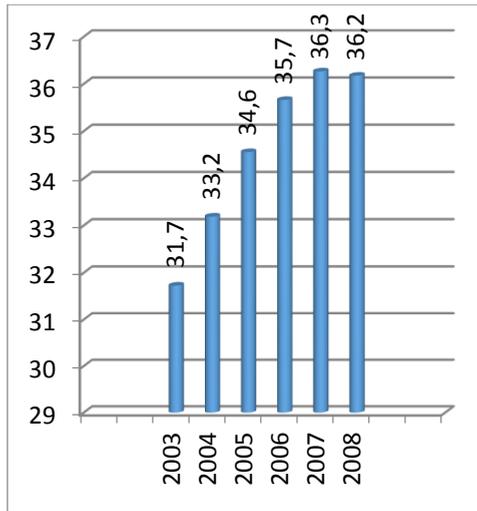


Figure 4: publications made in public-private partnership to 1 million developments between 2000-2010 (source ius2010, ius 2011 and author's calculus).

5. CONCLUSIONS

The main factors of competitiveness analysis of the relationship between Research Development and Innovation and competitiveness covers 3 dimensions of innovation which are: human resources, open, excellent and attractive research systems and finance and support, respectively. Entities that carry out activities RDI refers to efforts made innovation at the firm level, but also at public. they are grouped into three dimensions of innovation: investment firms, linkages&entrepreneurship and intellectual assets. The results of such analysis concerns the effects on innovation activities, being on two dimensions: innovators and economic effects.

All innovation leaders should have high values for RDI expenditure in business, innovation and human resources, finance and support, and investment firm. All leaders must have elevated innovation for publications made in public-private partnerships, publications made at 1 million, suggesting good links between fundamental science and business. all top european innovators must excel in marketing technological knowledge, Which is seen in their performance on foreign income from licenses and patents. overall good performance of the innovation leaders should reflect a balance national research and innovation. Effects of innovations are improving the innovative work of government. They improved working conditions or employee satisfaction. Human resources led to support innovation. More than half of employees with higher education innovation services performed but not all innovations introduced them as innovation. Future trends are increasing the number of public sector organizations in the EU who introduce innovations.

Large companies invest in RDI. Prevail throughout the EU innovation-related products and services related to actions that are reported as improved or newly introduced in the past two years. The conclusion is that innovative companies are successful.

Analysis of relevant indicators for European competitiveness is done in the present paper. The present analysis is based on the IUS2010 and IUS 2011.

IUS2011 uses the latest statistics from Eurostat and other internationally recognized sources as available at the time of analysis.

In the present paper are analyzed only Open, excellent and attractive research systems, which are indicators from IUS2010 and IUS2011. The data were taken from the Proinno Europe site: <http://www.proinno-europe.eu/innovation-metrics/page/innovation-union-scoreboard-2011>, respectively from IUS2010 and IUS2011, the last document introduced by European Commission for research development and innovation analysis.

International scientific publications per 1 million inhabitants (IUS 2010,2011) and 10% most cited scientific publications (IUS 2010,2011)

Studying IUS2011 and IUS2010 we can conclude that collaborative international scientific publications represented 1 million inhabitants are increasing from 2000 to 2010. In respect of the 10% most cited scientific publications, these values are increasing too from 2000 to 2007. These data are taken at EU level only for the period 2004-2009.

The evolution of doctoral graduates from non-EU countries are represented as a percentage (%) of the total number of students, according to IUS2011 and we can see an increasing trend from 2005 to 2009.

Graduates of doctoral internships (ISCED 6) per 1000 inhabitants aged 25-34 years. Based on data taken from the database IUS 2010 and IUS 2011 may represent the evolution of EU doctoral internship graduates during 2000-2010. We reported in the EU only data from 2002 to 2009. We can see an increasing trend from 2002 to 2008.

Intellectual development respectively publications made in public-private partnership to 1 million inhabitants are assigned to countries where there are research in companies and other private sector organizations. Scientific publications made in public-private partnership to 1 million increased from 2003 to 2007 and then decline again in 2008.

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VOLUNTEERING AMONG STUDENTS IN ROMANIA AND HUNGARY CROSS-BORDER AREA

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Abstract: *Considering the multiple benefits of volunteering, this paper analyses both the forms and the sources of volunteering among students. Community participation in all its formal or informal types, by producing collective goods is proven to be beneficial for the society. Nevertheless it has positive outcomes for the individuals involved in such activities by strengthening their social capital, empowering them and providing social skills needed for a better social integration. These effects are even more important for youth which are still in their formation stage. Consequently, by getting involved, volunteering in different activities, youngsters develop both values and competencies which promote awareness of social problems and future involvement in solving such issues. More, some of these values and skills may also facilitate their integration in the field work. As we consider that volunteering is particularly important for youth, in this paper we investigate the forms of participation among students in Romania and Hungary cross border area. The research objectives set in this analysis were to: (1) analyse the dimensions and structure of volunteering among students in this area, (2) investigate volunteering covariates, and (3) to elaborate a profile of students involved in such activities. The investigated covariates of volunteering were structured on: socio-demographical characteristics, educational participation, previous academic path, current academic integration, and employment. Although volunteering and associative participation are intertwined, in this investigation on students we consider the second as a particular form of volunteering. Analyses are presented separately were appropriate, yet the focus of this paper relies on volunteering. Our main findings reveal a significant difference between volunteering among students in Romanian and Hungarian universities. Among socio-demographical characteristics solely household endowment proved to influence volunteering. Academically engaged students, with good school achievement are the ones that volunteer. The profile of students that volunteer supports the common sense idea of "good students" involved in all areas of their life. The data analysed in this paper is derived from an international research conducted in Romania and Hungary cross border area, in which 2619 students from seven higher education institutions were questioned.*

Keywords: *volunteering, associative participation, non-profit organizations, higher education, academic integration, working students*

JEL classification: D64, D71, H40, I21, L31, Z13

1. Introductory discussion

1.1. Conceptual framework: youth volunteering

Starting especially with Putnam (1993) there was a special emphasis on the role of associations and volunteering for the development of communities. The positive outcomes of such involvement in the life of the community can be found at different levels. Nevertheless, we must note that different forms of participation contribute to a higher or lesser degree to such positive effects (Edwards, 2004).

At societal level, sometimes mediated through social capital, volunteering both enhances economic development by producing public goods (Putnam, 1993; Woolcock, 1993; Ostrom and Ahn, 2001; Portes and Mooney, 2002), and promotes democracy by enhancing of civil society (Tocqueville, 1969; Edwards, 2004; Almond and Verba, 1989). Secondly, at individual level, people satisfy different personal needs through such involvement, on the other hand acquire different competencies and develop an active identity which promotes future involvement (Dodescu et. al., 2004; Hatos, 2005). These effects are particularly relevant for youth, seen as the future citizens of a society (Badescu et. al., 2010). Through participation young people have the opportunity to learn more, develop so called transversal competencies, and acquire social capital (trust and network belonging). This may facilitate finding a better job, thus social integration and also their choice for continuing social participation (McAdam, 1986).

Even if, at a first glance, volunteering seems easy to grasp, the theoretical framework highlights the need for distinctions driven either from the domain of involvement, its form, the causes or its effects. The multitudes of approaches, both theoretical and empirical, sustain the fact that, while there are common traits for different forms of involvement, these should be studied also separately. One may distinguish between: (a) volunteering (measured mostly as unpaid work within a non-governmental organization, often considered a particular form of NGO membership) (b) associative or civic participation (membership, paid or volunteer, in an NGO), (c) community participation (community or neighbourhood level collective actions), and (d) informal volunteering (direct help provided to individuals, unmediated by a NGO). From the political perspective one may also delineate public, political and protest participation. In this paper we focus on formal volunteering, and highlight responses for associative membership where relevant. Both volunteering and membership in associations have a much smaller incidence in Romania and Hungary than the European means (Salamon and Sokolowski, 2004). Volunteering registers 1.88% in Romania compared with 2.67% at European level. Associative membership is higher: 2.9% in Romania, yet still smaller than the 5.38% European mean. In both cases, in Romania the most attractive domains of action are the religious, philanthropic ones, while in other countries the leisure related domains have the highest volunteer support (European Values Survey, 2008, <http://www.europeanvaluesstudy.eu/>).

In most countries youth volunteers more than adults, both because their extrinsic motivations derived from the need for personal achievement are stronger, and they have more time (Hatos, 2005 and 2009). One may argue also that they have more opportunities (Lambrou et. al., 2010). As stated above, this topic is particularly important for youth as they shape development in still developing country as Romania. In this paper we investigate the profile of students who volunteer in order to find mechanisms to promote such activities.

2. Research Methodology

2.1. Research objectives

Our approach aims the following research objectives: (1) The analysis of the dimensions and structure of volunteering and membership among students from universities in Hungary-Romania cross-border area; (2) The investigation of volunteering covariates; (3) The elaboration of a profile of students as volunteers. Our analysis is based on data obtained in a survey conducted within the project *HERD: Higher Education for Social Cohesion Cooperative Research and Development in a Cross-border Area* (HURO/0901/253/2.2.2.), research project supported by the European Union European Regional Development Fund. Questionnaires were addressed to students from the universities in the Romania-Hungary cross-border, data collection was organized between March - June 2012.

2.2. Data and methods

The sample based on which we conducted our study consists of 2619 cases, 1296 from Hungary and 1323 from Romania. The sample is representative for students from all educational levels and all study programs. The questionnaire was applied to students enrolled in BA and MA studies (84.1% - BA, 15.9% - MA). 71.3% of them pay tuition. 70.6% come from urban areas. The mean value of students' age is 22.4, with standard deviation of 3.01. 63.9% are females and 36.1 % males. Our analyses focused on students' volunteering. We guided the analysis in a comparative manner, in order to capture the differences and similarities characteristic in this cross-border area.

According to our research objectives, we followed socio-economic indicators and students' academic situation indicators. In order to develop students' volunteer profile we used measures regarding students' academic careers.

2.3. Results and Discussions

2.3.1. Dimensions and structure of volunteering among students in HU-RO cross-border area

The figure below indicates the degree of voluntary work of students. From 2490 students, 741 declare that they did, during their studies, any voluntary work.

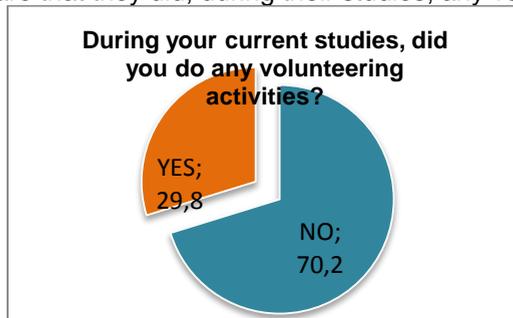


Figure 1: Students involvement in voluntary work
Source: authors' own calculations

The comparative analysis for Hungary and Romania, presented in Figure no. 2, shows significant difference regarding students' volunteering in the two countries

(Pearson Chi-Square = 96.56, $p=0.000$). It is interesting that Romanian students are more engaged in volunteering than those in Hungary. However, it would be interesting to further investigate if students from Romania are more involved in all kinds of voluntary work or just in some areas. Looking to the next indicator, motivation for volunteering is found in the sphere of charity actions.

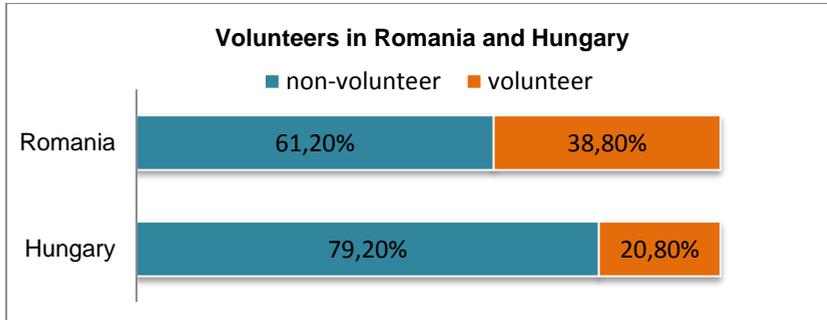


Figure 2: Students involvement in voluntary work, data recorded for Hungary and Romania
Source: authors' own calculations

Most of students are guided in voluntary activities in order to support others in need. Furthermore, students consider that this kind of activities can improve their professional skills and knowledge, and therefore facilitate the transition to active life. Our results are important from the perspective of proposals from local businesses for voluntary involvement of young people. Such partnerships are a win for both sides. On the one hand volunteer students gain experience in accordance with the requirements found on the labour market, on the other hand, firms take advantage of the support from additional human resources in carrying out the company's current activities.

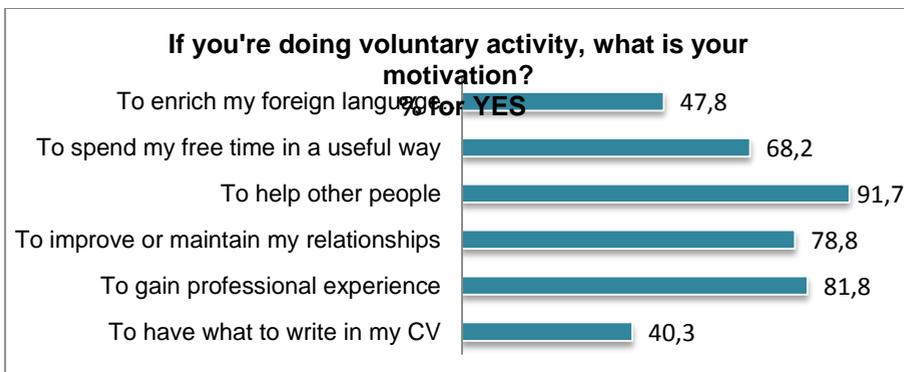


Figure 3: Students' motivation for voluntary work
Source: authors' own calculations

Data obtained for the two countries in our sample show differences in terms of students' motivation for voluntary work. Values presented in the table below suggest that students from Romania are oriented toward charitable activities in a

greater extent than those from Hungary.

Table 1: Students' motivation for volunteering, data for Hungary and Romania

Volunteering motives - % for YES	Hungary	Romania
To have what to write in my CV	20.8	36.6
To gain professional experience	48.5	74.1
To improve or maintain my relationships	50.8	67.6
To help people	56.6	81.2
To spend my free time in a useful way	37.0	61.5
To enrich my foreign language knowledge	35.4	46.5

Source: authors own calculations

Regarding students spheres of volunteering, data show that they are involved mostly in formal voluntary activities, within nongovernmental organizations. Nevertheless, the 18 percentage of those working in a company is noteworthy. Although it is not a higher value, in accordance with our above mentioned statement, these students are those who have an advantage in the transition to professional life. They are beneficiaries of direct contact with the socio-economic environment in which they will develop their future professional career.

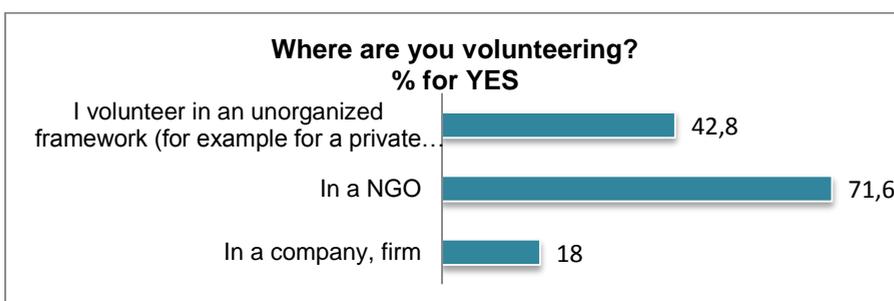


Figure 4: Places for voluntary work

Source: authors' own calculations

The comparative analysis done for the two countries reveals interesting differences. Student from Romania are volunteers in NGO sector, while students from Hungary are volunteers in a non-organized field. A comparative analysis of the associative sector in the two countries might provide explanations of this fact.

Table 2: Places for voluntary work, data recorded for Hungary and Romania

Volunteering places - % for YES	Hungary	Romania
In a company, firm	11.9	21.1
In a NGO	42.5	59.1
I volunteer in an unorganized framework	57.5	39.9

Source: authors own calculations

As volunteering takes place mainly in NGOs we explored also the types of associative participation in both countries. The answers to the question *Are you a member in a civic group, association, organization, club?*, reveal that students are

oriented mostly toward activities organized within church or religious groups in a much higher percentage than all other types of NGOs. The second field of involvement is represented by leisure groups (sports or cultural). The lowest support from students is for political groups or movements, followed by professional associations. We obtained similar results in the comparative analysis for Hungary and Romania, such as those found in the case of voluntary work: in the case of all kind of organizations, students from Romania report higher values. The values are especially higher in the case of confessional and religious organizations. As our data suggested, students are mainly volunteering in organizations, so the two issues, volunteering and associative membership, are strongly correlated. In our further analysis we will focus on describing characteristics of volunteer students.

In order to investigate the structure of participative behaviours of students in cross-border area, we focused first on students' socio-economic characteristics and also on their academic situation.

There are no significant gender and age differences in the case of students' voluntary work. Even though previous studies (Hatos, 2009) indicate a higher involvement in voluntary activities among females mainly in charity, in the case of students from HU-RO cross border area this statement is not confirmed.

Regarding students socio-economic status we used two indicators: educational capital of parents (fathers' years of schooling) and household endowment. For this second indicator we summed positive responses for items found in students' parents household and his/hers personal household (LCD, computer, laptop, dishwasher, air conditioning etc.). Reliability is proved for both scores (Cronbach alpha above .700). Results show that there are no significant relationships between educational capital of parents and students' voluntary involvement. There are no significant relationships between students' socio-economic status and volunteering. Only in the case of students' household endowment we identified significant differences, indicating higher levels for those who are involved in voluntary activities (mean value for household endowment of volunteer students is 0.91, compared to 0.71 for non-volunteers, significant for $t=-2.82$, $p<.000$).

To describe the academic situation of students we analysed data recorded for each university or college, filed of study, academic cycle and tuition payment. Results show significant differences between universities and colleges included in our sample (Pearson Chi-Square = 232.4, $p=.000$). The largest differences are found in the case of University of Debrecen, where most students do not volunteer, and Emanuel University from Oradea, where students are better involved in voluntary activities. In the case of this last institution, we have to stress out the fact that it is a confessional university, and consistent with our previous results, students from Romania are rather involved in voluntary activities for helping other people and this kind of activities are developed in an organized framework, within religious groups. To express these significant differences we computed dummy variables for each university where results are relevant. Data is presented in the table no. 3 below.

Table 3: Percentage of volunteers and no-volunteers in universities and colleges

University/college	Non-volunteer	Volunteer	Total	Adjusted residual	Person Chi-Square; p
University of Debrecen (HU)	78.5%	21.5%	100%	-7.8	60.70, p=.000
Nyiregyhaza College (HU)	89.9%	12.1%	100%	-4.9	23.69, p=.000
University of Oradea (RO)	67.4%	32.6%	100%	2.0	3.83, p<.005
Partium Christian University (RO)	62.7%	37.3%	100%	3.3	11.2, p<.005
Emanuel University (RO)	17.4%	82.6%	100%	13.0	170.17, p=.000

Source: authors own calculations

Students from social-sciences field are better involved in voluntary activities. Analysis revealed significant differences in the case of field of study, (Pearson Chi-Square = 172.4, p=.000), so there are domains which favours such behaviours, and other ones where students are not volunteering. We found no significant differences among BA and MA students regarding their voluntary work. In the case of tuition payment, students who are enrolled in tax-free places are less involved in voluntary activities. Differences are significant for Pearson Chi-Square = 15.3, p=.000. Volunteers in 65.9% do not pay tuition, while 73.8% of non-volunteers occupy tax-free places within universities suggesting that students with good grades are the ones that volunteer.

2.3.2. Previous academic paths and students' volunteering

In this section we aim to investigate the relationship between students' academic path and involvement in voluntary activities. A rich academic career is found in the case of top-students. Are these students also more active, voluntarily getting involved in activities that address community issues?

Indeed, higher involvement in voluntary activities is found in the case of students with higher academic capital in terms of their awards gained during high school. We used an indicator by summing positive responses to the following items: awards for school achievements, awards for Olympics, and awards for artistic and sport achievements, all gained during high-school. The mean value for awards gained by students who are doing voluntary work is 2.06, significantly higher than the value of 1.55 recorded for those who are not volunteering (for t=6.3; p=.000).

However, results obtained in the case of our second indicator for students' academic paths show no significant difference between students who already gained some higher education diplomas and those who are the beginning of their academic career. Therefore a successful academic career is better than a longer academic career in terms of getting involved in voluntary activities.

2.3.3. Academic integration and voluntary work of students

In our study we focused also on students' current academic integration. We used three indicators for this approach, referring to students' academic engagement and academic performances.

For the measurement of academic engagement we used a summative scale. The scale had 4 answer items, from *Never* (1) to *Very often* (4). We conducted factor analysis using Principal component extraction method and the Varimax with Kaiser Normalization rotation method. Analysis revealed four dimensions. The first dimension refers to the counselling direction of the academic activities (*I discussed about my grades and homework with a teacher, I discussed my career plans with a teacher or counsellor, I discussed ideas about readings or classes with teachers outside class, I received a written or verbal feedback*) and the second one refers to active class participation (*I raised questions or participated to discussions in courses and seminars, I did a presentation in class, We prepared two or more drafts of a paper before I finished it, I worked for a project or a paper that required integrating ideas and information from various sources*). The last two components refer to the collaboration with minority students and to the cohesion of students group. In the present study we used the score on active class participation, which has a normal distribution, with a mean value of 12.1, standard deviation 3.28, and a score on mentoring (mean value 7.19, standard deviation 2.53). Both scores have good reliability (Cronbach alpha above .700).

Regarding academic performance, we analysed the results for a Yes-No scale. Questions referred to students' research interests, their academic awards, scholarship, language certificate etc. We used factor analysis, selecting the Principal Component extraction method and the Varimax rotation method. Results showed three dimensions - in our analysis we used the first one that explains 19.73 % of the total variance. The score refers to student's research performance (*I have my own research theme that interests me, I attended a student/general scientific conference with a paper or a poster, I have published at least one scientific article*). Cronbach alpha of this scale is above .700.

Analyses reveal significant differences in the case of all three scores referring to students' academic integration, as shown in table no 4. Data suggests that top-students, those positively oriented toward learning, are also more interested in voluntary work. If we look at volunteering as a time consuming activity, than the results are interesting: these students have to be also present, active during courses and prepare more. This finding suggests a profile of volunteers as active persons. Those who are actively involved in current activities according to their status (studying) in their free time are devoted to other constructive activities, both for their personal development and the entire community.

Table 4: Significance test results for the relationship between volunteering and the indicators used for student’s academic integration

	Mean values for each score		Significance test	
	Non-volunteer	Volunteer	t	p
Participative academic engagement	11.63	13.18	-10.3	.000
Mentoring academic engagement	6.86	7.86	-8.2	.000
Research academic performance	0.49	0.95	-9.7	.000

Source: authors own calculations

2.3.4. Employment, employability and voluntary work of students

We identified in our analysis those students who gained some work experience before their university studies. These are non-traditional students who were employed after their high school studies. Even though differences are not statistically significant, results suggest that students with previous work experience are more involved in voluntary activities.

Regarding those students who are currently employed, results reveal significant differences. From all students who volunteer, 46.7% are employed, while non-volunteers, only 38% are employed (for Pearson Chi-Square = 15.5, p=.000). If we take into consideration the time management, we can assume that students currently employed are less dedicated to voluntary activities, yet our result contradicts this assumption. As an indicator of students’ employability we explored their working abroad experience (dummy variable). Significance test results show that those who worked in other country are more oriented toward voluntary work (Pearson Chi-Square = 25.4, p=.000). Entrepreneur students are also more involved in voluntary work (Pearson Chi-Square = 13.9, p=.000).

This finding is particularly important as, added up to the previous results; it indicates volunteering among students is part of an “active profile of student”. In this matter suggesting causality is risky. Nevertheless, the fact that students involved in volunteering are the ones academically engaged with longer academic paths, working, driven by intrinsic motivations, point out to a pro-active student. These are the “good” students, with good grades, participates actively to classes, interested in helping others, and also working (employed or entrepreneur) or previously worked abroad. These are also the students who volunteer. Consequently we consider the concept of active citizenship (Dodescu et. al., 2004), in which engagement is manifested in several areas of life, suitable in the describing the student’s profile.

3. Conclusion

Previous studies show that civic participation is positively linked with the level of socio-economic development of communities, regions or countries (Woolcock, 1998). But these studies focus almost exclusively to adults’ participation. If communities and its members have nothing but to gain from membership in associations and voluntary work, than this kind of activities should be encouraged from an early age. Students, as young adults, represent in this case perfect candidates, because they have already designed their directions followed in their

future professional careers, and therefore will get involved and will be motivated to get involved in those activities that help their professional integration. From this perspective, our approach turns to students from Hungary-Romania cross-border area in order to investigate main differences and similarities regarding voluntary work of students and to outline a general profile of volunteer. Our main conclusion is that participation in volunteer activities follows different patterns in the border area, but the differences are found not so much between the two countries, but rather between different types of educational institutions included in the study. A particularity of voluntary participation is found in charitable behaviours carried out under the auspices of religious groups. Therefore we believe that one of the directions to be followed in the investigation of volunteering should be focused on explaining religious attitudes and practices and investigating their relationship with voluntary involvement in charitable activities. A successful career path proves to be an important ingredient for volunteering, but longer academic careers do not significantly improve volunteer involvement. Regarding working students and students with previous working experience, our study show rather interesting results: students who work also volunteer more. Summing up, we consider that the profile of volunteering students overlaps on the profile of generally active students (educational, work). Active citizenship provides a suitable frame for the profile of volunteering students.

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SUB – SECTION: BUSINESS ADMINISTRATION

INSTITUTIONAL AND LEGAL PREMISES OF THE CORPORATE GOVERNANCE IN LARGE, LISTED ROMANIAN COMPANIES

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Abstract: *Corporate Governance has particular importance and relevance for the good management and governance of the companies. Even the disruption between the owners and the executives has been widely recognised since many decades, the frauds and manipulations we have witnessed in the 90s and later represent a turning point for both theoretical research and practical approaches in this matter. Moreover, for transition economies, the issue is much more relevant as many institutions involved in governance mechanisms have been emerged since then. As to reduce the differences between the interests of management and the shareholders' ones, several mechanisms of external and internal control can be imposed. The paper discusses main recent developments and evolutions with reference to legal aspects and institutional aspects, specifically the development of the stock exchange. Selected indicators concerning Bucharest Stock Exchange are analysed for the period 1995 (re-opening of the Stock Exchange after political transformations in the 90s), e.g.: number of companies, number of transactions with shares, capitalisation, number of issuing companies, number of new issuing companies. As for legal aspects, we have analysed both Romanian legislation and the Corporate Governance Code of the Bucharest Stock Exchange, and international reports on implementation of Corporate Governance in Romania, particularly OECD Report Corporate Governance in Romania (2001) and World Bank Report on the Observance of Standards and Codes (2004). Investigating the legal framework and the evolutions registered, we can conclude on the role of the above-mentioned mechanisms and on further developments and improvements necessary to enhance corporate governance mechanisms and ensure companies' compliance to these requirements. Moreover, as we will show, Bucharest Stock Exchange has known since its creation in 1995 times of development and consolidation, in terms of number and value of transactions, capitalization etc.*

Keywords: *corporate governance; stock exchange; legal aspects; Romania*

JEL classification: G32; G34

1. Introduction

Corporate Governance as research field has witnessed a very significant development, especially during the last 15-20 years, and many studies and analyses have been emerged since 1995. Starting from theoretical background on the concept of corporate governance and also from the mechanisms required to ensure companies' compliance to the Corporate Governance principles. For Romania, implementing these principles has particular important due to its history of the last decades and to the rapid transformations necessary for the convergence and catching up process. The paper investigates the role of institutional and legal framework for implementing CG principles, as to identify specific policy recommendation. In the first part we briefly review the concept of corporate governance; in the second part we point the role of control mechanisms. Most of the paper is dedicated to investigate relevant and significant development reported within Bucharest Stock Exchange (i.e. the institutional framework) and within the existing legal framework. Finally we can conclude on further steps required to be implemented, as to ensure companies' compliance to these requirements.

2. Theoretical background

Corporate Governance covers a broad range of economic, managerial, financial and legal aspects involved in approaching the relationship between the aims and objectives of the firm and the actual way it accomplishes them, and what actually do the relevant governance structures as to play a role in achieving the purposes. It also focuses on identifying control mechanisms to disable unethical procedures in the relation of large companies' management (i.e. the executives) with small shareholders and with all stakeholders of the company.

The study of these aspects is relatively new, even Adam Smith noticed the potential issues of the dissociation between capital owners and administrators, when he stated: *"The directors of companies, being managers of other people's money than their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own."* (Smith, 1776).

Some relevant interpretations on Corporate Governance as field of research are as follows:

Table 1: Selected definitions on corporate governance

Authors	Definition
Michel Albert (1994)	CG is about giving to the managers a unique objective: maximizing the profits and dividends. CG is, thus, the end of the managers' era
Shleifer and Vishny (1997)	The study of the processes by which the resources suppliers – reduced to the only financial investors – guarantee the profitability of their investment. Corporate governance deals with ways in which suppliers of finance to corporations assure themselves of getting return on their investment
Charreaux (1997)	CG system covers all the mechanisms that govern the managers' behavior and delineate their discretionary latitude. This broader definition covers the preceding

	one and presents the advantage of giving the manager the role of central actor (but non-single) in the value creation process.
Gillan and Starks (1998)	The system of laws, rules, and factors that control operations at a company
EC (2003)	Corporate governance is the system by which companies are directed and controlled

Moreover, during the last 10 years, some corporate failures have been reported, many of them due to fraud and illegal manipulation. As a result, important steps have been made to move forward from strictly theoretical debates to implementation and enforcement of corporate governance codes and policies within companies, especially within listed companies.

3. Role of control mechanisms

In order to reduce the differences of interests between executives and shareholders revealed by the theory of the agency and by the other theories, there are several mechanisms of external and internal control.

With regard to the external control, first there is the competition on the market of the goods and services. Indeed, a manager who opts for a strategy aiming to satisfy his/her/its interests in detriment to the shareholders can face consequences on the production costs and the selling price, that could let to a less competitive enterprise. Stronger would be the competition, more efficient will be this mechanism. Then, the labour market of the executives evaluates their "value" permanently. Being the fact that they could be anytime revoked, they have incentives to watch over their reputation: selection of the best and exclusion of the less competitive. Finally, in case of established opportunism or of mismanagement, the shareholders can sell their stocks to express their discontent ("vote with their feet"). These threats incite the executives to manage the business in accordance with the wishes of the shareholders.

The internal control takes place on multiple levels. First, the shareholders have a right to vote at the time of the general assembly, and that fact can be used in order to punish a non effective manager. Then, the assignment of stocks to the managers (stock options) has for objective to align his/her/its interests with those of the shareholders, while encouraging the investments long-term and to limit opportunism. A problem subsists however: the plan of purchase of stocks is often limited and can incite the managers to assume the risks to increase the potential stock value. Many authors showed the limits of the system of stock options, stigmatizing "the perversion of a good idea" (Jacquillat, 2001). Finally, the Board (Council) of administration exercises the main control of the managers. Its prerogatives are clear. It is charged to convene the general assemblies, to name and to dismiss the president of the Board and the executives, to control the management of the enterprise, to adopt the strategy, and to control the quality of information.

Starting from these points the good corporate governance practices can be applied: setting up of committees of audit and remuneration, independence of the administrators, active involvement of shareholders, transparency of the accounts, internal regulations etc.

4. Bucharest Stock Exchange: some relevant evolutions

Bucharest Stock Exchange (BSE), created in 1882 and subsequently closed after the Second World War, was set up again after 1989. New political and economic realities determined the reactivation of Bucharest Stock Exchange (BSE), as it adopted a key role in supporting mass privatization campaigns launched at that time, more exactly trading certificate owner. Fifteen years later, its self-declared mission is "to provide and promote an efficient market, with fair rules, which should be attractive and compatible with European standards, to become a factor influencing economic and institutional trends and represent an environment for the development of entrepreneurship by offering services, mechanisms and rules to mobilize, attract and efficiently allocate financial resources, in conditions of transparency and safety" (BSE). Therefore the role of Bucharest Stock Exchange is to provide an organized market for trading securities, to help increase the liquidity of securities by concentrating a large amount of securities in the market, thus contributing to the formation of prices which should properly reflect the supply-demand relationship and disseminate these prices to the public. Principles governing Bucharest Stock Exchange as organized securities market are:

- Accessibility: The Stock Exchange is committed to ensuring equal treatment of all member companies, namely issuing companies listed on the Stock Exchange;
- Information: The Stock Exchange is committed to ensuring sufficient information about traded companies and the prices of securities issued by these to permanent stockbrokers and investors;
- The Ethics of the market: The Stock Exchange is committed to ensuring that securities markets operate in a manner that enhances the confidence of users, authorities and the public in general;
- Neutrality: The Stock Exchange is commitment to act neutral and to maintain integrity in relation to all participants to the market and to other institutions or organizations that oversee or operate in the capital market.

Bucharest Stock Exchange manages two market segments: the regulated one (or the operations on the regulated market) and "over-the-counter" RASDAQ market.

To some extent, the evolution of BSE is indicative of transformations and processes the Romanian economy underwent after 1989: the forms and methods of privatization, especially mass privatization campaigns, direct sales, entry of large players in the capital market, privatization of large companies, the emergence, increase or decrease of major domestic companies and so on, but also its own development: modernization of trading instruments and systems, mergers etc. (Badulescu, 2013) A brief look over the main statistics indicates that even though the value of transactions has shown an increasing trend until 2007 (with certain inflections due to legislative and organizational changes or to economic difficulties), the number of issuing companies varies greatly from one period to another.

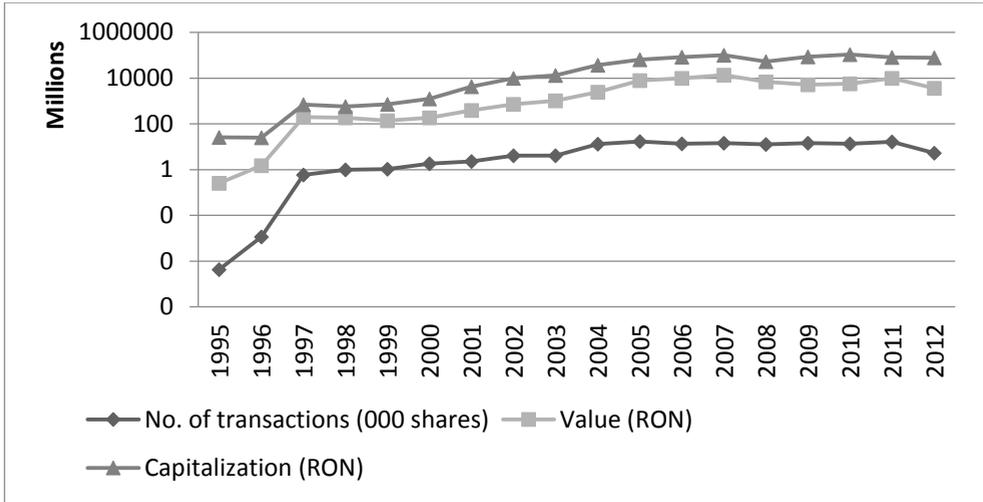


Figure 1: Evolution of selected indicators of Bucharest Stock Exchange, 1995-2012* (log scale)

*data for 2012 correspond to month of May

Source: Authors' representations based on Bucharest Stock Exchange data, available at

<http://bvb.ro/TradingAndStatistics/GeneralStatistics.aspx>

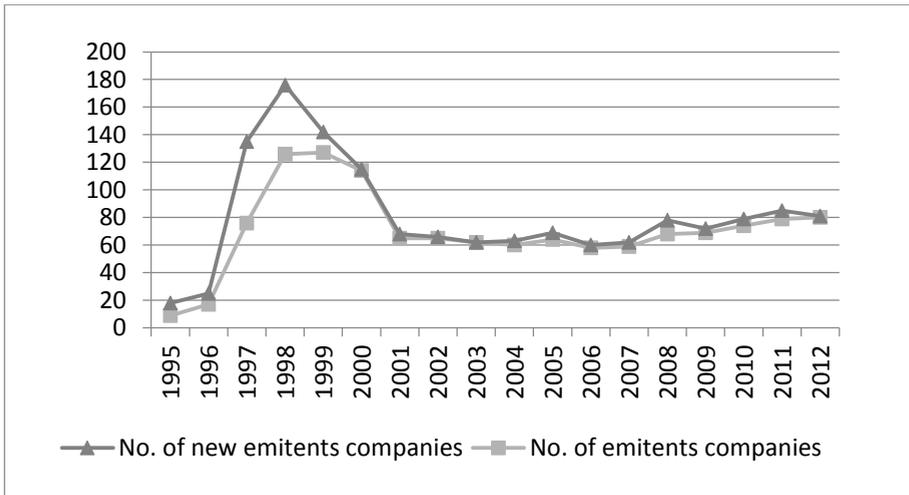


Figure 2: Evolution of selected indicators of Bucharest Stock Exchange, 1995-2012*

*data for 2012 correspond to month of May

Source: Authors' representations based on Bucharest Stock Exchange data, available at

<http://bvb.ro/TradingAndStatistics/GeneralStatistics.aspx>

As regards the distribution of companies listed by their sector of activity, an obvious concentration of three major sectors in terms of market capitalization (about 95% of

the market) may be observed: companies of financial intermediation (primarily) followed by companies belonging to either the extractive or the manufacturing industry (Pana, 2010).

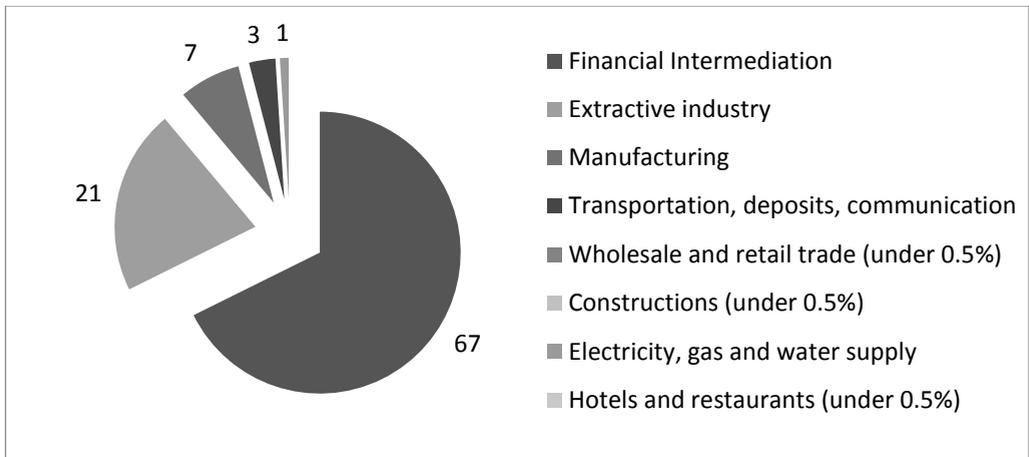


Figure 3: Capitalization of companies listed on Bucharest Stock Exchange, by sector, 2010

Source: Pana (2010).

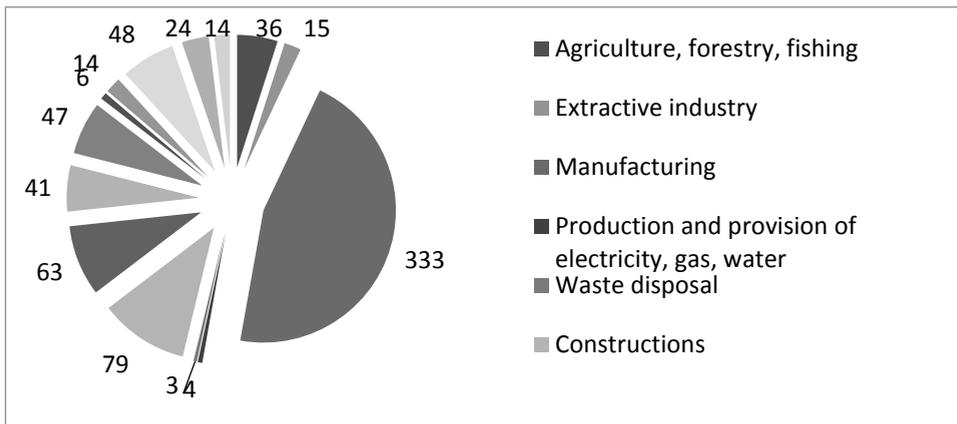


Figure 4: Distribution of the companies listed on Bucharest Stock Exchange, by sector, May 2012

Source: Authors' representations based on data reported by Bucharest Stock Exchange, *Lista companii*, <http://bvb.ro/Companies/ListedCompanies.aspx?t=4>

5. Legal issues for Corporate Governance in Romania

The relevant legal framework for corporate governance in Romania may be found in various laws, such as the Company Law, the Commercial Code, the Law on capital market (as examples of primary legislation), or legislation on privatization, the Law on insolvency proceedings, the Accounting Law, the Labour Code, specific regulations on the harmonization of the Romanian accounting system with the

European Directives and International Accounting Standards, regulations issued by the Romanian National Bank and the Securities Commission.

On the other hand, we may find corporate governance provisions in "quasi-regulated" documents, which can be implemented on a voluntary or optional basis. Here we consider the "Corporate Governance Code" issued by Bucharest Stock Exchange and the Voluntary Corporate Governance Code. Corporate Governance Code (CGC) was issued by Bucharest Stock Exchange in 2002 (recently updated in 2008 with additional provisions, given by the legal obligations included in the Romanian legislation). However, publicly traded companies can adopt and comply with the Code only voluntarily. The second statement concerns the Voluntary Code of Corporate Governance, which is the result of a partnership, collaboration between the Strategic Alliance of Business Associations and the International Centre for Entrepreneurial Studies in Romania (University of Bucharest), also called "Corporate Governance Initiative for Economic Democracy in Romania". Although this code was very well received by the business environment at the time of its publication (2000), currently there is no available information on the number of companies which comply with its stipulations (Pana, 2010, Duca et al, 2007).

In what follows we consider it would be worth (even if not part of the direct or the indirect legal framework of corporate governance) looking over the main points of view on the implementation of these principles in Romania, from the perspective of the main international bodies involved.

Therefore we shall take into account:

- Corporate Governance in Romania, OECD 2001
- World Bank *Report on the Observance of Standards and Codes* of corporate governance in Romania (ROSC) (2004)

The results of the analysis made by the Organization for Economic Cooperation and Development in 2001 show that there are serious difficulties in the implementation of corporate governance, including the insufficiently active position of the Board in solving management-related issues or even the worsening of such problems due to the presence of executive team members in the Administration Board, or the possibility for such members to become chairmen; incomplete legal definition of rules for appointing Board members and, ultimately, a generally passive attitude of members appointed in the Board by the State. To all these we might add the limited use of specialized committees and the lack of independent members of the Board, which allow the management to assume excessive responsibility and intervene in the decisions of the Board. At the same time, among other weaknesses regarding the implementation and status of corporate governance in Romanian companies, the Report also points to a weak culture of capital, low levels of activism by minority shareholders, lack of information and assistance to companies and investors, ineffective voting systems. The system of management performance compensation was / continues to be a common practice in Romanian companies, but also if it would be implemented on a large scale, this could have effects on the alignment of managerial objectives to those of major shareholders and therefore "it cannot be considered a viable mechanism of corporate governance" (Pana 2010). The weak presence of the corporate governance mechanisms mentioned above, and the possible adverse effect of the Council are sufficient signs to allow us argue that concentration of ownership and

formal monitoring techniques are the major vulnerability in the management of Romanian companies.

It should also be recognized that the OECD Report on corporate governance adds that "Romania, during the complex process of transition, has made important steps to improve legislation and regulations supporting corporate governance" (OECD 2001), both as regards the issuing and adaptation of laws on companies, securities, legal responsibilities and the organization, but also in terms of increased availability of institutions, policy makers and the public to improve corporate governance in Romania. Assessing the strengths and weaknesses of Romanian corporate system after a decade since the launch of economic and political changes in the Romanian society, the report makes it clear that the next step should be based equally on reforms and on legislative activity, but places a strong emphasis on the effective application of legal provisions, arising directly or indirectly from the legislative assembly created.

Thus resources and the independence of institutions such as the National Securities Commission should be provided, as well as increasing the capacity of the judiciary in dealing with commercial disputes, property rights, the adaptation and insurance of transparency and clarity in accounting and auditing practices etc. The Report recognizes that decisive and constant efforts in this direction may place Romania in the international trend on the implementation and enforcement of effective corporate governance principles, even if results will become obvious in time.

The report also notes the importance of strengthening the private sector, especially with regard to large firms, which should demonstrate a balance between the interests of shareholders and management objectives, while control should be equally effective and stimulating: "This will not only increase the productivity of companies, but will lead to serious international and domestic demand for good corporate governance" (OECD 2001). Thus, the continuation of privatization and completion of these processes so that ownership structure might allow internal structural reforms, based on independence in decision-making and planning, given the predominance of private property, and de-listing small and medium enterprises from the stock exchange (as they are improperly there as a result of mass privatization campaigns) are mechanisms able to explain true corporate governance and not merely its formal aspect.

Finally, relying on the efforts of the Stock Exchange and of other similar institutions or voluntary codes, solutions may be found to prevent the wrongful expropriation of minority shareholders by controlling shareholders, mainly through capital increase or transactions with entities that are in close connection with the respective company.

The second document considered is World Bank Report on the Observance of Standards and Codes of corporate governance in Romania (ROSC 2004). Its preamble states that it is a joint assessment IMF - World Bank on issues of corporate governance in Romania and that it updates previous reports of the World Bank and OECD over the period 2000-2004, using a valuation model developed by World Bank. Romanian and international legal companies, as well as specialists in corporate governance and investment climate analysis from major international financial institutions and the Ministry of Justice of Romania, (which actually

authorized the publication of the Report in June 10, 2005 -World Bank 2004) were involved in data collection, interpretation and publication of the final form.

This report provides an assessment of corporate governance policies and their implementation, of practices and experiences recorded in Romania, especially starting with the latest recommendations from 2002, highlighting the achievements and deficiencies, strengths and weaknesses, and recommendations for future policy, where appropriate.

The major problems identified can be circumscribed to Romania's effort at that time to join the European Union and to the ongoing transformation of capital markets in Romania, the report recognizing the important improvements in corporate governance in the period 2002-2004: reviews of securities laws, increasing the protection offered to minority shareholders of listed companies (e.g. introduction of cumulative voting, rules to ensure payment of dividends, rules governing transactions with third parties or entities having special relations with that company and so on).

The report also mentions a number of areas where further work is necessary to improve legislation, practices and common goals such as a clear mandate and additional resources for the National Securities Commission in order to effectively protect shareholder's rights, for all publicly listed companies, including those that are less active, especially on NASDAQ market; further steps for creating a Corporate Governance Institute to provide training for Board members, and to develop and publish a new Code of Corporate Governance containing clear indications and changes on the role of boards of directors, review the Company Law with reference to the rights of shareholders and the attributions of the Board (World Bank 2004).

Among ROSC recommendations we might also mention (McGee 2010):

- Revising laws on the situation and responsibilities of the Board in joint stock companies, recommending the establishment of a minimum number of board members, so that this (the Council) might play a significant role in the company. A reasonable minimum number of board members might allow the possibility of setting up specialized committees composed of non-executive members, specialize in certain areas;
- Defining the authority of the Board in controlling the financial statements of the company;
- Adding laws on the opportunity for stock companies to sell and transfer assets at market prices or in conditions of equivalence;
- Appointing external auditors of the company at the general meeting of shareholders;
- Legislation on securities should be revised to expand the definition of ownership and over indirect control relationships;
- Guidance on the content of the Annual Report;
- Listed companies are required by law to disclose their annual obligations (especially as regards investment) resulting from privatization contracts and the company should be required to publish significant transactions (sales and purchases) made with the company's shares.

6. Conclusion

Enhancing corporate governance and ensuring companies' compliance with the principles of transparency, disclosure, accountability etc. is an important requirement for Romania, as well for other economies that have faced transformation processes. For achieving it, both institutional and legal conditions are to be followed. In this paper we focus on these issues and investigated the emergence and developments occurred in these fields. After 2000, Bucharest Stock Exchange reported slighter evolutions than before and entered a mature stage. The number of issuing companies, the number of new issuing companies, as well as capitalization, and also number and values of transactions registered relatively slow increases. Moreover, Bucharest Stock Exchange issued in the last decade (primary in 2002, revised in 2008) the "Corporate Governance Code", an important step on the road to better regulations and enhanced efficacy. Further work is still necessary, especially for improving legislation and practices for ensuring a real effective protection of shareholders rights, especially on RASDAQ market, and for further improvements regarding a new, revised Code of Corporate Governance with clear indications on the role of each part involved.

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Abstract – *The search for ever greater levels of productivity is due in general to man's natural tendency to minimize the amount of labour needed to produce the goods useful for maximizing the satisfaction of his needs for survival and progress. Labour in effect represents a necessary but "unpleasant" and strenuous activity to be minimized. As production requires labour, and labour is extremely strenuous, since the dawn of economic activity man has searched for ever higher levels of labour efficiency, expressed by the ratio between the volumes and quality of the goods produced or consumed and the effort required to produce or to consume them. In this search, working man soon realizes it is more efficient – thus, more convenient – to specialize in the production of a single good, a component of a good, or even a component of a component, giving rise to the first production processes and production systems, thereby reducing those segments of the processes that lead to time savings through learning. This need to increase the efficiency of production has become even more deeply felt when the production was carried out by business organizations. This paper will try demonstrate that productivity is the basis of all productive systems, which are viewed as transformers of utility and value, since the search for maximum productive efficiency is necessary to reduce production costs and thus to produce value. After presenting a coherent frame of reference we shall examine the drivers of productivity and then move on to discuss the consequences of the continual growth in productivity and the non-economic aspects linked to the gradual improvement in productivity.*

Keywords: *productive system; productivity; drivers of productivity; hypothesis of increasing productivity; employment; jobless economy*

JEL classification: D24; L23; M11

1. Introduction. Productive efficiency and productivity

The European Commission communication to the European Council and Parliament of 21 May 2002, whose object was: *Productivity: the Key to Competitiveness of European Economies and Enterprises* provides this definition: «*In formal terms, labour productivity is the quantity of labour required to produce a unit of a specific product. In the macroeconomic context, labour productivity is measured as a country's gross domestic product (GDP) per capita of employed population. Productivity growth depends on the quality of physical capital, improvements in the skills of the labour force, technological advances and new ways of organising. Productivity growth is the principal source of economic growth*» (COM, 2002a).

If we let “ π_L ” stand for the average productivity of labour (L) the COM definition indicates the *efficiency in the use of the labour factor*, which is directly quantified by the ratio:

$$\rho_L = \frac{QP}{QL} = \frac{QP}{qL \cdot QP} = \frac{1}{qL} \quad [1]$$

where QP is the volume of production and QL the quantity of labour.

I define *productive efficiency* as the capacity of the *productive system* to reduce the unit factor requirements and *productivity* as the capacity of a productive system to maximize the quantity produced with the minimum use of labour.

If we let “ π_F ” stand for the average productivity of a generic factor “F” (used in a productive system for a defined period and under unchanging conditions) and generalize the above definition, then productivity is measured through the following relationship:

$$\rho_F = \frac{QP}{QF} = \frac{QP}{qF \cdot QP} = \frac{1}{qF} \quad [2]$$

which immediately shows that *productivity* is entirely equivalent to *productive efficiency*.

The search for increasingly greater levels of *productive efficiency* (and thus *labour productivity*) is undertaken by all *production organizations* or *firms*, since:

- as [2] clearly shows, the more *productive efficiency* increases, the more production costs fall (the unit requirements, q_F , fall), with supply prices held equal;
- alternatively, we can neutralize the increases in the factor prices in order not to reduce *EBIT*;
- the lower production costs allow firms to obtain higher levels of *EBIT* even without increasing selling prices;
- firms can maintain or improve the levels of *EBIT* also by reducing the selling prices, thereby undertaking a strategy for increasing demand and reducing potential competition.

In fact, all *production organizations* pay particular attention to the trends in *labour productivity*. «*The ability to obtain more output from given inputs of labour and capital corresponds to growth in productivity. Productivity growth depends on the quality of physical capital, improvements in the skills of the labour force, technological advances and new ways of organizing these inputs. Historically, productivity growth has been the principal source of economic growth. It has made possible an expansion of output, not just without concomitant increases in inputs, but with important reductions in hours worked over the medium term. In doing so, it has made a sustained rise in real incomes possible*» (COM, 2002b: par. 2).

We can argue (as observation will prove) that in an *economic system* with a developed *network* of production firms, each productive organization has a higher probability of long-term survival if it produces at levels of productivity at least equal to those of other firms; in fact, to survive, each production firm must try to improve its efficiency, and thus its productivity levels (Mella, 2006).

This general *behavior* of every productive organization results in the continual increase of overall productivity in the system, thereby triggering a positive

feedback that leads to an increasing trend both in the firm's *micro behavior* as well as in the system's *macro behavior* (Mella, 2006).

This *increase in productivity* becomes the *dominant phenomenon* in the entire economic scenario and ends up becoming *institutionalized*; so much so that I would not hesitate to describe it as a true *hypothesis* concerning how economic man behaves.

Hypothesis of increasing productivity: the network of production enterprises tends to achieve increasingly higher levels of productivity, but it is governed in turn by this continual increase in productivity.

I have tried to provide an operating justifications for this hypothesis demonstrating how, from a typical holonic viewpoint, this increase in productivity derives from the activities of production firms as a global production network, the productive KOSMOS (Mella, 2009).

2. Explaining Productivity. The intrinsic drivers of Productivity

There are two questions which arise when analyzing the increasing productivity of labour:

- what does the increase in productivity in individual productive systems depend on? This leads us to search for the factors of productivity;
- what do the trends in the productivity of the entire economic system depend on? This leads us to examine the motivations behind the continual increase in productivity.

In order to answer the *first question* – what does the increase in productivity in individual productive systems depend on – we shall use the term *drivers of productivity* to refer to those elements, phenomena, causes or variables that can produce an increase in QP and/or a reduction in QL.

Though varied, the *drivers of productivity* can be grouped into few categories which, though they interact, must be kept separate in order to facilitate our observation, which is derived from Adam Smith's famous example of the manufacture of pins to illustrate the advantages of the division of labour. «*This great increase in the quantity of work, which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances; first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many*» (Adam Smith, 1776: 5). Following Adam Smith, I propose this typology:

1. *Passive drivers*: these increase QP with QL held constant; there is only one passive driver of productivity: *fertility*, in all its forms: the fertility of land, water, subsoil; *natural* (the banks of the Nile) or *artificial* fertility (irrigated and fertilized land);

2. *Active drivers*: these reduce the QL needed to produce with fertility held constant; there are three types of active drivers of productivity.

- *Skill*; it is easy to imagine that a skilled fisherman or hunter can obtain the same amount of goods in less time than other, less-skilled

producers; obviously, applying the same amount of labour as the others, they can obtain a larger quantity of products.

- *Equipment*; from the first chipped rock to modern machines and digitally-controlled plants, equipment extends the capacities of «human hardware» (represented by our body, its limbs and by our brain), reducing the effort and danger associated with production and rewarding skill. Holding the amount of labour employed constant, we can greatly increase the amount of clothes produced by using a loom rather than a crochet needle; with labour hours held constant, we can increase beyond measure the amount of arable land by using a modern-day tractor, which uses a six-bladed plough, compared to what we could obtain with a single-bladed plough pulled by a pair of oxen. It is easy to imagine how few cars would be produced without the modern robotized assembly line; the construction of three pyramids with the limited equipment at the time required more human labour than the construction of all of Manhattan's skyscrapers put together. We can easily recognize the progress computers and robots have produced until now and will produce going forward.
- *Specialization*; a characteristic of the organization is the functional division of labour; this means that each worker in the organization provides his skilled and equipment-aided labour to undertake a specific activity; this specialization, together with the equipment available, further increases productivity

3. *Endogenous or psychological drivers*: these are the psychological conditions that lead man to supply his labour to a given organization; these drivers can be divided into the following:

- *Motivation*; man is willing to supply his labour only if adequately motivated and if there are expectations that this will satisfy his needs or motivations. Once the main motivation was pay, either in the form of wages, salary or profit; today other motivations, intellectual in nature, have been added to those regarding monetary payments: a job that gives satisfaction is often preferable to a better paid but boring one. Motivation drives man not only to be more efficient but also to continually learn to improve his preparation. Motivation not only is linked to a worker's personal and family situation but also depends on individual «vision» (improving one's status) and the collective culture (advance the group, the homeland, etc.); this driver also includes the worker's ethical attitude toward his role in production and toward time-wasting;
- *Satisfaction*; motivation provides work incentives to man; the initial motivations must be followed by satisfaction; that is, the satisfactory achievement of motivations.

I shall define *intrinsic drivers* as those drivers listed above; these directly improve the worker's performance.

Maximum productivity occurs when skilled, equipped and organized work, properly motivated and satisfied, is supplied in a fertile environment: that is, when

production is organized into productive systems within production firms and enterprises.

The primary challenge to developed economies will be to create the endogenous drivers of productivity; that is, to motivate and satisfy workers.

Certainly the problem for the future (which already today has become a crucial point) will be to improve productivity through the quality of both products and working conditions.

3. The extrinsic drivers of Productivity

Along with these traditional *intrinsic drivers* of productivity, we can identify other, *extrinsic drivers*, so called because they involve the organization of productive systems, the environment within which the work is carried out, and, in the final analysis, the firm's policies regarding increased productivity. These differ depending on the type of productive sector and the type of production; among the most important are the following (for a more in-depth economic and historical treatment, see the vast literature on this subject-matter):

- *Continual mechanization.* Mechanization began with the origins of man himself, with the natural creative capacity of the worker to produce equipment, a capacity subsequently passed on to the organization as a unitary system. In recent years this process has accelerated due to electronic and computer technologies.
- *On-line automatic control systems for processes.* One of the factors that slows down work is the control function. Mechanization and electronic technologies have automatized the control of processes, with a noticeable increase in labour efficiency in the productive system.
- *Work environment: ergonomics.* A well-equipped and ergonomic work environment speeds up the execution of tasks to the advantage of productive efficiency.
- *Advanced information systems and dematerialization.* Making information gathering and access to data bases immediate, thereby increasing their quantity and variety, improves the decision-making process, facilitates the execution of tasks, and avoids errors that require control, with a consequent savings in labour time in every phase of the production process.
- *Standardization and use of new materials.* Designing products and processes based on unified criteria, utilizing materials and components with specific pre-defined (and thus interchangeable) standards conceived and designed to make the processes they are used in more efficient, speeds up assembly work and makes it more precise, and reduces quality restoration measures, thereby increasing the productivity of the entire production system.
- Increase in the *speed* of processes through: (a) streamlined production and the continual improvement and rationalization of the flow of component assembly through the search for *total quality* and the application of *just in time* (Demartini and Mella, 2011); (b) Rationalization of logistics and of materials handling (Bowersox et al., 2005).
- *Outsourcing* and decentralizing the search for productivity to more efficient units (Mella and Pellicelli, 2012).

- Progress in scientific and technological research, in particular the development of systems of energy supply and of the productive use of energy, as masterfully demonstrated by Carlo Maria Cipolla in *The economic history of World population* (1962).

The improvement in productivity increases *welfare* (Arnold and Dennis, 1999), which we can see not only in the spread and accumulation of wealth among consumers but also, and perhaps above all, in the gradual reduction in labour times and the improvement in working conditions (Blank, Shapiro, 2001).

We can add to our hypothesis on the increase in productivity by also including in it the continual increase in quality:

Hypothesis of increasing productivity and quality: the network of production firms tends to achieve ever greater productivity and ever higher levels of quality, but it is itself governed by the continued increase in productivity and quality (Mella, 2009).

4. Several non-economic aspects of productivity

The search for productivity has such vast and various consequences on the socio-political environment that a systematic analysis, no matter how concise, would go beyond the limits and objectives of this short paper.

Undoubtedly the most significant effect in terms of productivity is the institutionalization of «property». This institution is linked mainly to the discovery of *fertility* and the invention of *equipment*, and its aim is to protect the owner's use of the latter.

It seems reasonable that whoever discovers a lake teeming with fish or land well-irrigated by natural waters will supply his labour to such contexts; it is equally natural for the discoverer to try to gain exclusive advantage from the fertility by blocking others from benefitting from it. Anyone who uses his labour to construct a machine will obviously try to stop others from appropriating it.

From the need to benefit exclusively from such factors of productivity, property has become one of the most deeply-rooted institutions of any time or place in history. We need only remember that one of the Ten Commandments, «Do not steal!», is right next to that which says «Do not kill!». We cannot claim that property – whose genesis and survival is probably also due to the territorial instinct characterizing the behavior of all higher-order animals – is a direct consequence of the production phenomenon, since this institution also arises in areas where self-production exists to protect habitations and furnishings, the factors of production (cattle, stocks, etc.) and the factors of consumption.

Nevertheless, the fact remains that where production is lacking, or in ecological systems where it is confined to self-production, property is limited only to factors of consumption. Property did not exist in the natural environments among the Indians before they came into contact with white men, or among present-day Pygmies, if we exclude equipment needed for self-production or consumption processes. Similarly, there is no property in communities with exclusively salvific aims, such as Catholic monasteries or Buddhist communities. Property has given rise to, or at least greatly advanced, other phenomena: political institutions (the clan, tribe, state), theft, the administration of justice, wars of conquest and, above all, *heredity*.

Today the idea of property itself is widespread in all areas («Don't enter my study and don't use my computer», says the employee, even though the property

claimed is not his) and often confused, or coupled with, the idea of possession (my institute, my factory, my custodian, my errand boy, etc.).

No less remarkable are the socio-political aspects linked to the other *factors of productivity*.

For example, the search for *skill*, its improvement and preservation-transmission gave rise to the great *education* process, a form of transmission of knowledge, which has evolved from the mere observations of the apprentice in the master's workshop to the advanced post-university and company training courses of today. Skill is the source of greater productivity. As a result, along with the need for professional instruction is that for confidentiality, secrecy or, at least, the right to exclusivity; and thus the need for corporations and certified proof of skill (from Giotto's O to present-day state exams, from aptitude tests to job competitions) and patent offices. However, the aspect of skill that interests us here is *specialization*, since it is this factor that has brought about the transition from a self-producing and consumption economy to one of production and exchange.

Functional specialization is one of the factors that has most influenced the rise of productivity following the systematic spread of equipment-aided labour initiated by the Industrial Revolution, even if specialization has an easily intuitive «social cost», masterfully illustrated in the memorable 1936 film «Modern Times». Specialization not only involves production operations but production enterprises as well; in particular, it facilitates the creation of enterprises that produce only equipment, components and components of components, etc., to be exchanged with factors of consumption obtained from other enterprises.

Nevertheless, we must keep in mind that, if on the one hand specialization is the result of the need for increased skill levels, on the other the introduction of equipment has made it to a large extent detached from skill, though still remaining a factor that can increase productivity. In fact, in many ways specialization has ended up making skills easily transferable, even superfluous in some cases.

Equipped labour has for many generations been confined to a secondary role; only with metals technology has equipment been able to bring an improvement to productivity by initially supporting skill until it eventually transcends it.

Whereas a hard-earned skill is needed to till the land with an oxen-plough, to use a six-bladed plough pulled by a modern, air-conditioned tractor requires a short training course and special operator's license.

If the blacksmith needs considerable skill to mold the blades of a scythe, to use an automatic scythe that can make 3,000 cuts an hour would probably require only a brief training course. The need for equipment-aided labour has considerably spurred, if not originated, technological research and the associated scientific research. It is impossible to say for sure whether the growth in technology and the flourishing of science is the cause or consequence of the factors of productivity and equipped labour, especially since the three phenomena – together with many others mentioned above – are interrelated in a unitary system of action and of economic, social and political thought.

I shall only observe that in ecosystems where technology is absent or rudimentary production has not developed; the converse is also true. As mentioned above with regard to property, in such situations the economy is centered around self-production.

It has only been a few generations, since the Industrial Revolution, that capital has been used on a large scale. For ages man has searched for equipment to increase the productivity of manual labour; it is only relatively recently – if we leave out the abacus – that computer technology has developed to provide us with instruments that can increase both the productivity of intellectual labour and that of equipment. The age of the robot is about to begin.

5. Conclusion. Toward a jobless economy

Let us now consider the second question raised in section 2.

The increase in productivity is continual and has an exponential trend which is certainly correlated to the *extrinsic* drivers of productivity. Even if the expansion in productivity has been slow and, what is more, has only consistently occurred for what historically is a relatively short period of time, today it is undergoing an amazing acceleration, spreading wealth to all areas and reducing individuals' needs and satisfying their aspirations.

The theory states, and observation confirms, this fact. Productivity appears to be the fundamental variable that allows us to observe the productive system as a single, complex, self-regulating network (Mella, 2009) where economic units, motivated by wealth, and thus profit, achieve incremental progress in productivity in order to remain essential.

But no matter how vast the wealth produced, how large the quantity and quality of needs that «productive man» is able to satisfy, the rationale behind production implies that productivity must continue to advance, while the profit motive makes such progress vital for enterprises.

The *Hypothesis of increasing productivity and quality* operates inexorably: the increase in productivity, as a general tendency, is inevitable in that it is part of the logic of production itself.

Is there evidence that such an era is approaching? In principle the answer can only be 'Yes'. Scientific research and technological progress, made possible and necessary by the need for increased productivity, have reached such levels as to foresee an extreme increase in productivity: zero-cost productivity.

At a theoretical level, both Alain Turing – the creator of the universal Turing Machine, an abstract computing model that can carry out any properly codified algorithm whatsoever and even reproduce itself – and John Von Neuman – who, with the aim of designing a *universal constructor*, created Cellular Automata, logical machines that can self-reproduce (at least in theory) and solve computational problems – have demonstrated the possibility of achieving self-replicating automata.

On an applied level, the science and engineering of systems has led to the creation of robots that can carry out complex, system-guided activities (which do not even have to be that sophisticated) involving electronic data processing that make production processes increasingly efficient (Brynjolfsson, 1994; Brynjolfsson and Hitt, 2000), along with a parallel development in artificial fertility (biotechnology) (Grossman and Elhanan, 1991).

There are around one million industrial robots in use around the world in factories, which are repetitive and dangerous work environments. *“In terms of units, it is estimated that the worldwide stock of operational industrial robots will*

increase from about 1,020,700 units at the end of 2009 to 1,119,800 at the end of 2013" (<http://www.quora.com/Robotics/How-many-robots-are-there-in-the-world>). The entire World Robot Population will reach 8.6 million, and it is not pure fantasy to believe the production of robots will be carried out by robots themselves as part of a close-looped technological chain that produces a positive feedback for continued technological improvement.

When robots, produced by robots with energy resources produced by other robots, will make available at zero cost goods which today are produced by man in quantities limited by the cost of production in labour hours; when other goods not even imaginable today will satisfy our most disparate needs.

This reduction in labour can easily be seen in the following phenomena:

- an increase in the age when people begin their working activity (raising of the age for compulsory schooling, increase in schooling, etc.) (Iacovou and Berthoud, 2001)
- a reduction in the age when work activity ends (retirement)
- a reduction in the average annual working days (longer holidays)
- a reduction in the average daily work hours (shortened work week)
- an increase in non-employment (unemployment, delayed employment, and layoff due to redundancy).

The increase in productivity makes *wealth more abundant*, and on the other that this has translated into a *gradual reduction in the labour* needed to produce.

If the increase in productivity over time represents a trend (hypothesis of increasing productivity) and if the increase in wealth is viewed as progress, how then can we counter the fall in the quantity of labour needed for production and ward off the fear of the *jobless economy*?

Although some have a pessimistic view of globalization (Bauman, 1998; Beck, 1999), this phenomenon is developing rapidly, with the economy as a whole becoming a network of interconnected organizations that form a unique global production system. The world of the networks is developing. The computer revolution has only just begun and its development is unpredictable. The economic system is increasingly more integrated: firms and manufacturing companies form a single, interconnected network (Mella, 2009).

The only firm in existence will be the entire network, which in spite of everything will also be governed by the law of increasing productivity.

6. References

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THE FINANCIAL DISCIPLINE A FACTOR OF ECONOMIC GROWTH

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Abstract: *We have considered that the paper can be structured in five chapters meant to bring light, as much as possible, on the tight relation between financial discipline and economic growth, the role and place of financial discipline as an important factor of economic growth, in the same time having propositions which will generate a different approach of financial discipline and will contribute to a beneficial finality for the society. Currently, the economic growth is considered a synthetic expression of the chances to have a better life and, that is why it represents a major macroeconomic policy objective. The economic growth is interpreted as an ascending positive evolution of macroeconomic results. Economic growth consists in the quantitative increase of activities and their results considering the entire national economy, in a close relation with the factors contributing to this increase. The economic growth is expressed by the dynamics of macroeconomic indexes of the results of the activity in real terms, that is GDP, GNP and NI. For the macroeconomic dynamics is correlated with the demographic dynamics, the variation of macroeconomic indexes is frequently reported to the variation of total population. Thus, the economic growth is measured synthetically through the growth pace of GDP, GNP and NI per total and per inhabitant. In all developed countries, the weight of direct taxes in the volume of fiscal revenue represents from 70% in the EU to 85% in the USA, which shows the importance of the role this group of taxes has in forming budget revenues. The economic situation of a state can be positively or negatively influenced by direct taxes; they can hinder or give an urge to economic growth, achieving the regulating stimulation function of the development of economic processes. Considering Romania, one of the main economic problems is the insufficiency of investment resources allotted, these being the main factor contributing to economic growth, a situation when the increase of this allocation is appreciated as being one of the state's priority tasks.*

Keywords: *financial discipline; economic growth; fiscal policy; taxes; VAT.*

JEL classification: *E62; H21;*

1. Introduction

It is considered that a national economy records economic growth if there is the dominant tendency of a real positive growth on a long enough term in order to eliminate the conjunctural effects of the business cycle. The economic growth does not present the qualitative changes of national economy, reflected in the economic structure and the living standard, these aspects being emphasized by the concept of economic growth. The history of economic growth demonstrates that, for centuries, a nation's welfare has been given by the level of gross domestic product, which represents "the gross value of all officially recognized final goods and

services produced within a country in a given period of time by economic agents carrying out their activity within the national borders". The economic growth process is a complex process to increase the results in national economy, based on the combination and use of direct factors of production: labour force, fixed capital and the consumption of current assets. The economic growth is desired in each country for it gives the possibility for the population to use more goods and services and, in the same time, to contribute to the ensurance of a larger amount of goods and social services such as health, education etc., thus leading to the real improvement of living standards.

2.Financial discipline

The financial discipline can be defined as: the order that legal persons must comply with in accordance with the laws in in force concerning economic-financial problems.

For an economic consolidation in Romania, the restructuring and reforms in public expenditure management become a priority in managing state companies as well as the collecting of fiscal revenues which should allow the economic growth, financial discipline and public equity. The financial discipline means first of all to leave behind financial impulsiveness and to try to self-educate the purchasing and saving behaviour.

Complying with financial discipline, mainly, by collecting direct and indirect taxes to a higher extent, has an impact on the formation of consolidated budget revenues, investment processes, price-formation process and social sphere development. By its fiscal practice, the state takes over a part of the revenues made by natural and legal persons under the form of fees and taxes.

The measure of VAT application when collecting bills, in force since 2013, will introduce the financial discipline both in the state sector as well as in the private sector. The state will pay the bills in maximum 30 days, or 60 days in the pharmaceutical sector, according to European Directive in force since 1st March 2013. Private firms can pay the bills in an interval of 120 to 200 days.

In order to strengthen financial discipline, reductions of public expenditure are required, among them:

- prohibition of contracting external juridical assistance and consultancy services, in the case of public authorities and institutions, national companies, autonomous administrations, business companies, where the state is the major shareholder, which have their own juridical specialised employees;
- prescription of measures to reduce entertainment and travel expenses for public institutions and authorities;
- prescription of measures to reduce expenses to acquire printings and other goods for representation and entertainment or for festive days or celebrations and, also, travelling to foreign countries, from public funds, a measure applied and cannot be applied to national companies and autonomous administrations which had losses in the previous period or are financed by state aids.
- prescription of measures to reduce the expenses on feasibility studies providing they acquired in the last five years the same studies or the

investment project is not going to be contained in the programme of the next budget year, for central and local authorities;

- in the public investment programmes there will be recorded only the projects likely to have multiannual financing, according to the law.

3.Economic growth

A superior living standard can be achieved only through a superior production of goods and services. Economic growth consists exactly in the increase of the results of economic activity at macroeconomic levels. Economic growth is expressed by the increase pace of macroeconomic indexes (GDP, GNP, NI). Frequently, the variation of these indexes is correlated with the demographic evolution.

The description of economic growth with the help of the production function:

$$\text{GDP} = f(\text{Labour, capital, technological progress})$$

Therefore, economic growth derives from the quantity and quality of labour factor existing in a country. The quantity of the labour factor can determine a healthy economic growth providing there is an increase in the capitals stock, too. Thus, the increase of the labour quantity used if the capital stock remains constant determined the use of the production factors with less and less efficiency, which determines a decrease of the production per capita.

The World Bank (WB) has worsened the forecast of economic growth for Romania, for this year at 1.6%, from 2.8% as it was estimated in the middle of the last year, considering the a slow relapse at the level of entire region, determined by the maintenance of the factors limiting the GDP progress last year, too.

The International Monetary Fund (IMF) is forecasting an economic growth of 1.5% of GDP for our country, for 2013, a slightly more pessimistic forecast than the figures the government based the budget for this year, 1.6% of GDP, respectively.

In the years 2000-2004, the annual average economic growth was of 5.4%. The capital stock and the TFP have contributed positively and relatively equally. The change in the number of employees has contributed negatively. Finally, in the years 2005-2008, the annual average economic growth was of 6.4%, explained almost entirely by the capital stock.

Romania must reconsider the economic growth model, especially in the case of state enterprises and it must pay attention to what it spends the capital. In consensus with the analysts' expectations, the Romanian economy had a slight growth of 0.2% in the GDP in 2012 as compared to the previous year.

The economic growth is determined by factors such as:

- direct factors:
 - Growth of active population;
 - "Investments" in the human capital;
 - Increase of the volume of capital used;
 - Technological changes.
- Indirect factors:
 - Institutions (financial institutions, private administrations etc.);
 - The Government.

It can be noticed that in the literature, financial discipline is not tackled as an economic growth direct factor, yet this derives from the interpretation of direct factors, with implications on both the quantitative growth of production factors used and on their qualitative growth.

For the following period, there have been taken measure which should strengthen up financial discipline, out of which we mention:

- a) the change of a number of approximately 15 normative acts regarding the approval and deduction of structural funds or the approval of the budgets of some public institutions or commercial companies/autonomous administrations.
- b) the change of the control procedure regarding the running of projects financed from structural funds and the situations when the Fight Against Fraud Department (DLAF).
- c) the change of the recovering procedure of the amounts of money spent uncomformably with the procedures concerning the financing of budgetary projects, ANAF (The National Agency for Fiscal Administration) having rights in this view, applying the Fiscal Procedure Code.

Foreign direct investments are the solution for a sustainable economic growth in Romania.

Foreign direct investments (FDI) bring an essential contribution to the economic growth. They create jobs, optimize resource allocation, allow the technological transfer and stimulate trade.

The business environment in Romania needs economic freedom and friendly fiscality for entrepreneurs, including foreign investors, too.

The creation of a framework favourable to the economic environment by promoting some favourable conditions to attract foreign investors such as: a fair, equitable and non-discriminatory treatment; protection against illegal expropriations; direct use of international arbitration and transformation of Romania into an attractive environment from the fiscal point of view.

The experience of some countries in transition (Poland, The Czech Republic, Hungary) demonstrates that the FDIs have contributed to the radical modernization of their economies by the use of new technologies, the use of the most modern business management methods, to reduce the enormous gap of competitiveness which was separating the economies of the new member states of the European Union from those of the developed countries.

The measures to stimulate investments by the innovative sectors together with the fiscal relaxation measures will represent strong arguments for the future period, both regarding Romania's capacity to attract foreign direct investments and also the power to convince foreign investors to develop a lucrative business in Romania than in their country.

EU is the most important world player in the FDI sector. Until 2008, the FDI external flows were worth 3,300 billion EUR, while the internal EU flows represented 2,400 billion EUR.

Taking into consideration the extremely important role played by tangible and intangible assets in the economic growth, as well as the stable, sustainable character that they give to FDI, it can be seen that the sales at the end of 2008 worth 22046 million Euros represent 45% of the total of FDI, inducing a significant degree of sustainability to the foreign direct investment. The activity of enterprises foreign direct investment, overall, has a positive impact on the balance of trade of

Romania, the contribution to exports being of 73.0%, while for the imports was of 62.6%

The creation of the favourable investment climate, making it more attractive for foreign investors, was and will be one of the main tasks of the economic policy of Romania.

Table 1. Evolution of foreign direct investments (FDI) drawn by Romania, 2004-2010 (millions of Euro)

Year	2004	2005	2006	2007	2008	2009	2010
Value	5183	5213	9059	7250	9496	3488	2696

Source: National Bank of Romania, Balance of payments

Foreign direct investments in Romania lowered last year with 11%, to 1.613 billion Euros, compared to 2011, the deficit of current account being financed in a proportion of 32% through direct investments of non-residents of Romania, according to data provided by NBR.

In 2011, foreign direct investments were worth 1.815 billion Euros. Also, in the first 11 months of 2012, foreign direct investments summed up 1.440 billion Euros.

4. Financial discipline a factor of economic growth

Fiscal policy, using taxes, generates psychological, financial, economic and social effects on the economic-social environment. The public power which becomes aware of the reality of consequences of the action of taxes adopts as a solution changes in the structure of fiscal system, in order to modulate the effects in accordance with the finalities desired. Consequently, the amplitude of the finalities desired influences the technical characteristics of taxes and the latter on the micro and macroeconomic effects.

In this view, we would like to show that financial discipline allows the creation of budgetary sources necessary to allocate funds for economic growth, especially through direct and indirect taxes.

In order to understand this phenomenon it is necessary to show which of these taxes have a higher contribution in the case of Romania and is their dynamics in Romania as compared to other states.

Indirect taxes are used as leverages to influence the activity of agents.

In order to obtain the financial resources necessary to the state, there are indirect taxes when forming fiscal revenues (it is lower than that of direct taxes) and of the contributions for social insurances altogether, and the weight of these indirect taxes in the total of fiscal cashing is different from country to country.

The indirect taxes are mainly made as consumption taxes, being charged when selling different goods or when performing certain services. They are carried out by all those consuming goods from the category of those imposed by their incomes, wealth or personal situation. The indirect tax quota when selling a certain product is unique no matter if the buyer is a worker or a manager.

In Romania, fiscal and budgetary revenues are dependent on the revenues from indirect fees and taxes (VAT, excises, customs duties, etc.), while, in the European Union, the contributions of the three important categories of fees and taxes (direct,

indirect taxes and social contributions) when forming the revenues are relatively close.

The reform of the fiscal system is necessary for the budget balancing within the European limits of incomes and expenses with reference to GDP.

Imposing strict constraints to bad-payers and the diminishing of tax nominal level regarding revenues should enlarge the application base and the increase of efficiency in collecting.

The development and implementation of a long term and average term modern and predictable fiscal strategy would be essential in the context of competition which manifests among the European states in order to draw new investments and create new jobs.

The VAT is a state imposed tax. The VAT setting policy is set up by the Romanian legislator, in compliance with the European legislation concerning fiscality. At the level of Romania, the legal framework dealing with VAT is regulated by the Fiscal Code and its application norms.

The VAT was introduced by the European Economic Community in 1970, by the first and second VAT directive. The purpose of introducing VAT was to replace the production and consumption taxes.

Since 1 July 201, Romania has had a VAT standard quota of 24%. In other words, the price that a Romanian pays for a product or a service in Romania is actually made up of the cost of that product, to which it is added the profit margin of the seller and the VAT. As a general rule, the cost of the product or service together with the profit margin make up the calculation base to which the VAT quota is applied. Therefore, each payer in Romania contributes with 24% to the Romanian state budget by each purchase of goods and services that he/she makes.

With 47.9 billion lei and 26.4% of the state's revenues in 2011, the value added tax is on the second position regarding the taxes collected at the budget, shortly behind social contributions. Also, together with the reduction of these contributions (absolutely necessary to reduce the labour costs and the increase of competitiveness), it will take the first position.

The evolution of taxation implicit quota in the last ten years shows that Romania returned last year to the efficiency of collections of 2002 (54%), after it had succeeded in the years 2005 – 2008 to stay above the threshold of 60%. It is worth noticing and stating, the elective year of 2004 coincided (accidentally or not) with the lowest efficiency collection of the VAT, which led the taxation implicit rate under 10%.

Table 2. Evolution of the implicit quota collection and the efficiency collection of the VAT (2002 and 2011)

Year	Taxation implicit quota (%)	Taxation efficiency (%)
2002	10.3	54
2003	10.9	57
2004	9.7	51
2005	11.6	61
2006	11.5	60
2007	12.3	64
2008	12.1	64
2009	10.7	56

2010	12.0	56
2011	13.1	54

Source: Fiscal Council

Compared to 2008, when the effects of the world economic crisis had not manifested plenary, the force of cashing by increasing the VAT has brought only one percentage point of GDP. Also, inflation has temporarily increased, discouraged the consumption and reduced the domestic demand, implicitly the production and economic growth.

All these are the effects of a reduced degree of taxation application, relatively high at the level of legal quota, yet relatively low at the level of effectively collected quota. Unfortunately, the problem does not seem to have easily applicable solutions. The VAT increasing in 2009, a year with a quota entirely of 19% and 2011, with a quota entirely of 24%, shows an increasing of the effective quota from 10.7% to 13%, which means an almost proportional increase.

Romania is situated on position 16 on the European continent concerning fiscality, with a relative index of 119.5%, according to a Forbes study. It is outrun by France, Belgium, Sweden, Italy, Austria, Norway, Greece, Slovenia, Holland, The Czech Republic, Finland, Hungary, Denmark, Portugal and it was positioned ahead of other countries.

Non-fiscal revenues consisted mainly in the sums cashed from the economic activities of entities with state capital and in the sums obtained from the state from the properties it owns or the natural resources which are state monopoly privately exploited.

Table 3. The main budget revenues

Year	2010 (Billion Lei)	% of Gdp	2011 (Billion Lei)	% of Gdp
Tax on salaries and income	17.96	3.45	19.08	3.30
Profit taxation	10.12	1.94	10.31	1.78
Taxes and property taxes	3.80	0.73	3.98	0.69
Contributions to pension funds	31.83	6.09	34.66	5.99
Contributions to health services funds	13.14	2.52	14.93	2.58
Contributions to unemployment funds	1.21	0.23	1.27	0.22
VAT	39.25	7.50	47.92	8.28
Excises	17.31	3.31	19.10	3.30
Non-fiscal revenues	19.81	3.79	18.22	3.15
Sums of money received from the EU	5.44	1.04	6.11	1.06

Source: Fiscal Council

In the first third of 2012, the most of the posts of revenues recorded increases regarding the estimated GDP:

- from 0.81% to 0.85% for the income tax
- from 1.01% to 1.13% for the tax on salaries and income

- from 2.46% to 2.48% for VAT, from 2.74% to 2.82% insurance contributions etc.

These data show that we continue to count on high direct taxes (VAT, excises), on very high social contributions, yet weakly collected. There is even less talk regarding the effects, positive or negative, that different fiscal policies induce into economy and the modelling of the tax payers' behaviour. Let's not talk about the implications that such measures have on the administration costs, of the bureaucracy inevitably associated with the collection of any tax.

We must understand that the tax and fees system is a complex mechanism, in which each component works together with the others, influencing each other and it needs protection which cannot be determined by the fiscal administration.

In this view I will exemplify that we have a very competitive income tax, which, yet, comes together with that of social contributions, which has high quotas and unreasonable base taxation and multiple exceptions and preferential treatments, aspects which lead to a huge evasion and too high administration costs.

Although we have a reasonable profit tax, associated with the dividend tax, the total tax is high, a situation in which the investors are looking for solutions not to pay their dividends or they find solutions to reduce the expenses many times on the brink of law and in some cases, using justifying documents which are not based on real commercial operations.

Having a VAT quota of 24%, yet we collect only half of what it is supposed to be collected, the tax payers using solutions to significantly diminish the VAT they have to pay by unreasonably pointing out a deductible VAT, in many situations using fictitious justifying documents, a situation in which there are inevitably influences on both the profit tax and on the income tax (returns diminishing).

The economic growth and the fiscal discipline represent a permanent preoccupation of all the EU member states, without economic growth the fiscal discipline is not bearable.

5. Conclusions and recommendations

The states of the Euro zone need the improvement of fiscal discipline and of community mechanisms by which the countries breaking the budget rules are sanctioned, in the near future being unrealistic to carry out a fiscal policy common to the Euro zone, yet there can be measures to ensure the stability of individual fiscal policies, starting even from the application of sanctions to countries which break the rules of budget discipline.

Taxes should not influence the tax payers' behaviour, they must be the same no matter the type of income, not include distortions. To be reasonable, the fiscal duty must be distributed as widely as possible.

From everything presented above, we can conclude that it is necessary, as urgent as possible, to restructure the Romanian fiscality and the way in which the administration is made, so that the system of taxes and fees function more efficiently and to lead to a better collection, which would have a major impact on the increase of budget resources and, in this way, might lead to economic growth.

Also, there is the need for a serious analysis of the potential for the widening of the taxation base, in this view, existing, for example, the potential for fiscal adjustments regarding agricultural fields and dues, yet in a close correlation with the companies' investment plans and especially with the population's degree of impoverishment.

The changes in the fiscal policy should be made public after comprehensive analyses and after their impact on the economy had been previously estimated, the fiscal consolidation should target the increase of fiscal revenues and the accelerated absorption of European funds might considerably soften the pro-cyclic character of fiscal consolidation.

Also it is necessary the transparentization of public acquisitions where the problem lies in the lack of transparency and the preferential destination for political clientele and, also, it is required the monitoring of public expenses by an independent entity. The current situation shows the increased vulnerability of the Romanian economy when faced with the world crisis due to the subterranean economy, the low rate of tax and fee collection as well as to the lack of fiscal predictability, a situation in which it would be required to reduce the subterranean economy through severe punishments for those who perform tax evasion, including the reform of control institutions and other measures necessary to discourage these activities.

Although they exist and have enough personnel, local fiscal offices do not have the expected efficiency, in many situations due to the system of work of these institutions, being necessary a consolidation at the local level and, due to delays in control and the streamlining of the levy activities it is necessary the use and improvement of informational systems.

The absorption of European funds can be a strong modernization instrument if it brings a relevant supplement of resources, if it helps to develop the infrastructure, if it is favourable to the modernization of public administration, diminishing the waste and embezzlement of public money.

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MERGERS AND ACQUISITIONS WAVES FROM THE EUROPEAN UNION PERSPECTIVE

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Abstract: *The purpose of this paper is to analyze the mergers and acquisitions waves that marked the European Union and to emphasize specific characteristics of each period. Thus, we focused on the periods characterized by a significant increase in the number of operations, concentrated in a short period of time. United States have experienced six waves of mergers and acquisitions while in Europe they were less pronounced until the '60s, when increasing interdependence of economies favored concentration movement. The year 1986 marked the construction of the Single Market and for that reason the wave of mergers and acquisitions that Europe experienced in the late 80s (1987-1991) represented, in fact, the first truly European wave. The next M&A (mergers and acquisitions) wave took place in the late 90s (1997-2000), the last wave began around 2003 and ended quickly, in 2007, with the outbreak of the financial crisis. Thus, the objective of this paper is to reveal how the mergers and acquisitions activity in the EU evolved during these waves. At the European level, the introduction of Euro, globalization, technological innovation, deregulation and privatization, low interest rates, financial markets boom and existing liquidity led to an increase in mergers and acquisitions activity. We analyzed the evolution of M&As in the European Union, both of the national, community, and international ones. We compared M&A activity in new Member States and old Member States, and we presented some sectoral aspects. The data presented in the paper can shape the new profile of the global economy. Thus, the United States no longer have absolute supremacy in terms of mergers and acquisitions. EU firms have become important players in the global market of mergers and acquisitions. This paper is based on a systematic, logical, and comparative analysis of scientific literature and of the statistic data provided by the European Commission and UNCTAD referring to mergers and acquisitions. Thus, we used as a research method the qualitative approach in order to analyse the European Union M&A activity.*

Keywords: *mergers; acquisitions; waves; European Union*

JEL classification: *G34*

1. Introduction

Golbe and White (1993) were among the first researchers who empirically observed the cyclic character of the merger and acquisition activity. The first M&A wave took place between 1897 and 1904, the second between 1916 and 1929, the third between 1965 and 1969, the fourth between 1984 and 1989. At the end of the '80s the M&A activity declined, but it was resumed at the beginning of the '90s, when the fifth wave started. A short but intense period of M&As took place between 2003 and 2007. This period is considered as the sixth wave of mergers and acquisitions (Gaughan, 2011: 35; Ceddaha, 2007: 20).

2. The start of M&A activity in the European Economic Community (EEC)

Before the '80s, mergers and acquisitions activity was conducted globally in three waves, of which the first two have targeted the United States. In Europe, only Great Britain experienced an increase in merger and acquisition activity over the two M&A waves, even if in other European countries there were also recorded concentration operation since the beginning of the century (Morvan, 1972, cited by Coutinet and Sagot-Duvaurox, 2003: 21; Ceddaha, 2007: 17). The main countries of continental Europe, Germany and France, experienced only after the Second World War, in the late '60s, the first M&A wave. Since the '80s, Europe has experienced three waves of mergers and acquisitions. These waves were characterized by internationalization and consolidation and were enrolled in a context marked by deregulation, liberalization of trade and investment. 1986 (when it was signed the Single European Act) marked the construction of the Single Market, which makes the wave of mergers and acquisitions that Europe experienced in the late '80s (1987-1991) represent, in fact, the first truly European wave. In the perspective of Single Market formation the EU Directive regarding the control of concentrations was adopted in 1989 and entered into force on 21 September 1990 (Kleinert and Klodt, 2002). Gönenç et al. (2001) note that since the '80s the privatization process encompassed all industrialized countries. Privatization targeted first competitive sectors (banks and insurance) then extended to public services sectors (telecommunications, post, transport). The reports of European Commission reflect an increased percentage of M&A among enterprises from different member states of EEC and also the fact that, at the end of '80s, many European firms were acquired by foreign firms, especially American.

Table 1: The evolution of national, community, and international M&As in the period 1987-1993

Year	National operations (in % of the total number of transactions)	Community operations (in % of the total number of transactions)	International operations (in % of the total number of transactions)	Unknown acquirer (in % of the total number of transactions)	Total number of transactions
1987	71,6	9,6	18,9	-	2775
1988	65,9	13,5	20,5	-	4242
1989	63,2	19,1	17,7	-	6945
1990	60,7	21,5	17,8	-	7003
1991	54,3	11,9	14,5	19,3%	10657
1992	58,1	11,6	14,2	16,1%	10074
1993	57,4	11,7	18,8	12,1%	8759

Source: Adapted from European Commission. 'Fusions et acquisitions', *Economie Européenne, Supplément A*, DGAEF, no 2, 1999: 4-5.

http://ec.europa.eu/economy_finance/publications/publication2894_fr.pdf.

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European Commission. 'Fusions et acquisitions', *Economie Européenne, Supplément A*, DGAEF, no 12, 2001: 3, http://ec.europa.eu/economy_finance/publications/publication2404_fr.pdf.

Note: European Commission does not provide data about the percentage of the operations in which the acquirer is unknown, of the total of operations made in 1987, 1988, 1989 and 1990.

The majority of M&A operations is represented by national operations. However it can be noticed that number of the community operations has increased as compared to the international ones. The reason is that European enterprises, especially the British and French ones, were increasingly more oriented towards Europe in what concerns cross-border operations.

According to European Commission (1999, 2000, 2001), different types of operations have evolved in a different manner. The number of domestic transactions tripled between 1986 and 1989, after which the general trend has been to decrease. Community operations recorded an upward trend, reaching a peak in 1990, followed by a decline and then a gradual resumption of growth in the next wave. The number of international transactions in which the acquirer is a community enterprise, grew at a much slower pace, reaching a first peak in 1989, followed in the next two years by a decrease and then an increase since 1993. Instead, international transactions in which target was a community firm have grown consistently. The average value of a Community transaction during 1987 - 1991 was 20 million euros (European Commission, 1999: 7).

This M&A wave was discontinued in the late '80s, and the period 1991-1992 was marked by recession and a deteriorated macroeconomic situation in most European countries. This affected the confidence of investors and business managers. The volume of transactions decreased significantly, marking the end of this wave.

3. The Internationalization of M&A transactions - a defining feature of the second wave in the European Union

After a brief pause, M&A market has had an upward trend throughout the '90s, reaching a historical peak in 2001. Authors like Ceddaha (2007: 19), Gregoriou and Renneboog (2007: 3), Gouali (2009: 88) indicate that the fifth wave of mergers and acquisitions began in 1993. This was the first truly global wave and has presented the same features, in the U.S., Europe or Asia. Table 2 and our calculations based on UNCTAD statistics show the alert growth rate of the value of cross-border mergers and acquisitions since 1993, reaching a peak in 2000. EU countries have consolidated their position both as buyers and as sellers. One thing to note is that during the '90s, the European Union held the largest share in total European cross-border operations.

Table 2: The evolution of the value of cross-border M&As in the period 1990-2001, by region / economy of purchaser and seller (in million dollars)

Sursa: UNCTAD statistics and own calculations:

<http://www.unctad-docs.org/files/UNCTAD-WIR2012-Annexes-Tables-en.pdf>.

Region/ Economy	The value of cross-border M&As by region/economy of purchaser and the evolution rhythm					The value of cross-border M&As by region/economy of seller and the evolution rhythm				
	1990	1993	Rhythm 1993/1990 (in %)	2000	Rhythm 2000/1993 (in %)	1990	1993	Rhythm 1993/1990 (in %)	2000	Rhythm 2000/1993 (in %)
World	98 903	43 623	-55,8	905 214	1975,0	98 903	43 623	-55,8	905 214	1975,0
Europe	60 676	18 173	-70,0	671 695	3596,1	42 945	24 578	-42,7	515 547	1997,5
European Union	55 691	21 544	-61,3	605 193	2709,1	39 472	22 534	-42,9	497 285	2106,8
United States	11 192	12 991	16,0	94 105	624,3	36 475	10 267	-71,8	271 721	2546,5
Japan	13 532	1 060	-92,1	13 901	1211,4	7	172	2357,1	11 604	6646,5

General sense (Kleinert and Klodt, 2002; Coutinet and Sagot-Duvaouroux, 2003: 23-24; Ceddaha, 2007: 19; Martin, 2008: 177; Gouali, 2009: 88-89) is that globalization, technological innovation, deregulation and privatization (Holmstrom and Kaplan, 2001, Jovanovic and Rousseau, 2001, 2002) and the boom in financial markets (Shleifer and Vishny, 2003) have spurred European companies to participate in mergers and acquisitions activity over the '90s. During the '90s, the European Union has seen a significant increase in M&A activity, especially cross-border operations but the vast majority of transactions remained the national ones. According to a European Commission report (1996: 6), in the period 1990 - 1995, more than 70% of all transactions in the EU-15 were national ones, level that was approximately the same as in the period 1986 - 1990. Countries such as Germany, Spain and Italy have recorded most domestic transactions while smaller countries such as Austria and Ireland have been involved in several cross-border transactions.

According to the European Commission (1996: 115) if during the period 1985-1987 the value of mergers and acquisitions that involved the European companies accounted for 20% of the world total, the share rose to 43% in the period 1991-1993. At EU level, the total value of transactions culminated in 1999, although the number of deals increased until 2000.

Table 3: The evolution of national, community, and international M&As in the period 1991-2001

Year	National operations (in % of the total number of transactions)	Community operations (in % of the total number of transactions)	International operations (in % of the total number of transactions)	Unknown acquirer (in % of the total number of transactions)	Total number of transactions	Variation of the total number of transactions
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%

Year	National operations (in % of the total number of transactions)	Community operations (in % of the total number of transactions)	International operations (in % of the total number of transactions)	Unknown acquirer (in % of the total number of transactions)	Total number of transactions	Variation of the total number of transactions
1995	57,4	12,9	22,8	6,9	9854	8,9%
1996	54,8	12,6	26	6,6	8975	-8,9%
1997	56	14	26	4	9784	9%
1998	53,5	14,1	28,4	4	11300	15,5%
1999	55,7	14,2	26,4	3,7	14335	26,9%
2000	54,7	15,2	25,4	4,7	16750	16,8%
2001	54,1	14,9	24,1	6,9	12557	-25%

Source: Adapted from European Commission. 'Fusions et acquisitions', *Economie Européenne, Supplément A*, DGAEF, no12, 2001: 4, 5.
http://ec.europa.eu/economy_finance/publications/publication2404_fr.pdf.

We must note that the development of international mergers and acquisitions, intra and extra-EU was one of the main characteristics of this wave of operations in Europe.

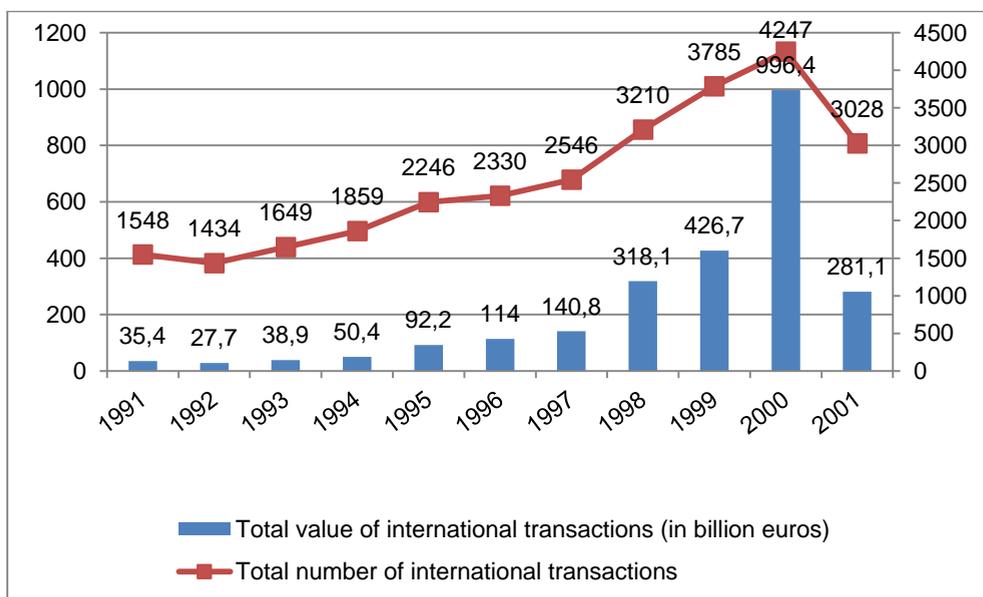


Figure 1: Evolution of the number and value of international M&As transactions during the period 1991-2001

Source: Adapted from European Commission. 'Fusions et acquisitions', *Economie Européenne, Supplément A*, DGAEF, no12, 2001: 10.
http://ec.europa.eu/economy_finance/publications/publication2404_fr.pdf.

The number of Community transactions has grown steadily since 1996 and culminated in 2000 with 2548 operations. The end of this wave was marked by a 27% decrease in the number of community operations.

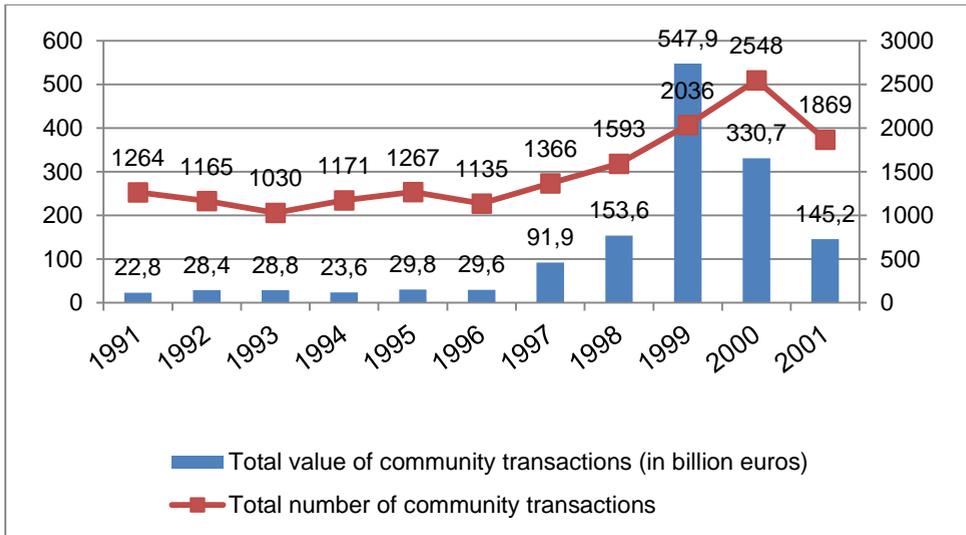


Figure 2: Evolution of the number and value of community M&As transactions during the period 1991-2001

Source: Adapted from European Commission. 'Fusions et acquisitions', *Economie Européenne, Supplément A*, DGAEF, no12, 2001: 7.

http://ec.europa.eu/economy_finance/publications/publication2404_fr.pdf.

In terms of mergers and acquisitions work allocation between Member States in the period 1991-2001, according to data from the European Commission, we deduce that Britain was the country most active, followed by Germany, France, Holland and Italy.

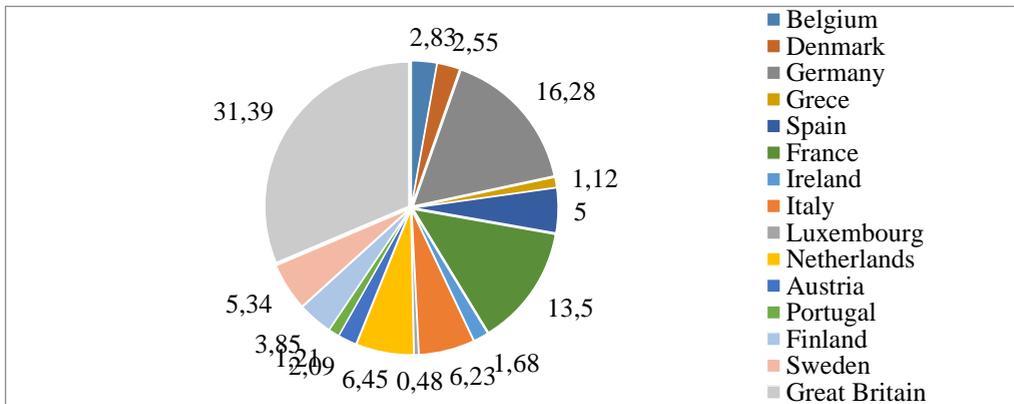


Figure 3: Share on member countries of total value of M&As activity registered in the European Union during the period 1991-2001 (in %)

Source: Adapted from European Commission. 'Fusions et acquisitions', *Economie Européenne, Supplément A*, DGAEF, no12, 2001: 4.

http://ec.europa.eu/economy_finance/publications/publication2404_fr.pdf.

From the data provided by the European Commission (2000: 14-15, 2001: 11-12), we find that the share of M&As in the services sector increased relative to industry

sector since 1997 and reached two thirds and one third respectively of the total operations in 1999. Thus, an analysis of sectoral distribution of M&A operations in Europe during this wave reveals, among other things, that the activity was concentrated mainly in certain sectors. Between 1997 and 2000 the main sectors targeted were the business services, real estate, financial intermediation, wholesale trade, basic metal products, foodstuffs and tobacco.

The year 2001 marked the end of that international wave. Thus, the M&A activity recorded a net decrease in volume and value of transactions as a result of the fact that global economy went into recession.

4. European Union - an actor increasingly important in global mergers and acquisitions activity

After a few years of calm M&A activity in the European Union resumed its upward trend, since 2004, which determined EU economy to have a significant share in global M&A market. At European level, the euro, globalization, technological innovation, deregulation and privatization, low interest rates (Campa and Moschieri, 2008), the financial markets *boom* (Sherman and Hart, 2006: 3; Ceddaha, 2007: 20; DePamphilis, 2010: 17) and existing liquidity (Alexandritis et al., 2010) have spurred M&A activity.

What influence had the introduction of Euro on M&A activity in Europe?

A European Commission report (2007: 14) shows that the euro has had a positive impact on M&A activity in the EMU countries. Thus, the share of cross-border operations between EU12 countries (the first countries to adopt the euro, namely: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and from January 1, 2001, Greece) in the total operations of the companies in the euro area increased from 34% in 1999 to 42% in 2004. Following the introduction of the euro the downtrend of cross-border transactions between EMU countries in the total transactions has ended.

Fligstein and Merand (2001) believe that European firms have focused mainly toward operations in Europe and that the Single Market and the euro have favored the "Europeanization" of firms. Thus, European companies saw M&A as a way to survive the fierce competition that has increased due to the creation of the single market. The euro has put more pressure on businesses and eliminated all currency risks in the countries in EMU.

This wave of operations manifested itself by an increased M&A activity, particularly in the EU-15 countries (France, UK, Germany, Italy, Portugal, Spain, Netherlands, Ireland, Denmark, Luxembourg, Greece, Belgium, Austria, Finland, Sweden). However, in this period, there has been an increase in the number and value of transactions recorded in the new EU member states (Poland, Czech Republic, Cyprus, Lithuania, Latvia, Slovenia, Estonia, Slovakia, Hungary, Malta, Bulgaria and Romania).

Table 4: M&As in the old Member States, during the period 2000-2007, by 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

	2000	2001	2002	2003	2004	2005	2006	2007
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

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

As shown in Table 4, in the old Member States, about two-thirds of the transactions were national ones while in the new Member States, most transactions were carried out by foreign investors (that targeted mostly companies from Poland, Czech Republic, Hungary and Romania), as shown in Table 5.

Table 5: M&As in the new Member States, during the period 2000-2007, by 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

Table 6 shows the sectoral aspects of M & As in the NMS and OMS, separately for the two categories, national and cross-border. Thus, in the case of cross-border operations, most transactions were made in the manufacturing industry, both for NMS and OMS. On the other hand, the share of services in total number of operations is higher in the old Member States compared to the new Member States. With regard to domestic operations it was maintained the same trend.

Table 6: Sectoral classification of M&As in old and new Member States during the period 1998-2007

Percentage of the total number of transactions by sector	Cross-border M&As			National M&As		
	NMS	OMS	UE-27	NMS	OMS	UE-27
Agriculture, Forestry and Fishing	1,1	0,4	0,5	1,3	0,7	0,7
Mining	2,6	1,2	1,4	2,0	1,1	1,1
Construction	2,9	1,9	2,1	3,6	2,9	3,0
Manufacturing	33,9	35,7	35,4	36,5	28,4	28,8
Network industries	16,7	11,7	12,5	14,0	10,5	10,7
Services of which:	42,9	49,1	48,1	42,6	56,5	55,7
Wholesale Trade	4,8	6,9	6,6	4,6	5,8	5,7
Retail Trade	3,6	4,0	3,9	5,3	6,4	6,3
Finance, Insurance and Real Estate	20,5	12,4	13,8	15,8	15,3	15,3
Other services	13,9	25,7	23,6	16,9	28,9	28,2
Public administration	0,1	0,1	0,1	0,1	0,2	0,2

Percentage of the total number of transactions by sector	Cross-border M&As			National M&As		
	NMS	OMS	UE-27	NMS	OMS	UE-27
Total number of transactions	3585	17059	20644	4072	65905	69977

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: 168. http://ec.europa.eu/economy_finance/publications/publication14078_en.pdf

The Impact of globalization on M&As can be appreciated from a review of information provided by UNCTAD.

Table 7: The value of cross-border mergers and acquisitions by region / economy of purchaser and seller (billion dollars)

Regions / Economy	Net sales					Net purchases				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
World	182,874	227,221	462,253	625,320	1 022,725	182,874	227,221	462,253	625,320	1022,725
Europe	100,739	149,355	316,891	350,740	559,082	45,326	80,193	233,937	300,382	568,988
UE-27	87,990	144,278	304,740	333,337	527,718	47,417	69,917	210,111	260,680	537,890
USA	39,991	38,155	67,401	127,750	164,978	64,284	47,423	86,088	117,729	179,895
Japan	4,150	10,952	0,662	-	11,683	1,952	2,004	5,012	16,966	30,346

Source: UNCTAD statistics and own calculations:

<http://www.unctad-docs.org/files/UNCTAD-WIR2012-Annexes-Tables-en.pdf>

Across Europe, during this wave, there was recorded an increase in the value of transactions both sales and purchases. EU economy, which has the largest share across Europe, recorded values of sales and purchases in cross-border M&A transactions in excess of those recorded by the U.S. and Japan as shown in the table above (UNCTAD, 2008: 68).

Regarding the number of transactions completed throughout this wave there was recorded an increase in acquisitions by European companies, especially those from European Union.

Table 8: Number of cross-border M&As concluded during 2003-2007, by region/economy of purchaser (left) and by region/economy of seller (right)

Region/Economy	2003	2004	2005	2006	2007	Rhythm 2007/2003 (in %)	2003	2004	2005	2006	2007	Rhythm 2007/2003 (in %)
World	3 004	3 683	5 004	5 747	7018	133,6	3 004	3 683	5 004	5 747	7018	133,6
Europe	1 054	1 295	2 109	2 519	3 117	195,7	1 340	1 596	2 271	2 531	2955	120,5
European Union	1 005	1 170	1 828	2 216	2 782	176,8	1 247	1 465	2 108	2 354	2717	117,8
United States	598	813	897	1 063	1 241	107,5	585	704	948	1 056	1 129	121,7
Japan	57	56	126	137	161	182,4	42	50	44	57	106	152,3

Source: UNCTAD statistics and own calculations:
<http://www.unctad-docs.org/files/UNCTAD-WIR2012-Annexes-Tables-en.pdf>

European countries, and especially those from European Union, represented at the same time, attractive targets of cross-border M&As, as shown in Table 8.

This wave of mergers and acquisitions was relatively short, but intense and ended quickly when the economic and financial crisis, which began in 2007, has restricted firms' access to credit. Thus, if the United States M&A market started to decline since 2007, in Europe, 2008 saw the decline as the recession began to include the economies of many countries.

5. Conclusions

The data presented above may outline new profile in the global economy. The United States no longer holds supremacy regarding mergers and acquisitions. EU firms have become major players in the global M&A activity. It can be noticed an increase in operations initiated by firms from European countries and, more recently, by firms from emerging countries. The worst recession after the Second World War that Europe's economy and the global economy experienced, affected significantly mergers and acquisitions. Although recent years have been characterized by uncertainty in terms of economic evolution, financial market volatility and the sovereign debt crisis, since 2010 there is an upward trend in terms of mergers and acquisitions. It remains to be seen whether we are really at the beginning of a new wave of mergers and acquisitions...

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**SECTION: FINANCE, BANKING, ACCOUNTING AND
AUDIT**

SUB- SECTION: PUBLIC FINANCES

ANALYSIS OF ROMANIAN ECONOMIC STABILITY IN TERMS OF EVOLUTION OF THE BUDGETARY DEFICIT AND OTHER MACROECONOMIC INDICATORS, IN THE PERIOD 2005-2012

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Abstract *In this paper we shall study the evolution of the Romanian macroeconomic stability in the period 2005-2012. This analytical research is based on secondary data provided by the Romanian National Institute of Statistics, as well as by EUROSTAT, and these data will be introduced in tables, based on which we shall draw up charts to help us make a correct image of the studied phenomena. In the end, we shall use a certain kind of chart – the macro-stabilization pentagon – which will give us the measure of macroeconomic stability at the level of our country, during the considered period. The results of this endeavour will serve to all those who want to know to what extent Romania has had a stable economy in a period marked by the economic crisis wherefrom it hasn't fully detached yet. However, in the part designated to conclusions, we shall observe that the year 2012 has positive characteristics, from the economic point of view, the surface of the macro-stabilization pentagon afferent to this year benefiting from a significantly more emphasized regularity than the other studied years.*

We will use during the paper the following economic indicators: budgetary deficit, current account deficit, inflation rate, unemployment rate and gross domestic product growth rate. With the values of all these indicators we will compile some tables and, subsequently, charts for every one of them and after that we will use the economic macro stability pentagon, in order to find out if the Romanian economy recovered after the economic crisis.

*We were suggested to the idea of this approach manner by two books: *Finanțe publice* (Iulian Văcărel coord., 2003) and *Reflecții economice - Contribuții la teoria macrostabilizării* (Mugur Isărescu, 2006). In these books we found references to the particular chart – the macro stability pentagon. In the final part of this paper we will try to use this chart to make an image of the overall economic behaviour of our country.*

Keywords: *budgetary deficit, current account deficit, inflation rate, unemployment rate, gross domestic product growth rate, macro economic stability.*

JEL classification: A10, E63

In this paper we shall proceed with an analysis of some macroeconomic indicators evolution, at the level of Romania, in the period 2005 – 2012. We are doing this analysis in order to figure out if the Romanian economy has had an appropriate manner to deal with the crisis.

The period we have had in view transcends the climax of the economic crisis that hit our country, the effects of which are still felt in the present. If we pay attention to the time interval taken into consideration, we shall notice that within it there appear some years preceding the crisis – in the period 2005 – 2008 – but also subsequent to the period of its maximum manifestation – in the period 2010 – 2012. Furthermore, we shall see if we correctly considered the year 2009 as the year in which the economic crisis did or did not know its highest phase, as concerns Romania.

In order to make an image as accurate as possible on the studied phenomena, we shall use the chart illustrative method, introducing the data obtained from the National Institute of Statistics, but also from other sources such as EUROSTAT, in tables, and we shall continue with charts to help us see the evolution of some macroeconomic indicators. In the final part we will elaborate a different kind of chart which is called the economical macro stability pentagon, which is more likely to show us the manner in which the Romanian economy recovered after the crisis. The indicators on which we have stopped are the following: the budgetary deficit, the current account deficit, the unemployment rate, the inflation rate and the gross domestic product growth rate. On all these indicators, more precisely on the study of their evolution, we shall support our conclusions regarding the economic stability Romania had had between 2005 and 2012. In this point of the paper, it is important to mention that the data afferent to year 2012 are not final for any of the studied indicators, and this fact we shall take it as it is during our endeavour. We shall start by studying the evolution of the considered indicators, in the order they were mentioned in the previous paragraph. We shall open our endeavour with the *budgetary deficit*, positioning in a table the result of some personal calculations made on the basis of some statistic data provided by the INS (The National Institute of Statistics), data regarding the amounts afferent to budgetary income and expenses made from budgetary sources, relating the difference between these sources with the gross domestic income.

Table no. 1. Evolution of Romanian budgetary deficit in the period 2005 – 2012 (% in GDI).

	2005	2006	2007	2008	2009	2010	2011	2012
Budgetary deficit	-0,8	-3,3	-3,4	-5,7	-9	-6,8	-4,3	-2,52

Source: personal calculations made on the basis of some data provided by the National Institute of Statistics (INSSE).

Further on, based on the data in Table no. 1, we shall make a chart to help us better notice the evolution of this indicator in the considered period.

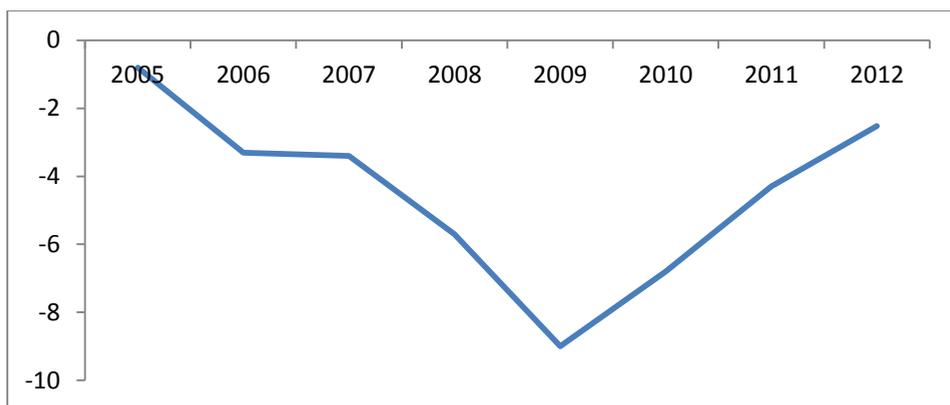


Chart no. 1. Evolution of Romanian budgetary deficit in the period 2005 – 2012.
Source: made by the author

We can easily notice that this indicator, in terms of its evolution, confirms the previously presented supposition concerning the year 2009 as the year of maximum manifestation of the economic crisis in our country.

Indeed, at a value of 0.8 percentage, for the year 2005, the budgetary deficit registers a level of 9 percentage in the year 2009, then it gradually decreases to approximately 2,5 %, value afferent to year 2012.

Switching out attention from the budgetary deficit to the *current account deficit*, we shall consult certain data regarding this indicator, data provided by the specialized media.

Table no. 2. Evolution of Romanian current account deficit in the period 2005 – 2012 (% in GDI).

	2005	2006	2007	2008	2009	2010	2011	2012
Current account deficit	8,73	11,2	16,15	13,84	4,41	4,82	4,71	4

Source: EUROSTAT (EUROSTAT).

Further on, we shall make the chart afferent to this table, trying to identify, in terms of the image provided by it, the main characteristics of the current account deficit evolution for the considered period.

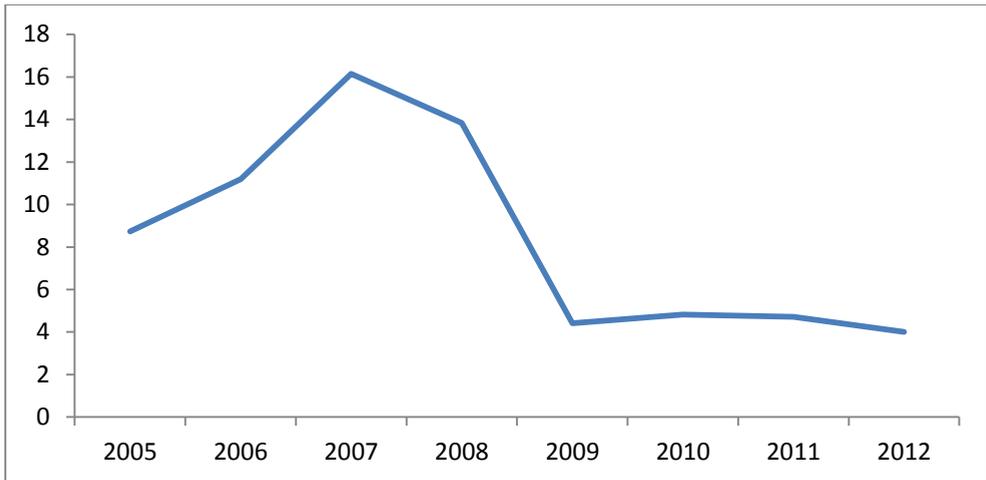


Chart no. 2. Evolution of Romanian current account deficit in the period 2005 – 2012.

Source: made by the author

Analyzing the chart, we notice the coexistence, within it, of three types of behaviour, mainly an increase, in the sense of value doubling, in the first three years of the period, from 2005 until 2007, trend followed by a significant decrease at half the level afferent to the year 2005, from 2007 until 2009, then a level trend, which continues during the last years of the studied time interval.

Having in view the way, the data on which the determination of this indicator value rely on, we can try to explain the three types of behaviour, either by exports value increase or by import value volume decrease. Both explanations could be supported independently or cumulated. At the export increase part, we could bring as argument the increase of Dacia company exports on the west-European market and for imports decrease, we could argument with the consumption decrease due to the economic crisis. We shall not venture to such appreciations in this paper, as they would presume an endeavour that needs to be founded which would exceed the size of an article as this one.

What we can keep in mind though, is the fact that in 2009 the chart knows a significant turning point, even though this trend can not be accounted for exclusively by the hypothesis according to which the year 2009 would be the “hardest” from the economic perspective at the level of Romania.

The third indicator, *the unemployment rate*, describes well enough the effects of a fatal period, from the economic point of view, which crisis can cause at the level of a country. The following table and chart help us analyze the evolution of this indicator.

Table no. 3. The evolution of unemployment rate in Romania in the period 2005 – 2012.

	2005	2006	2007	2008	2009	2010	2011	2012
unemployment rate	5,9	5,2	4	4,4	7,8	7	7,4	6,5

Source: The National Institute of Statistics

Further on, based on these data, we shall make a chart to help us form as correct an image as possible on the evolution of this indicator.

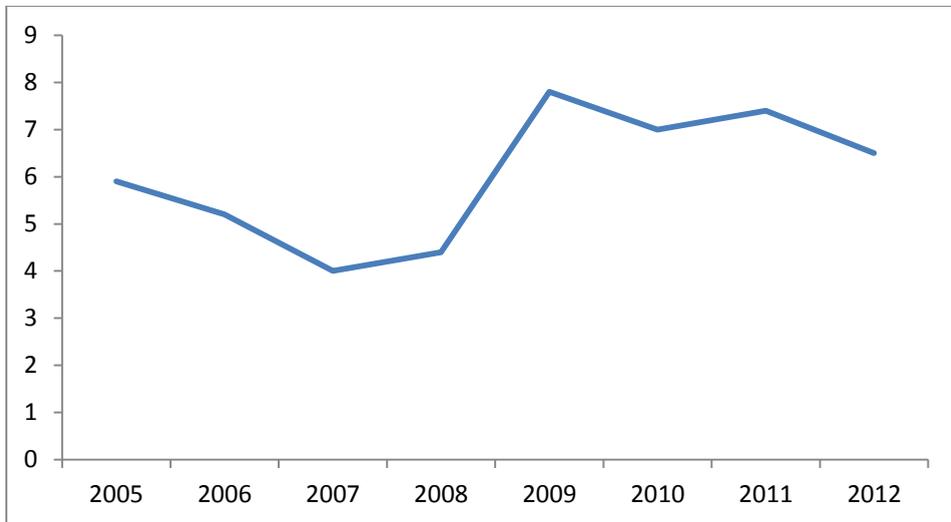


Chart no. 3

The evolution of unemployment rate in Romania in the period 2005 – 2012.

Source: made by the author

From this chart we can notice that, at least for the studied period, this indicator had an almost cyclical evolution, in the sense that the values afferent to the ends of the time interval we refer to, are located at a small distance from one another – 5.9 compared to 6.5 percentages. During the rest of the period, the evolution can be explained based on the economic position Romania has crossed since 2005 until 2012, having to deal with a descending trend, with a peak in 2009, then with a slightly decreasing trend until the end of the period. We notice again a negative peak afferent to year 2009.

As concerns the fourth indicator we have proposed to analyze, in terms of its evolution, this is *the inflation rate* and we shall use again data provided by the National Institute of Statistics.

Table no. 4

The evolution of inflation rate in Romania in the period 2005 – 2012

	2005	2006	2007	2008	2009	2010	2011	2012
Inflation rate	9	6,56	4,84	7,85	5,59	6,09	5,79	4,95

Source: The National Institute of Statistics

The chart we have made, based on the data from Table 4, will show as follows:

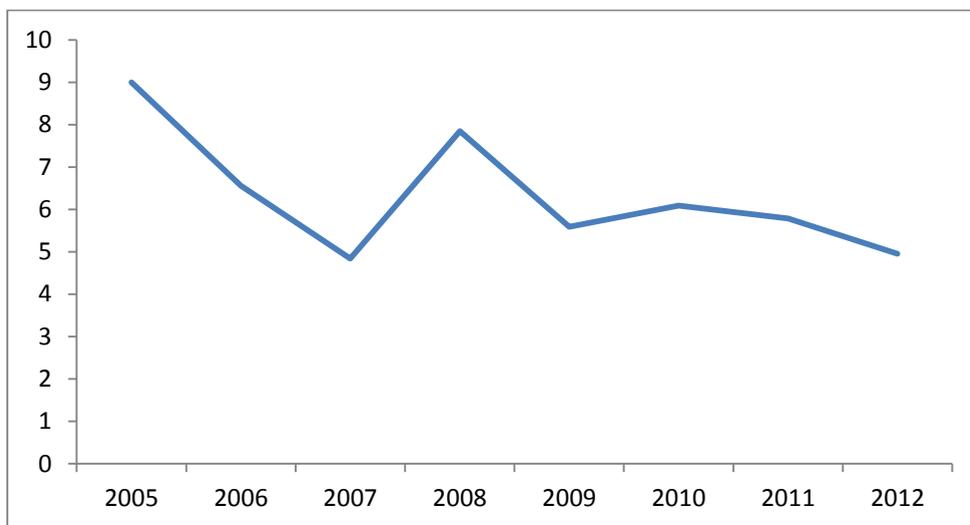


Chart no. 4

The evolution of inflation rate in Romania in the period 2005 – 2012

Source: made by the author

From the chart above, we can easily notice the trend, mainly descending, this indicator has known during the period taken into account. Having in view that as the inflation rate is concerned, there is a major interest from the perspective of the monetary policy promoted by The National Bank of Romania, this indicator being “aimed at” by the before mentioned institution, we could appreciate that it has a relatively technical character than the other indicators we have studied in this paper, and this character could not be useful to us in supporting the hypothesis formulated at the beginning of the paper.

The last indicator we have taken into account, *the increasing rate of the gross domestic product* being one of the most important macroeconomic indicators, will help close an analysis circle of the evolution of the economic market position afferent to the time interval on which we have focused our attention.

Table no. 5

The evolution of gross domestic product increasing rate in Romania in the period 2005 – 2012

	2005	2006	2007	2008	2009	2010	2011	2012
GDP growth rate	4,2	7,9	6,3	7,3	-6,6	-1,6	2	0,2

Source: The National Institute of Statistics

The chart that will help us illustrate the evolution of this indicator will be presented below:

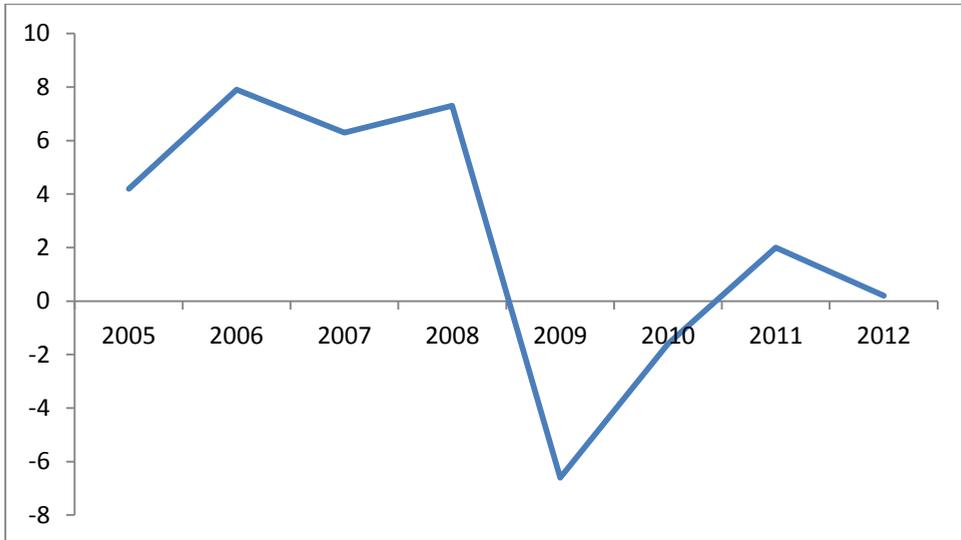


Chart no. 5

The evolution of the gross domestic income increasing rate in Romania in the period 2005 – 2012

Source: made by the author

The image presented by chart no. 5 is a sufficiently eloquent one regarding the consideration of year 2009 as an year when the economic crisis had maximum negative effects in the Romanian economy.

In this point of the paper, we have enough data and images to illustrate the economic configuration in which Romania was between 2005 and 2012. Anyway, we shall not stop here, but we shall use a different kind of chart, which in the specialized language is called the macro-stabilization pentagon. This chart takes into consideration exactly the indicators we have studied in this paper. This macro-stabilization pentagon is made up starting from the placement of the five indicators on five abscissae having a common origin. The next stage is that of configuration of the real pentagon, resulting in such a geometrical figure, whose surface, amplitude and regularity show the image of economic stability of a state in a certain moment or in dynamic (Văcărel (coord), 2003, p. 651). Another mention of this particular instrument of analysis was made by Mugur Isărescu, the Governor of Romanian National Bank (Central Bank of Romania), (Isărescu, 2006, p. 127) article in which the author revealed the importance of this particular chart for an analysis as the present one.

With all these positive characteristics of this chart, it has a limit determined by the fact that if we want to analyze more series in the same time, then the chart can become relatively full, and if the available surface is reduced in size, we can encounter chart comprehensibility difficulties. For this reason, we shall analyze the evolution every two years, trying to catch the trend of studied phenomena.

To avoid the unnecessary information in the paper, we shall drop the tables and maintain the charts, the data being anyway presented up to this moment. In this respect, the chart shows as follows:

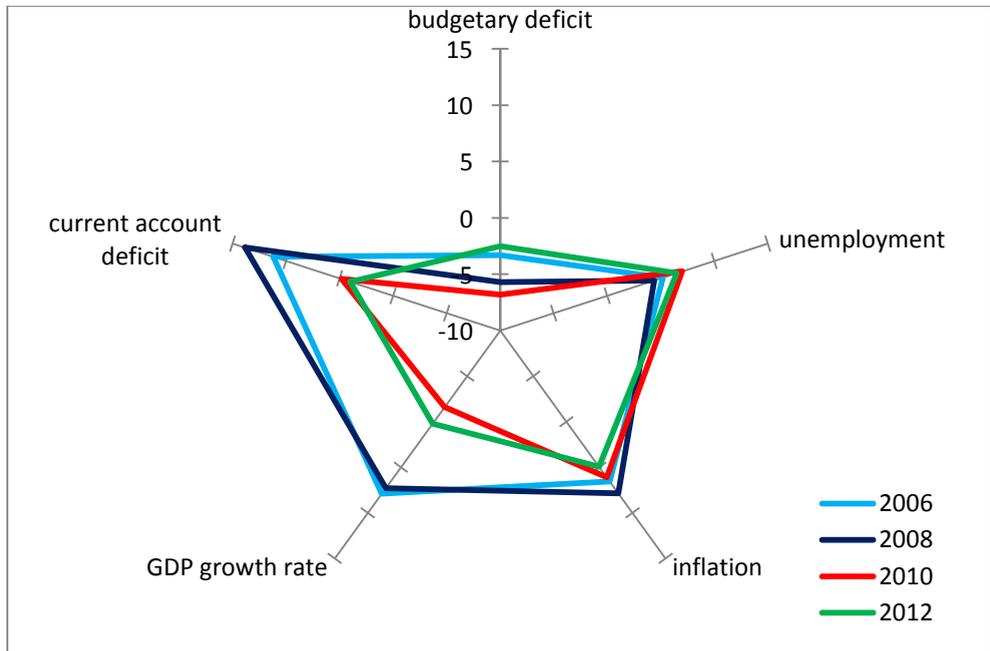


Chart no. 6

The comparative analysis of macroeconomic stability in 2006, 2008, 2010 and 2012

Source: made by the author

Based on the before presented chart, we can try to present certain *conclusions* concerning the evolution of the macroeconomic stability degree during the studied period. In this chart there appears relatively clear that the Romanian economy initially knew a positive evolution, being noticed a recovery in the sense of the previously mentioned three characteristics: surface, amplitude and regularity. Therefore, we could state that the Romanian economy was more stable in 2006 and 2008 than in the years following the crisis.

The chart representations afferent to years 2010 and 2012 suffered a reduction, modifying both the surface and the regularity and amplitude. The surface decreased, and so did the amplitude, which knew a diminishing, but the Romanian economy recovered at pentagon regularity, both for 2010 and for 2012.

What we can understand from all these charts we have presented during this paper, is that year 2009 was a peak in the crisis point of view and that after that moment the macroeconomic indicators knew a relatively milder evolution, fact that can be noticed in chart no. 6. Indeed there can be emphasized two different behaviours in the years 2010 and 2012 compared to 2006 and 2008, the indicators values being significantly grouped on both time zones. The surfaces afferent to years 2006 and 2008 are significantly higher than those afferent to

years 2010 and 2012, being clearly different only as concerns the budgetary deficit, the latter being at the level of year 2012 at the lowest level.

Giving credit to this method of determination of the stability degree, through the macro-stabilization pentagon, we could state that the year 2012 has regular characteristics more clear than all the other studied years, and this fact is exactly due to decrease of the budgetary deficit.

Regarding all these aspects we may affirm that Romanian economy, overall, is on a good way to its endeavour to meet the values of the main economic indicators existing in the EU.

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RATIOS METHOD - A WAY OF MEASURING THE LOCAL GOVERNMENT PERFORMANCE

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Abstract. *In this paper the authors underline the methods of performance analysis in local government using financial rates. Therefore regional performance evolutions in the North-West region of Romania and its counties are analysed using indicators such as ROE, ROA, ROTA and others.*

Keywords: *Return, Assets, Equity Investments*

JEL classification: H72

1. Introduction

Investors are concerned about the company's ability to generate, maintain and increase profits. Profitability can be measured in several different ways, but interdependent. First, consider the firm's profit from sales, which means sales return to a penny from sales. Another measure would be the return on investment (ROI), which correlates with profits investments required for their production. If the County Councils subordinate economic entities to measure profitability information system provides two categories of indicators: profitability expressed by the relationship between costs and sales and return on investment. Rates are useful tools of analysis that summarizes large amounts of data in a form easier to understand, interpret and compare. They show the same time limits that must be considered for each case. When comparing rates from different periods, one has to consider the conditions under which the company operates and the impact of certain changes on financial statements such as: changes in economic conditions, the production process, different product lines or geographic markets served. Rates are not the end point of the analysis and not the positive elements themselves (strengths) and negative (weaknesses) of the business or its management. Rates indicate, in our opinion, only the areas that require further investigation.

2. Methods and results

State efficiency of county governments can be detected by profitability ratios as follows:

a) Return on assets (ROA) is calculated as a percentage ratio between the result from operating activities (RAO) and total assets (AT) county administration is:

$$ROA = \frac{RAO}{AT} \cdot 100$$

Indicator highlights the contribution of property items to obtain the results. County governments in the northwest region and their situation is illustrated in the following figure.

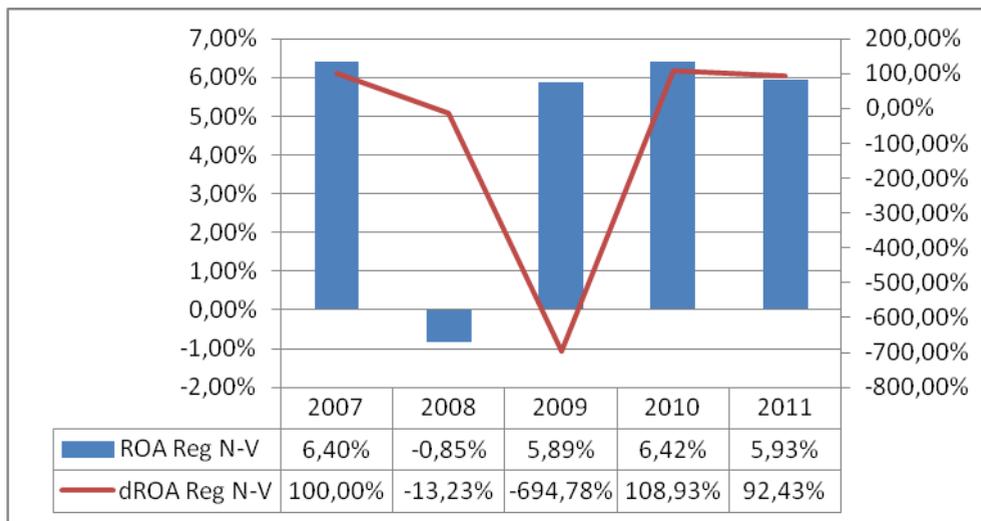


Figure 1: The evolution of Economic Rate of Return (Return On Assets)

The analysis of data shows a constant level of the indicator at 6%, except for 2008. We believe that constant trend indicator light creates a positive for future developments through county administration activities.

Table 1: Situation of counties developments regarding Economic Rate of Return

Indicator		Year				%
		2007	2008	2009	2010	2011
Economic Rate of Return	Reg. N-V	6,40%	-0,85%	5,89%	6,42%	5,93%
Economic Rate of Return	BH	9,74%	-4,99%	4,37%	6,26%	4,92%
Economic Rate of Return	BN	4,11%	5,98%	24,87%	7,33%	11,01%
Economic Rate of Return	CJ	28,05%	-0,81%	20,07%	9,11%	3,07%

Economic Rate of Return	MM	2,33%	3,16%	1,85%	8,29%	3,04%
Economic Rate of Return	SJ	14,03%	12,88%	7,58%	4,08%	11,18%
Economic Rate of Return	SM	1,20%	-3,57%	0,99%	3,14%	2,55%

Source: Financial statements of county administrations in the North-West region

a). According to other American analysts (Backer, Elgers, & Asebrook, 1988, p 598), the indicator ratio of current assets (Return On Current Assets - ROCA) is determined as a percentage ratio between the result from operating activities (RAO) and total current assets county administrations in the North-West (ACR).

$$ROCA = \frac{RAO}{ACR} \cdot 100$$

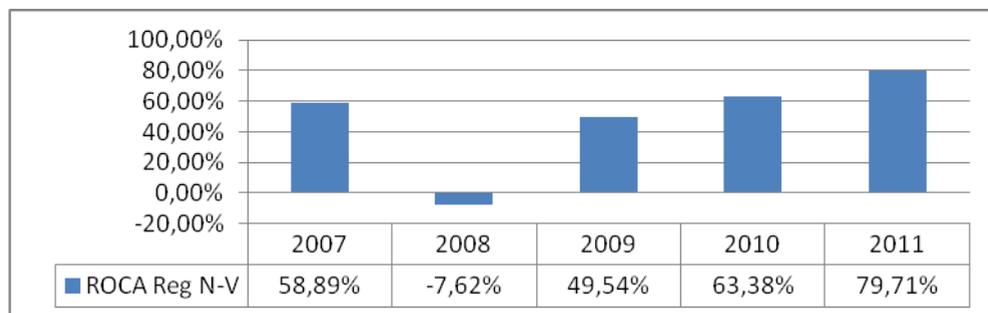


Figure 2: The evolution rate indicator of current assets in the North-West region
Source: Financial statements of county administrations in the North-West region

Table 2: Counties situation regarding the evolution of current assets ratio

Indicator		Year				%
		2007	2008	2009	2010	2011
Current assets ratio	Reg. N-V	58,89%	-7,62%	49,54%	63,38%	79,71%
Current assets ratio	BH	70,11%	-46,64%	49,45%	54,53%	45,76%
Current assets ratio	BN	51,65%	31,49%	76,43%	91,66%	535,94%
Current assets ratio	CJ	74,87%	-2,39%	63,83%	65,94%	32,02%
Current assets ratio	MM	26,20%	34,66%	23,54%	57,86%	24,40%
Current assets ratio	SJ	43,31%	50,56%	27,13%	44,94%	111,43%
Current assets ratio	SM	44,77%	-135,64%	25,64%	59,52%	70,17%

Source: Financial statements of county administrations in the North-West region

c) Return on total assets (Return On Total Assets - ROTA) is determined as a ratio of patrimonial result of the exercise (RPE), and the total assets of the county administration in the North-West. The indicator measures the return on all capital invested in the company. In Anglo-American economic literature, the indicator is called the rate of return on total assets (Return on Total Assets-ROA) or return on investment (Return on Investment-ROI). (Halpen, Weston & Brigham, 1998, p 111)

$$ROTA = \frac{RPE}{AT} \cdot 100$$

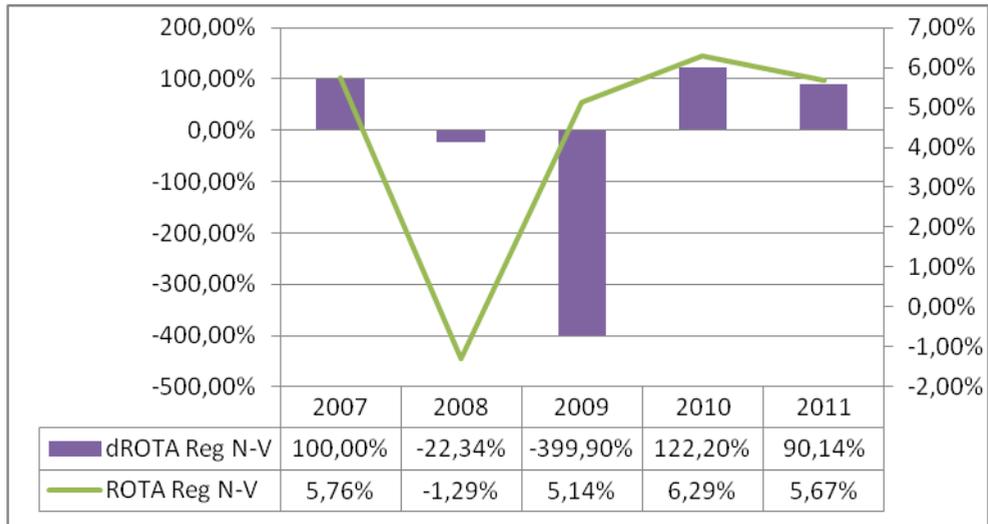


Figure 3: The evolution regarding the rate of return of total assets
Source: Financial statements of county administrations in the North-West region

In this case the indicator measures the efficiency with which assets are used by county governments in the North-West. The indicator shows earning power of county governments in the North-West from engaging in business with all its available resources. The situation of county governments in the northwest is illustrated in the figure above.

Table 3: Situation counties profitability rate of evolution of total assets

Indicator		Year				%
		2007	2008	2009	2010	2011
Return on total assets	Reg. N-V	5,76%	-1,29%	5,14%	6,29%	5,67%
Return on total assets	BH	7,64%	-5,65%	2,70%	5,64%	2,49%
Return on total assets	BN	3,91%	4,29%	24,35%	7,35%	10,95%
Return on total assets	CJ	27,93%	-0,78%	19,21%	9,12%	3,05%
Return on total assets	MM	2,29%	3,29%	1,98%	8,34%	3,08%

Return on total assets	SJ	12,58%	12,87%	7,17%	4,08%	11,20%
Return on total assets	SM	0,76%	-4,12%	0,26%	2,82%	2,35%

Source: Financial statements of county administrations in the North-West region

As indicator of trends we find that the index increases for 2008-2010 from -1.29% to 6.29%, followed by a slight reduction indicator due to the higher rate of income rate assets compared to proprietary . We appreciate that in terms of future work, the upward trend of the indicator creates favorable conditions for increasing self-financing capacity of county administration in the North-West in terms of increasing return on assets.

d) Return On Equity (ROE) is calculated as a percentage ratio between patrimonial result of the exercise (RPE) and the value of government equity (LGE) in North-West district.

$$ROE = \frac{RPE}{LGE} \cdot 100$$

The indicator shows the profitability of capital invested in a business. In Anglo-American literature this indicator is called return on equity or ROE (Return On Common Equity). With the analysed county administrations the situation is illustrated in the following figure.

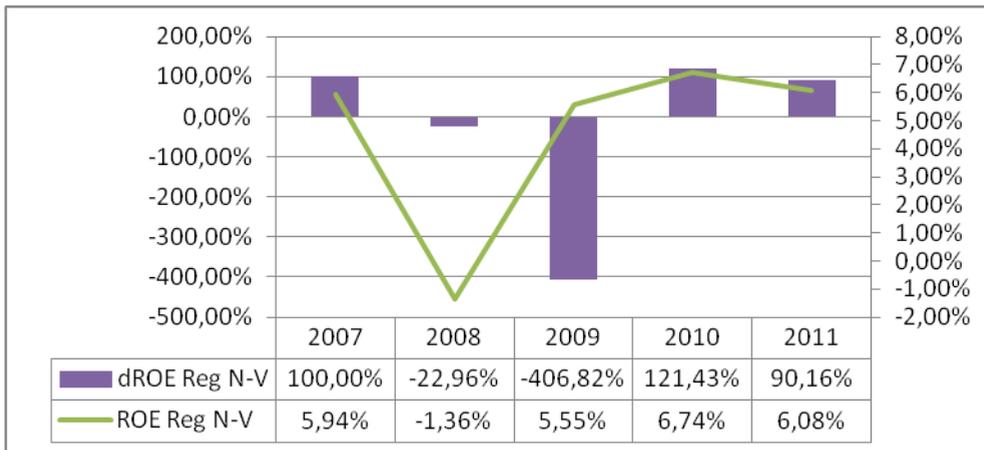


Figure 4: The evolution of financial profitability in North-West region

Source: Financial statements of county administrations in the North-West region

From analysing the indicator there is an increase in 2008 - 2010 from -1.36% in 2008 to 6.74% in 2010, and a decrease in its level from 5.94% in 2007 to -1, 36% in 2008, and from 6.74% in 2010 to 6.08% in 2011. Seen in the light of future work, we find that their funds do not generate enough profit, and therefore requires a closer analysis of the composition of these stocks, especially stocks and other

funds, which are funds which do not contribute practically to generating profit. The counties situation is presented in the table below.

Tabel 4: Counties situation of the evolution rate of financial return

Indicator		Year				%
		2007	2008	2009	2010	2011
Return On Equity	Reg. N-V	5,94%	-1,36%	5,55%	6,74%	6,08%
Return On Equity	BH	7,82%	-6,05%	3,11%	6,68%	3,07%
Return On Equity	BN	3,95%	4,45%	25,10%	7,47%	11,21%
Return On Equity	CJ	29,67%	-0,82%	19,94%	9,40%	3,17%
Return On Equity	MM	2,31%	3,34%	2,02%	9,26%	3,39%
Return On Equity	SJ	14,20%	14,46%	8,11%	4,36%	11,98%
Return On Equity	SM	0,78%	-4,43%	0,28%	3,10%	2,56%

Source: Financial statements of county administrations in the North-West region

Financial return is at significant levels in Bistrita - Nasaud, Cluj, Salaj and Bihor counties and insignificant in, Maramures and Satu Mare. In the research conducted we have built a statistical model to quantify the link between performance and debt in county administrations. Thus, we consider the six counties that make up the Northwest Development Region of Romania, during the period 2007-2011.

Performance of local government depends largely on its financial structure, and how the work is financed by both equity and debt finance. According to the classical theory there is an optimal ratio between the two funding sources report that lead to the minimization of cost of capital respective administration. Thus, we considered that the existence of a significant investigation interest between county government performance in the North West, as measured by ROE and ROA and total public debt service (as a measure of the government and default exposure as indirect measure of financial structure thereof) and their liquidity. In the analysis we have considered six county governments in 2007-2011, building the econometric **panel** models for each county administration, in the form:

$$ROA_{i,t} = a_1 PSDP_{i,t} + a_2 RLC_{i,t} + \varepsilon_{i,t}, \quad i = \overline{1,6} \quad \text{și} \quad t = \overline{1,5}$$

$$ROE_{i,t} = a_1 PSDP_{i,t} + a_2 RLC_{i,t} + \varepsilon_{i,t}, \quad i = \overline{1,6} \quad \text{și} \quad t = \overline{1,5}$$

where:

ROA (i, t) - is the value indicator recorded by the county administration and ROA in year t;

ROE (i, t) - is the value indicator recorded by the county administration and ROE in year t;

SDP (i, t) - is the value indicator PSDP (total public debt service) recorded by the county administration in year t;

RLC (i, t) - is the value indicator RLC (Current ratio) recorded by the county administration in year t

The table below notes that ROA is significantly influenced by the evolution of the share of total public debt and liquidity developments.

Table 5: Empirical study on the relationship between ROA, ROE, PSDP and RLC

$ROA_{i,t} = a_1 PSDP_{i,t} + a_2 RLC_{i,t} + \epsilon_{i,t}$		$ROE_{i,t} = a_1 PSDP_{i,t} + a_2 RLC_{i,t} + \epsilon_{i,t}$	
Coefficients	Point estimates	Coefficients	Point estimates
Bihor County			
a ₁	-0.0064**	a ₁	-0.00302*
a ₂	0.0031**	a ₂	0.004**
Bistrița-Năsăud County			
a ₁	-0.00522***	a ₁	-0.00495
a ₂	0.000102**	a ₂	0.00305*
Cluj County			
a ₁	-0.000312**	a ₁	-0.000731*
a ₂	0.04**	a ₂	0.1*
Maramureș County			
a ₁	-0.00661**	a ₁	-0.00424*
a ₂	0.00077	a ₂	0.0056
Satu Mare County			
a ₁	-0.00833*	a ₁	-0.00602*
a ₂	0.00045*	a ₂	0.0051*
Sălaj County			
a ₁	-0.00002***	a ₁	-0.00015***
a ₂	0.054**	a ₂	0.061

Source: Financial statements of county administrations in the North-West region

Note:

* Significant risk with a threshold of 10%,

** significant risk threshold of 5%;

*** Significant risk threshold of 1%

For Bihor county government, a 1% change in the share of public debt will result in a variation of the ROA 0.0064% and a 1% change in the rate of current liquidity will generate a change in ROA by 0.0031%. For ROE, a 1% change in the share of public debt will generate a modification of ROE 0.00302% and a 1% change in the rate of current liquidity will generate a change of 0.004% ROE.

For Bistrita - Nasaud, a 1% change in the share of public debt will lead to a change in ROA of 0.00522% and a 1% change in the rate of current liquidity will lead to a change of 0.000102% and ROA for ROE change of 1% public debt service will result in a variation of 0.00495% of ROE (but the coefficient is not statistically significant) and a 1% change in the rate of current liquidity will lead to a change in ROE with 0.00305%.

Data processing in Cluj County, showed that a 1% change in the share of public debt will result in a variation of the ROA 0.000312% and a 1% change in the rate of current liquidity will generate a change in ROA of 0.04% and for ROE, all for Cluj county, a 1% change in the share of public debt will rise to a modification of ROE 0.000731% and a 1% change in the rate of current liquidity will lead to a change in ROE by 0.1%.

In Maramureş County, a 1% change in the share of public debt will lead to a change in ROA of 0.00661% and a 1% change in the rate of current liquidity will lead to a change in ROA to 0.00077% (but the coefficient is not statistically significant). In exchange for ROE, a 1% change in the share of public debt will generate a modification of ROE 0.00424% and a 1% change in the rate of current liquidity will generate a change of 0.0056% ROE (ratio but not is statistically significant).

For the administration in Satu Mare, a 1% change in the share of public debt will result in a variation of the ROA 0.00833% and a 1% change in the rate of current liquidity will generate a change of 0.00045% and ROA for ROE change of 1% public debt service will generate a modification of ROE 0.00602% and a 1% change in the rate of current liquidity will generate a change of 0.0051% ROE.

Research conducted in Salaj county noted that a change of 1% public debt service will result in a variation of the ROA 0.00002% and a 1% change in the rate of current liquidity will generate a change in ROA of 0.054% while Why a 1% change in the share of public debt will lead to a modification of ROE 0.00015% and a 1% change in the rate of current liquidity will lead to a change of 0.061% ROE (but the coefficient is not significant in terms statistic). From research conducted that both ROA and ROE are negatively influenced total public debt service, regardless of county.

3. Conclusions

The county investigations undertaken revealed a number of issues on which we present a summary below.

- in the regional market there is a dispute of financial information between harmonization and standardization, domestic and international standard setters trying to replace international accounting differences with a set of consistent and harmonized accounting standards globally;

- although the national accounting reform has not been completed, the introduction of International Financial Reporting Standards is an important new step towards harmonization and standardization of national and international accounting. With this background we find that national accounting standards in local government are closer to international standards both in accounting rules, especially financial reporting system.

- in local government financial resources are presented in the balance sheet, whose format is closer to International Financial Reporting Standards that are reflected in current assets and non-current, non-current and current liabilities and equity. Meanwhile patrimonial result as an account is structured in operational activities, and extraordinary financial and patrimonial result and is treated as a final result no longer taxable.

- system resources and performance analysis of county government is based on a correlation of indicators presented in the form of financial ratios by which to highlight the financial structure, liquidity and solvency, the administration of public resources, debt and profitability.

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ON FISCALITY AND FINANCIAL AUDIT

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Abstract: *This paper is an attempt to correlate fiscal problems with financial reporting accounting regulations, a correlation regarded in terms of financial audit. The subject of the present paper is an interdisciplinary one and it requires the understanding of three types of regulations, namely: fiscal regulations (The Fiscal Code), national and international accounting regulations (the accounting law, including the adjustments to date carried out through the Order of the Ministry of Public Finance 1286/2012 and the International Accounting Standards – IAS), the International Financial Reporting Standards (IFRS) and the regulations of the National Securities Commission regarding the reporting concerning the financial statements of the entities quoted on the regulated securities market.*

The purpose of the paper is to synthesize the most important aspects of the financial reporting procedures in the conditions of applying for the first time of the regulations contained in the International Financial Reporting Standards and the emphasis of the main procedure problems generated by the reporting process.

The main source of the synthesis of the problems suggested comes from the synthesis of information and results of the audit activity of such financial statements and their comparison with the regulations in the field and the experience presented in the literature in the field.

The result of the regulations' compliance with the new procedures needed in the reporting process for the first time in the IFRS conditions is capitalized in procedures defined by the national legislation and by IFRS, necessary for the compatibility of financial information for the public entities and, in the same time, procedures adjusted for the auditing of such financial statements.

The implications of settling out such procedures target the practical activity of preparing, publishing and auditing financial statements.

In what follows, the author is trying to synthesize the problems in a procedural manner and to solve these correlations in a procedural manner necessary for the first steps in the application of the IFRS and, also, the author made his own financial statement auditing procedures of such patrimonial entities.

Keywords: *taxation, accounting, reporting standards, financial position;*

JEL classification: *H30, G18;*

Content: Together with the introduction of accounting regulations in compliance with the international financial reporting standards, applicable to business companies whose securities values are allowed for transactions on a regulated market, fiscality poses new problems for this entity's audit of financial statements. Generally considered, there are two new problems which should be solved for fiscality audit within these patrimonial entities: the reflection in the Statement of Comprehensive Income of the financial result of the financial year and the problems of the deferred income tax, each of these with their own derivatives in the context of this vision on the firm's financial position, in accordance with the financial reporting financial standards.

The Romanian accounting referential, at the level of the Order of Ministry of Public Finance 3055/2009, was aligned with the Fourth Directive of European Economic Community, but through the regulations contained in the Order of Ministry of Public Finance 881/2012 and Order of Ministry of Public Finance 1286/2012, the accounting regulations are in accordance with the provisions of International Financial Reporting Standards (IFRS), which, in their turn, for application, need to comply with the provisions of certain International Accounting Standards (IAS).

The preparation of the Statement of Comprehensive Income of the financial year and the calculation of the deferred income tax computation are two things requiring another vision on the approval of the result by the economic processes. Namely, the transition to this level of reporting is necessary for the ensurance of a common comparison denominator at the international level for the readers of published financial statements, prospective investors or shareholders of the entity

The recording of the results of the restatement, the re-classification of some patrimony events and the emphasis of value differences in different statements will influence differently the comprehensive income of the financial year through equity accounts or result accounts.

The determination of the deferred income tax provides another horizon regarding the projection of future results, using the re-evaluated value and fair value rule in order to postpone the taxation of differences in value until these assets or liabilities are carried forward.

The Order of Ministry of Public Finance 1286/2012 ensures the adjustment of the national accounting legislation to the Reporting requirements in accordance with IFRS. The International Financial Reporting Standards (IFRS) represent the standards adopted in accordance with the procedures stipulated by the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 as regards the implementing of international accounting standards.

In this context, the entities whose securities are quoted on a regulated market, both those making up the individual financial statements and the groups making up consolidated financial statements. According to Article 8 of the Regulation mentioned above, it will lay down financial statements "by the restatement of account sheld in the Accounting Regulations Fourth Directive to the European Economic Community, approved by the Order of Ministry of Public Finance No 3055/2009 for approval of the Accounting Regulations compliant with European Directives, as amended and supplemented..... In view of the financial statements preparation, the entities apply IFRS, including IFRS, including the IFRS 1 – First Application of International Financial Reporting Standards, part of the annual financial statements concluded on 31.12.2012, it will include appropriate information

corresponding to the end of the previous financial reporting year and the beginning of the year prior to the reporting year. Also, the statement of comprehensive income will include two columns of information, corresponding to current financial year and previous financial year of reporting.” (1)

In fact, the entities which will report for the first time financial statements compliant with IFRS, starting with the financial year of

- (1) Art.8, paragraphs 1 and 2 of the Order of Ministry of Public Finance No 1286/2012.

2012, will present the comparative restated financial statements for the financial year of 2011, too, reporting containing also the data regarding the beginning of the financial year, meaning, the end of 2010, following several procedures:

a) The most important procedure in the process is preparing the opening balance sheet re statement. This operation involves comparing the balance sheet items in the balance sheet prepared in accordance with national regulations (Order of the Ministry of Public Finance 3055/2009), with the provisions of IFRS 1.

b) An other procedure is to adjust the existing accounting policies to IFRS. Thus, in this context, the new policy will reflect the restrictions of international standards, in fact every group of assets and will be evaluated in accordance with IFRS.

c) Following the adjustment of the accounting policies, the assets and the liabilities will be classified into two main groups, current and non-current, in accordance with IAS 1, generally, and other standard such as IAS 20 applicable to grants, IAS 12 applicable to the deferred tax, IAS 37, for provisions, IAS 38 for intangible assets, IAS 40 for property investments and other accounting standards.

d) Adjusting the information to the IFRS 1 requirements, namely the requirements of this standard involve the application of the so-called mandatory exceptions and certain optional exceptions. Mandatory exceptions actually target the accounting principles that will be continued, including their mention in accounting policies. These policies are needed to ensure comparability of information, information which will have to be presented according to the estimates previous to the reprocessing operation.

The optional exceptions refer to the retrospective application of IFRS to ensure the comparability of information in financial statements of 2011 and 2010. In this context, the entity can choose between measuring the assets and liabilities at historical cost or alternatives today adjusted values, such as the following types of securities, fair value, re-evaluated value, values determined in the period considered at special event such as stock exchange transactions, privatization or other types of trading.

e) Preparation of the opening balance sheet for the year 2012 based on the re-classification of assets and liabilities, recognition and non-recognition of others, according to IFRS1 and adjustment of the amounts of assets and liabilities according to the new accounting policies adapted.

f) The preparation of financial statement in accordance with IFRS for the end of 2012 in the structure stipulated in international financial reporting standards, namely, the preparation of the Statement of financial position, of the Statement of comprehensive income, of the Statement of changes in equity, of the Cash flows and Notes on accounting policies applied.

These reporting statements for 2012 are in accordance with IFRS and consistent with the information presented on regulated securities markets internationally and with the information to be presented in the Financial statements for the year 2013, the first of IFRS application.

The second biggest problem posed by the transition to reporting according to IFRS is the tax one, namely the deferred tax calculation.

The deferred tax targets the imposing of the result and brings a new philosophy related to sanctioning the result by the economic processes, namely the question, when to certify the value changes in the profit of some assets or liabilities. Namely, IAS12 sets the rules of the Anglo-Saxon accounting systems that the result must be correlated to carry out the asset or the liability considered. Pending its value differences will be recorded as a deferred tax, in fact a provisioning of a future liability, but which to be identified in order to provide some accurate information on the patrimony of the entity, entirely, up to date and in the near future.

The deferred tax is determined on temporary value differences (up to their achievement), between the book value and their taxation base.

The procedures required for the restatement arising from the transition to reporting according to IFRS have highlighted several issues regarding the value adjustments and then the deferred imposing of value differences. The value changes will be reflected in the capital accounts by a new account introduced by the Result reported after restatement, and some such as intangibles which will affect related the goodwill. Applying IFRS requires the records, since 2013, of differences in value for the assets and liquid liabilities on the result of the period of the period, other wise as the national accounting referential also stated before the adoption of national accounting in accordance with IFRS rules.

The two problems related to the adjustment of the information presented in the Annual financial statements and on those regarding referred income tax are completed by the need to adjust the procedures for auditing the financial statements, given that they are required to be audited, both as individual financial statements and as consolidated financial statements and afferent to groups of companies.

The Order of the Ministry of Finance No 1286/2012 provides in Article 6 that "the individual financial statements prepared by the entities under IFRS accounting regulations make the subject of statutory audit and the consolidated financial statements in accordance with IFRS, prepared by the entities as parent companies." (2)

The audit procedures for the restatement operation target the financial statements for the years 2010, 2011 and 2012 and they require an analytical approach involving the restatement procedures.

Conclusion: The paper presented summarizes three problems to be solved procedurally for the transition to financial reporting compliant to IFRS by the entities whose securities are listed on a regulated market, namely, the reprocessing stages, the determination of deferred tax and the auditing of the restated statements.

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GLOBAL FINANCIAL MELTDOWN AND THE INDIAN ECONOMY

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Abstract *The global financial meltdown and consequent economic recession in developed economies have clearly been major factor in India's economic slowdown. Given the origin and dimension of the crisis in the advanced countries, which some have called the worst since the Great Depression of the 1929, every developing country has suffered to a varying degrees, depending on their exposure to sub-prime and the related assets. No country, including India, remained immune to the global economic shock.*

The crisis surfaced around August 2007 with the sudden revelation of the risky and illiquid nature of many sub-prime mortgage instruments and with bursting of the bubble in the sub-prime mortgages in the US as reflected in the credit markets. Eventually, the sub-prime crisis had affected financial institutions in the US, Europe and elsewhere including the shadow banking system fostered by investment banks, broker-dealers, hedge funds, private equity groups and structured investment vehicles (SIVs), money market funds, non-bank mortgage lenders and in the process, had caused, within a few months, a huge financial meltdown, a string bankruptcies and a sharp global imbalances and slowdown in practically all industrialized countries. This enormous shock reflecting the growing integration of financial markets internationally in the chain of payments -- what Trichet, one of the central bankers of Europe called financial tsunami — with unprecedented virulence reached Europe on 9 August, causing the European financial markets to seize up. The collapse of the Merrill Lynch and Lehman Brothers in Mid-September 2008 further aggravated the situation leading to the crisis of confidence in the financial markets and, as the Reserve Bank of India (RBI) Governor D. Subbarao (2009) had rightly pointed out that from three channels: the trade channel (affecting the capital and current account of balance of payments), the financial channel and the confidence channel, it arose. The resulting uncertainty cascaded into a full-blown financial crisis of global dimensions.

India could not insulate itself from the adverse developments in the international financial markets, despite having a banking and financial system that had little to do with investments in structured financial instruments carved out of sub-prime mortgages, whose failure had set off the chain of events culminating in global crisis. The feedback effect of the crisis on the Indian economy was not significant in the beginning. The initial effect of the sub-prime crisis was, in fact, positive, as the country received accelerated Foreign Institutional Investment (FII) flows during September 2007 to January 2008. This contributed to the debate on “decoupling

hypothesis,” where it was believed that the emerging Asian economies, especially the larger ones like China and India could remain insulated from the crisis and provide an alternative engine of growth to the world economy in moderating the global downturn and paving the way for a worldwide recovery in a year or so. It was also believed and there were also arguments that the “strong” domestic financial sector of these economies would be capable to be remain immune to shocks from the international financial system. The arguments soon proved unfounded as the global crisis intensified and spread to the emerging economies through different channels-- one such important channel is capital and current account route of the balance of payments (BoP). It is worth mentioning that with the recent drive of the government towards capital account convertibility through gradual relaxation of the capital account transactions and the more and more close integration of the domestic economy with the global financial markets, the first memorable impact of global crisis was on the country’s capital inflows, especially on external commercial borrowings (ECB) and FII .Almost immediately after the crisis surfaced , net ECBs and FIIS registered a sharp decline between October and November 2007, from\$3.6 billion and \$5.7 billion to \$2.2 billion and minus \$1.6 billion, respectively.

In the above backdrop the present paper expresses some facets of the global crisis, including its impact on some sectors of the Indian economy. In Section II, we discuss the macroeconomic explanation of the crisis along with the severity of the crisis spread over European countries.

Jel Classification: G01, G15

I Introduction

The global financial meltdown and consequent economic recession in developed economies have clearly been major factor in India’s economic slowdown. Given the origin and dimension of the crisis in the advanced countries, which some have called the worst since the Great Depression of the 1929, every developing country has suffered to a varying degrees, depending on their exposure to sub-prime and the related assets. No country, including India, remained immune to the global economic shock.

The crisis surfaced around August 2007 with the sudden revelation of the risky and illiquid nature of many sub-prime mortgage instruments and with bursting of the bubble in the sub-prime mortgages in the US as reflected in the credit markets. Eventually, the sub-prime crisis had affected financial institutions in the US, Europe and elsewhere including the shadow banking system fostered by investment banks, broker-dealers, hedge funds, private equity groups and structured investment vehicles (SIVs), money market funds, non-bank mortgage lenders and in the process, had caused, within a few months, a huge financial meltdown, a string bankruptcies and a sharp global imbalances and slowdown in practically all industrialized countries. This enormous shock reflecting the growing integration of financial markets internationally in the chain of payments -- what Trichet, one of the central bankers of Europe called financial psunami — with unprecedented virulence reached Europe on 9 August, causing the European financial markets to seize up. The collapse of the Merrill Lynch and Lehman Brothers in Mid-September 2008 further aggravated the situation leading to the crisis of confidence

in the financial markets and, as the Reserve Bank of India (RBI) Governor D. Subbarao (2009) had rightly pointed out that from three channels: the trade channel (affecting the capital and current account of balance of payments), the financial channel and the confidence channel, it arose. The resulting uncertainty cascaded into a full-blown financial crisis of global dimensions.

The gradual softening of international interest rates during the last few years, coupled with relatively easy liquidity conditions across the world, forced investors who take risks leading to expansion in the sub-prime market. The word 'sub-prime' refers to borrowers (who are not related as 'prime') and who do not have a sound track record of repayment of loans. The risks inherent in sub-prime loans were sliced into different components and packaged into host of securities and structured investment instruments like Collateralized Debt Obligations, synthetic CDOs. Credit rating agencies has assigned risk ranks to them to facilitate marketability. Intermediaries such as hedge-funds, pension funds and banks, who held in their portfolios, were not fully aware of the risks involved. Moreover the securitization process was not backed by due diligence. When interest rate rose leading to defaults in the housing sector, the value of the underlying loans declined along the price of the products. Institutions were saddled with illiquid and value-eroded instruments, leading to liquidity crunch; the crisis in the credit market subsequently spread to the money market as well. Households and corporate accustomed to high asset values in the present globalized economies were adversely affected by the bursting of the asset bubbles, and contributed to sudden and severe contradiction in demand and loss of confidence. The reason for bursting of the asset bubbles is not far to seek. Actually, the asset bubbles was on the process of creation out of excess liquidity growth which were due to the excessive accommodative monetary policy of the advanced industrialized countries, especially of the US, i.e., allowing the supply of money to be plentiful and interest rate low relative to appropriate level, which in turn, caused investors on the look out for yield as well as to take either under-priced risks or excessive risks. Such excess liquidity at last found its way into speculative activities, causing asset bubbles. Investors then were under the impression that the prices of such assets like real estate or equity will keep increasing in future. These developments resulted in drastic reductions in activity in the real sectors. Thus the initial problems in the financial sector were transmitted to the real sector with adverse feedback effects.

India could not insulate itself from the adverse developments in the international financial markets, despite having a banking and financial system that had little to do with investments in structured financial instruments carved out of sub-prime mortgages, whose failure had set off the chain of events culminating in global crisis. The feedback effect of the crisis on the Indian economy was not significant in the beginning. The initial effect of the sub-prime crisis was, in fact, positive, as the country received accelerated Foreign Institutional Investment (FII) flows during September 2007 to January 2008. This contributed to the debate on "decoupling hypothesis," where it was believed that the emerging Asian economies, especially the larger ones like China and India could remain insulated from the crisis and provide an alternative engine of growth to the world economy in moderating the global downturn and paving the way for a worldwide recovery in a year or so. It was also believed and there were also arguments that the "strong" domestic

financial sector of these economies would be capable to be remain immune to shocks from the international financial system. The arguments soon proved unfounded as the global crisis intensified and spread to the emerging economies through different channels-- one such important channel is capital and current account route of the balance of payments (BoP). It is worth mentioning that with the recent drive of the government towards capital account convertibility through gradual relaxation of the capital account transactions and the more and more close integration of the domestic economy with the global financial markets, the first memorable impact of global crisis was on the country's capital inflows, especially on external commercial borrowings (ECB) and FII. Almost immediately after the crisis surfaced, net ECBs and FIIS registered a sharp decline between October and November 2007, from \$3.6 billion and \$5.7 billion to \$2.2 billion and minus \$1.6 billion, respectively.

In the above backdrop the present paper expresses some facets of the global crisis, including its impact on some sectors of the Indian economy. In Section II, we discuss the macroeconomic explanation of the crisis along with the severity of the crisis spread over European countries.

Section III examines, in growth perspectives, the effects of global crisis and economic slowdown on the Indian economy. Section IV however analyses the impact of the global crisis on India's balance of payments and external sector. Section V shows how did the crisis contaminate in India's stock, bond, money and credit markets. Section VI shows the effect of global recession on India's cultivators. Section VII gives an account of severity of the global crisis and economic slowdown on the employment situation in India. Section VIII gives a brief account of what policy measures would be appropriate to get rid of this most serious financial threat. Section IX concludes.

II The Macroeconomic Explanation of the Crisis

For why the crisis occurred can be thought of from the view point of those relating the overall macroeconomic management and those concerning to the behaviour of the financial markets.

The macroeconomic explanations for the crisis as a whole may be summarised as follows: First, in recent times the volume of international payments disequilibria overhanging world financial markets increased inexorably—rising current account deficits in the US, UK, Spain, France and Italy on the one hand, and large surpluses on current account in China, Russia and Middle East oil exporters on the other. And there cropped up a progressively growing divergence between the financial power and the far greater monetary ammunition assembled by private and public sector institutions on the world investment scene. These ranged from hedge funds and private equity funds to the shadowy para-state Sovereign Wealth Funds running the surplus capital of wealthy developing economies from the Middle East and Asia. Moreover, the explosion of reserves assets in the first decade of the twenty-first century was heavily linked to a sharp rise in balance of payments disequilibria and a corresponding increase in international liquidity—factors which helped trigger the sub-prime mortgage crisis in August 2007. The best measure to

record the imbalances is the current account balance of payments-- recording all foreign trade in goods and services as well as transfers, investment income and other 'invisible' earnings. The sum of individual current account surpluses and deficits in thirteen countries with the largest individual contributions to international liquidity – China, France, Germany, Italy, Japan, Kuwait, Russia, Saudi Arabia, Spain, Switzerland, United Arab Emirates, UK and US – more than quadrupled between 1998 and 2007 to \$2,300 billion.

The US current account deficit tripled over this period, from \$213 billion to \$738 billion (although the peak was reached in 2006, as exports rose thereafter, under the impact of the weaker dollar). The relative ease with which international funds flowed into the US to finance the burgeoning balance of payments deficit underlined how, under floating exchange rates, capital flows progressively swamped purely trade-induced currency movements. During the thirty years between 1950 and 1980, the US current account fluctuated between surpluses and deficits of no more than 1 per cent of GDP, whereas already by 2005 the shortfall was six times as large. Deficits also rose sharply in the UK, Spain, and Italy (the latter two countries had run surpluses before the advent of EMU). On the other hand, surpluses expanded fast in the developing countries and in parts of the industrialized world (from \$31 billion to a surplus of \$360 billion between 1998 and 2007 in China, from a deficit of \$16 billion to a surplus of \$255 billion in Germany, from \$119 billion to \$212 billion in Japan, from zero to \$77 billion in Russia, and from a deficit of \$13 billion to a surplus of \$101 billion in Saudi Arabia.) Thus the countries which had meanwhile accrued large sum of surpluses in the current account, lent to or invested in the US. Since these recurring imbalances persisted and increased over the years, correction was warranted by the markets.

A large excess of savings through the build-up in surpluses, along with the emergence of the US as the world's largest borrower, contributed to the trend for US banks to create ever more risky borrowing mechanisms. In the period up to 2007, the US sucked in more than \$5 billion a day from the rest of the world to finance both its enormous current account deficit and the still larger volumes of international capital outflows. Between 2000 and 2006 international issuance of credit instruments rose twelve-fold, from \$250 billion to \$3,000 billion, according to bankers' estimates – activity that appeared to accelerate after 2004 as investors sought higher returns after a long period of relatively low interest rates. Most notorious was a range of debt vehicles developed in the US to re-package higher-risk loans to less trustworthy mortgage borrowers into a series of innocuous-looking debt instruments all benefiting from relatively high credit ratings that turned out in many cases to be almost entirely fictional (*Marsh*, 2009). Central bankers obviously were aware of the growing risk. Trichet said in May 2007, 'Episodes in the global economy where you have "capital chasing investment" are not necessarily sustainable in the very long run.'

However, in the arena of banking and finance, the Euro economies showed highly varied developments, and were affected in different ways towards the end of EMU's first decade by the US sub-prime mortgage upset. An important part of the credo behind the Euro is that integrated banking and financial markets should play a significant role in smoothing out imbalances in economic performance among member states. According to this theory, the relatively small amount of fiscal redistribution through the Euro area via the European Union budget (which makes

up a mere 1 per cent of EU GDP) should not hinder the financing of economic adjustment, as long as private sector financial institutions can take up the strain in ironing out economic discrepancies. Unfortunately, however, Euro area banking and financial organizations have registered only scant success in improving Europe-wide services for private customers and smaller businesses. The legacy of the credit crunch is that financial organizations throughout the Euro area are likely to show further caution in cross-border activities – a handicap for EMU's cohesiveness and resilience.

In the first twelve months of the credit crisis after August 2007, EMU area banks didn't need to raise additional capital from sovereign wealth funds and other foreign investors. But shortly after the Lehman and Merrill Lynch shocks, the tide of financial market convulsions washed through into Europe and other emerging countries (like India) with full force. Belgian –Dutch bank Fortis, the Franco – Belgian financial group Dexia and Germany's second - biggest mortgage lender Hypo Real Estate all had to be saved from collapse with spectacular private – and public – sector financial rescue packages. Ireland took unilateral measures against financial panic by moving to guarantee all deposits – a move quickly followed by Greek and Germany. At beginning of October 2008, the credit crisis underwent a further turn for the worse – a moment of fear and panic on world financial markets.

Second, in many countries, macroeconomic policies in the recent past resulted in gross inequalities in income and wealth. The sub-prime crisis in the US was only one of the symptoms of the lack of aggregate demand, coupled with excessive financialisation of the economy and excessive leverage.

Third, in view of the underdeveloped nature of financial markets in some developing economies, such as in China and other Asian economies, the domestic savings in those economies could not be fully channeled into the required domestic investments, and hence there was a surplus of global savings in these countries.

Fourth, some central bankers were focused exclusively on price stability, and many of them were mandated to focus on this through inflation targeting regimes. In addition, there was no formal mandate to any particular institution to maintain financial stability which is bereft of any uninterrupted financial transactions as well as an acceptable level of confidence in the financial system, and excess volatility that unduly and adversely affects the normal real sector activity: hence the relatively low emphasis of such stability in public policy.

Fifth, many central banks were persuaded to be very transparent and provide forward guidance to financial markets on their policy stance, especially on the future course of monetary policy. Such forward guidance provided excessive comfort to financial markets and enabled them to take under-price risks.

Sixth, even when some of the central banks perceived the under-pricing of risks, financial market agents asserted that the central banks could not sit in judgement on prices set by a competitive market, and assured policy makers that markets would correct themselves automatically . The central banks were informed by financial market agents time and again that the dangers of policy mistakes were more than the prospect of markets not correcting themselves smoothly.

Seventh, the central banks seem to have ignored the economic imbalances and asset bubbles that were building up, and thus failed to act in a counter-cyclical fashion to moderate, though not eliminate, the boom bust cycle.

Eighth, multilateral institutions like the IMF, which were charged with the responsibility of surveillance, gave warnings about macroeconomic imbalances. They, however, did not bring out the extent of the vulnerabilities of the global economy in general, and the systemically important economies in particular. The multilateral institutions were constrained partly because they were dominated by select countries that were unwilling to subject their economies to objective surveillance, which had in fact encouraged the institutions towards an excessively market-oriented ideology.

Finally, the global economic system was dominated by dollar and was subject to the undue influence of the policies of one country. Dependence of the global economy on one currency by itself had the potential for instability, and in any case could have facilitated excessive risk-taking by the public-policy in the US.

III. Effects of Global Crisis and Economic Slowdown on India

Government of India's Economic Survey 2006-07 vociferously articulated that "the sub-mortgage loan crisis is the major financial crisis of the new millennium whose origin is in the United States(US) housing market. Subsequently, this spread to Europe and some other parts of the World. The sub-prime crisis has also impacted the emerging economies. India has remained insulated from this crisis. The banks and institutions in India do not have marked exposure to the sub-prime and related assets in matured markets. Further, India's gradual approach to the financial sector reforms process has played positive role in keeping India immune from such international shocks." But this presumption made by the Economic Survey that India would in no way be affected by the crisis was wrong. The recent Indian growth story was analogous to the story of speculative bubble-led expansion that was the characteristics of the several other developed and developing countries during the same period. This is so because recent economic growth in India is dependent upon greater global integration, related to financial deregulation that spurred consumption as well as credit boom and combined with fiscal concessions to spur consumption among the richest population of the country. This led to rapid increase in aggregate GDP growth at the cost of greater employment generation and agrarian improvement and other benefits thereof.. The proliferation of financial activities thus became combined with rising asset values to enable credit-finance consumption splurge among the rich and the middle classes in our country. In the 1990s and beyond we find as a result a rise in debt-financed housing investment and private consumption among the elite and the middle class. These developments in the financial sector resulted in drastic reductions of activity in the real sector and those bad developments were transmitted quickly to the real sector with adverse effects.

By the middle of 2008, things began to turn worse. The credit-financed consumption spark, which is turn, generated higher rates of investment, did not match with the growth of the domestic market. This mismatch was reflected in the Indian economy. Besides, the deepening of the global crisis and subsequent excessive leveraging occurs through utilizing a far larger proportion of borrowed or others' money relative to one's own in undertaking risky business as well as risk aversion however affected the Indian economy leading to slowing of growth momentum. The growth of GDP at factor cost (at constant 1999-2000 prices) at 6.7 % representing deceleration from high growth rate of 9% and 9.7% in 2007-08

and 2006-07 respectively (*Economic Survey,2008-09*).The year 2008-09 closed with industrial growth at only 2.4% as per the Index of Industrial Production, while during 2004-05 to 2007-08, the industrial sector recorded a robust rate of growth in excess of 8 %. Industrial production picked in December 2007, fell by 6.5% in April 2008 as a consequence of successive shocks, the most being the knock-on effects of the global financial crisis that not only impacted the financing of industries but also their domestic and external demand . The manufacturing, electricity and construction sectors decelerated to 2.4, 3.4 and 7.2 %respectively in 2008-09 from 8.2, 5.3 and 10.1% respectively in 2007-08. Needless to say, almost all commodity groups, barring a handful, have been adversely affected by the impact of global recession. The crisis became intensified by causing sharp decline in exports of manufacturers and reversal of capital flows. Thus the current global scenario presents Indian industry with major challenges.

IV. Effect of Global Recession on India's Balance of Payments

The direct impact of global financial meltdown was transmitted to India by way of reflection in its various external sector transactions, some of which exhibited notable trend reversals, seen not before any other major crisis hit India with so much vigour and intensity. With the onset of the meltdown, mainly after September 2008 we witness that the Indian economy was seriously affected by the trade channel through drastic reduction in earnings from exports of goods and services, first, on account of the drying up of international financing and trade credit, followed by a fall in global demand. To mitigate the loss of demand, therefore, there needed a fiscal expansion, which in turn, encouraged a payments deficit, by means of current account deterioration and the capital outflow produced by lower interest rate.

The trade channel of the contagion that intensified in the post- September 2008 phase of the crisis, adversely affected India's merchandise trade with exports declining at a great speed. There was significant decline in merchandise exports, reflecting fall in exports of all commodity groups. The biggest falls were recorded in the export of rice, raw cotton, ready-made garments, sugar and molasses, iron ore, iron and steel. With an exception of engineering goods, (which constitute more than one-fourth of India's total exports), gems and jewellery showed decline as these sectors were more severely affected by the demand recession in the developed countries. Gems and jewellery exports during 2008-09 (April-February) registered a decline, reflecting mainly the recessionary conditions in the largest export destination *viz.*, the US. Petroleum products exports, which constituted the second largest component of India's exports, witnessed a sharp deceleration in growth both because of the sharp reduction in international POL prices and recessionary conditions in major export destinations of India. India's export growth to the EU, OPEC, Eastern Europe and Latin American developing countries decelerated, while exports to North America, Asia and Oceania and Asian and African developing countries showed a decline. Following the crisis , the transmission of external demand shocks was much more pronounced, swift and severe on export growth. According to the provisional trade data released by the DGCI &S, India's merchandise exports growth during 2008-09 sharply decelerated to 3.4 per cent from 29.0 per cent during 2007-08, with large intra-year volatility. Although export growth was buoyant till 2008 (35.6 per cent during April-August

2008), it, decelerated significantly in September 2008 to 14.2 per cent, and subsequently exports declined in all the remaining months of 2008-09, in tandem with the deepening of recession in the developed countries .On the whole, export growth, on BoP basis, declined from a peak of 43 per cent in Q1 of 2008-09 to (-)9per cent in Q3 and further to (-) 24 per cent in Q4—a fall for the first time since 2001-02 (*RBI Annual Report , 2008-09*)

Despite that,. imports continued to grow, although at a much slower rate because of a fall in import payments due to a sharp decline in international prices of oil to an average of US\$ 53.55 per barrel during October –December 2008. Reflecting the impact of higher growth in imports(as a proportion of GDP, imports were 21.8% and 27.1% of GDPmp in April-December 2007-08 and April-December 2008-09 respectively) coupled with the slowdown in export growth (as a proportion of GDPmp exports were at 13.5% and 15.2% in April-December 2007-08 and April–December 2008-09 respectively), the merchandise trade deficits widened significantly to US\$105.3 billion during April-December 2008 from US\$69.3 billion in April-December 2007 (52.1 % increase) as with the decline in export earnings due to global downturn playing also an increasingly larger role in driving down the value of rupee, which altogether invited a significant fall in forex earnings from merchandise exports. Trade deficits increased from 8.2 % of GDP in 2007-08 (upto the third quarter of 2007-08) to 12.0% in 2008-09 up to the third quarter of 2008-09. This trade deficit was placed at a much higher level of US\$36.3 billion during the third quarter of 2008-09 (12.6 % of GDP) as compared to US\$ 26.1 billion in the third quarter of 2007-08 (8.4 % of GDP) Hence, we can definitely say that the shrinkage in international demand because of global economic slowdown has had a negative impact on the Indian exports itself, while a positive impact was being felt on imports following a fall in global prices of oil and other primary commodity prices. Only one component of the current receipts, which remained relatively resilient in the face of the global slowdown was software services.

If we compare the performance of the Indian Economy in the external sector, in April-August 2008-09 (pre-recession) and September-March 2008-09 (post-recession), we can clearly see the adverse impact of global recession on India's trade sector in 2008-09. Both exports and imports growth were very robust in the pre-recession period, but turned negative in the post-recession period (**Table-I**). In the post-recession period import growth of POL was negative and non-POL and non-POL + non-billion import growths were very low. Non-POL imports, although remained resilient during pre-recession period (27.9 per cent growth rate), declined to 4.0 per cent during post-recession period , mainly due to slowdown in the growth in imports of capital goods and gold and silver. Growth of trade deficit also fell drastically.

Table - I : Growth rate of exports and imports (US\$ terms)

Year	Exports	Imports POL	Imports Non-POL	Imports Gold & Silver	Non-POL+ Gold& Silver	Imports Total	Trade Balance
2007-							

Year	Exports	Imports POL	Imports Non-POL	Imports Gold & Silver	Non-POL+ Gold& Silver	Imports Total	Trade Balance
08							
April-Aug	20.8	18.4	43.6	131.7	33.0	34.4	68.4
Sept-Mar	35.3	56.1	38.5	-30.3	49.2	44.0	63.7
2008-09							
April-Aug	29.5	69.2	27.9	-13.7	36.7	40.9	61.2
Sept-Mar	-12.1	-12.8	4.0	3.2	2.9	-1.7	17.8

Source : Economy Survey 2008-09, Govt. of India.

The trade impacts were, however, not confined not only to the above items alone but it had spilt over into invisibles trade, under which there are items like private transfers and remittances from NRIs (which are shown on the current account rather than capital account of the BoP). Remittances have helped so far in offsetting India's merchandise trade deficit to a large extent. It is feared that recession induced rising job losses in the US and Europe could impact migrant workers more severely. Fears have also been expressed about reverse migration of Indian labourers working in Gulf countries, which could result in a decline in inflows of remittances and NRI deposits to India. Actually the construction industry in the Gulf region, especially in the UAE, is facing a difficult time due to global meltdown and has left millions of construction workers with uncertain future. The relative stability in such transfers, compared to other capital account items, such as NRI deposits, foreign direct investment and portfolio investment, has also enabled the containment of the current account deficits at modest levels in the face of pressures on other accounts. It was expected that inward remittances to India would no way be impacted significantly by the global economic crisis. According to the World Bank estimates, India received significantly higher remittances to the tune of US\$52 billion in 2008 as compared with US\$38.7 billion in 2007. This could be attributed to a number of factors, such as, depreciation of the rupee, hike in interest rate ceilings on NRI deposits since September 2008 and uncertainties in oil-prices, which might have induced the workers to remit their money to India as a hedging mechanism due to its relatively better growth prospects. According to an earlier study by the Reserve Bank of India, region-wise, North America accounts for nearly 44 per cent of the total remittances to India, followed by the Middle East (24 per cent) and Europe (13 per cent). In view of the recessionary conditions in the advanced economies and sharp moderation in growth in the Middle East, some slowdown in remittances could be experienced in the near term. In fact, Global crisis had spillover effects on India's invisibles trades through lower remittances from non-residents workers due to jobs shrinkage and finalization of income contract in the US and EU and other countries and lower earnings from tourism. Thus the fallout of the crisis has permeated onto the country's services sector.

According to the World Bank study, remittances which have so far been a major source of BoP support in many emerging economies and were of the order of US\$305 billion in 2008 to developing countries, far exceeding the flow of official assistance, are likely to fall by 5-8 percent in 2009, which may cause hardship to many poor countries. It is of no wonder that India, being so far the top recipient of such type of private transfer among developing countries currently standing at Rs.164624 (US \$36929 billion) for the year 2008-09 (April –December) or 3.49 % of the GDP could escape the global financial crisis in this respect. As per the Reserve Bank of India's estimate, the third quarter of 2008-09 (October to December) witnessed deceleration in remittance flows to the tune of US\$10.5 billion as against US\$10.9 billion in the corresponding quarter last year due to global financial crisis.

Another important category in the invisible item of the current account is "Miscellaneous Services" comprising IT, ITES followed by travel, transportation, insurance, financial, communication and business services. This category is presently facing the incidence of huge decline in exports as the major demand for these services is usually from the US, which is now under the hard impulse of the crisis. As a result, the role played by the surplus on the invisibles account in balancing the high trade deficit and of lowering the current account deficit has over time declined. The invisible surplus financed about 65.4 % of trade deficit during April December 2008 as against 77.6 % during April – December 2007.

Table – II : Selected indicators of the external sector

Items	Years 2005-06	2006-07	2007-08	April-Dec. 2007-08	April-Dec. 2008-09
	(As per cent of GDP mp)				
Exports	13.0	14.1	14.1	13.5	15.2
Imports	19.4	20.9	21.9	21.8	27.1
Trade balance	-6.4	-6.8	-7.8	-8.2	-12.0
Invisibles balance	5.2	5.7	6.3	6.4	7.8
Goods and services balance	-3.6	-3.6	-4.6	-4.7	-7.7
Current account balance	-1.2	-1.1	-1.5	-1.8	-4.1
E C Bs	0.3	1.8	1.9	2.1	0.8
Foreign Direct Investment (net)	0.4	0.8	1.3	0.8	1.7
Portfolio Investment	1.5	0.8	2.5	4.0	-1.3
Total capital Account (net)	3.1	5.1	9.3	9.8	1.8
External debt	17.2	17.9	18.9	24.5	26.2
Source: RBI					
Note: (i) TC: Total Capital flows (net)					
(ii) ECBs: External Commercial Borrowings					

- | | |
|-------|---|
| (iii) | FER: Foreign exchange reserves, including gold, SDRs and IMF reserve tranche. |
| (iv) | GDPmp: Gross Domestic Product at current market prices. |

Accordingly, particularly after September 2008 the current account deficit had increased sharply to US\$14.6 billion (5.1% of GDP) during the third quarter of 2008-09 as compared to US\$4.5 billion (1.5% of GDP) in the third quarter of 2007-08, rising by more than threefold. In fact, it stood 4.1% of GDPmp during April – December 2008-09 as compared to 1.8% of GDPmp during April-December 2007-08 (**Table II**). However, we see that the deficit is the outcome of all factors both domestic and external. Hence arises the need for which we have examined the various ways in which the various developments since the onset of the US sub-prime turmoil have affected India's exports and imports of goods and services. What made things worse was that capital was also leaving India, causing the capital account balance to turn negative during the third quarter (October – December) of 2008-09, the first time since the first quarter of 1998-99, which altogether indicating a net outflow of US\$3.7 billion, as against an inflow of US\$31.0 billion in Q3 of 2007-08 , mainly due to net outflows under portfolio investment (on account of deleveraging triggered by the crisis.), banking capital and short-term trade credit. This abrupt reversals of capital flows continued during Q4 of 2008-09 which altogether led to significant difficulties in monetary and macroeconomic management of the Indian economy. It is worth remembering that India at the time of the recessions of the early 1990s and the Asian crisis of 1997-98 also had witnessed capital outflows. But this time the current global crisis is somewhat different as India for the first time witnessed large volatile movements in capital flows under the pressure of intense deleveraging as reflected in the sharp turnaround in the capital flows cycle from a sustained phase of surges in capital inflows into large outflows , (particularly in Q3 of 2008-09, which during Q4 as well). Moreover, following the crisis we witnessed also the combination of the higher costs of funds, liquidity premiums, and higher risk which have resulted in a sharp increase in the price of short-term trade credit. The shortage of availability of trade credit, following the financial crisis, could be viewed from the decline in short-term trade credit inflows into India, as reflected in India's overall balance of payment statistics. During the period 2008-09, net capital inflows under the head "short-term trade credit" have shrunk to US \$ 9.2 billion, as compared to US\$ 48.9 billion received during the corresponding period of the previous year. Short-term trade credit to India witnessed a net outflows of US\$ 45.5 billion in 2008-09 (as against inflows of US\$ 39.7 billion during 2008-09). Gross disbursement of short-term trade credit was lower than that in 2007-08 (Table 3). This is mainly due to lower disbursement of short-term trade credit reflecting tightness in the overseas international credit markets and increased risk aversion by the lending counterparties, and increased repayments as roll over was difficult .Domestic exporters were also reporting challenges of liquidity in foreign currency.

Table3 Gross Capital Inflows and Outflows

(US \$ billion)

Item	Inflows			Outflows		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
1. Foreign Direct Investment	23.6	36.8	36.3	15.9	21.4	18.8

2. Portfolio Investment	109.6	235.9	128.7	102.6	206.4	142.7
3. External Assistance	3.8	4.2	5.0	2.0	2.1	2.4
4. External Commercial Borrowings	20.9	30.4	15.4	4.8	7.7	7.2
5. NRI Deposits	19.9	29.4	37.1	15.6	29.2	32.8
6. Banking Capital Excluding NRI Deposits	17.3	26.4	27.9	19.7	14.8	35.6
7. Short Term Trade Credits	30.0	48.9	39.7	23.4	31.7	45.5
8. Rupee Debt Service	0.0	0.0	0.0	0.2	0.1	0.1
9. Other Capital	8.2	20.9	12.4	4.0	11.4	8.2
Total (1 to 9)	233.3	433.0	302.5	188.1	325.0	293.3

Source: RBI Annual Reports 2008-09

Net external commercial borrowings (ECBs) acting as short and medium term loan remained lower at US\$3.9 billion in Q3 of 2008-09 as against US\$6.2 billion in Q3 of 2007-08, as the liquidity conditions tightened in the international credit markets and ECBs became more difficult and expensive. Rise in risk premium on the new borrowing along with the liquidity squeeze made ECB disbursements to India to decline sharply during 2008-09.

A major fall-out of the global crisis had been the reversal of portfolio flows. The net portfolio flows to India turned negative (the extent of reverse of net portfolio inflows in case of India was US\$11.34 billion during the third quarter of 2008-09) as Foreign Institutional Investors (FIIs) rushed to sell equities to a larger scale in the Indian Stock Markets in a bid to replenish overseas cash balances. On the whole, the net capital inflows during 2008-09 were abysmally low in comparison to the year 2007-08 and there was depletion of forex reserves as the capital flows were not sufficient enough to finance current account deficits. Together with the widening trade deficit and insufficient capital flows, these major events had a knock-on-effect on the domestic money market, stock market and the exchange rates (through creating the supply-demand imbalances in the foreign exchange market, leading to a more than 30% decline in the rupee exchange rate vis-à-vis US dollar from around January 2008). The currency came under sharp pressure and the decline in rupee became more pronounced after the collapse of the Lehman Brothers in September 2008. The value of rupee declined from Rs.40 in April 2008 to Rs.48.66 in October 2008, ultimately taking the rupee-US dollar exchange rate to a low of Rs.52.09 per US dollar on March 5, 2009: both the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) went down significantly, the latter from 112.16 in April 2008 to 95.65 in March 2009 against US dollar, Euro and Japanese Yen, almost by 13.4 per cent between March 2008 and March 2009. This is 6-currency trade-based REER (base:1993-94= 100).The strengthening of the US\$ vis-à-vis other international currencies had also been responsible for the decline of Forex Reserve of India to the tune of US\$57.7 billion during 2008- 09 to US \$252.0 billion as at end –March 2009 as well as to the valuation losses of US \$.37.7 billion during 2008-09 in case of India (Table 4). The RBI Annual Report 2008-09 articulates that during 2008-09, the widening of current account deficit coupled with net capital outflows resulted in the drawdown of India's forex reserves of US \$20.1 billion (excluding valuation) as against accretion to reserves of US \$92.2 billion in 2007 -08. This order of change in the accretion of reserves losses during the crisis was bound to make an inroad and make itself felt in the domestic liquidity situation since accretion to reserves through the BoP has been the biggest driver of domestic liquidity in recent years.

Table 4: Sources of Variation in Foreign Exchange Reserves*(US \$ Million)*

Item	2007-08	2008-09
I. Current Account Balance	(-) 17,034	(-) 29,817
II. Capital Account (net)*	109,198	9,737
<i>Of which:</i>		
<i>(i) Foreign Direct Investment</i>	15,401	17,496
<i>(ii) FIIIs</i>	20,327	(-)15,017
<i>(iii) External Commercial Borrowings</i>	22,633	8,158
III. Valuation Change	18,380	(-)37,658
Total (I+II+III)	110,544	(-)57,738

* Includes 'errors and omissions'.

Note: Increase in reserves (+) / Decrease in reserves (-).**Source: RBI Annual Reports 2008-09**

According to Economic Survey,2008-09, the balance of payments position of the country swung from the position of total forex reserve of US\$ 286.336 billion in September 2008 to a decrease in reserves to the tune of US\$ 252.883 billion, US\$ 247.686 billion and US\$ 249.278 billion in October, 2008, November 2008 and February 2009 respectively.

From the above discussion the section concludes that global financial crisis eventually has led to considerable contraction in India's exports, widens current account deficits, reverses capital flows, with concomitant pressures in the domestic foreign exchange market (felt through the dollar liquidity shocks emanating from the very lower level of net capital inflows) and drawdowns of reserves, which ultimately make an inroad to have a structural change in India's BoP.

V Impact on Stock, Bond, Money and Credit Markets

Indian stock markets have experienced considerable volatility in the wake of the crisis. The Indian stock market which began the year 2008 on a bullish note , with (Bombay Stock Exchange) BSE and (National Stock Exchange) NSE Sensex indices touching a new peaks of 20,873 and 6,288, respectively, on January 8,2008 but was affected adversely thereafter altogether reflecting the impact of global financial crisis. BSE Sensex stood at 8,325.82 on 6 March, 2009(compared to its average value of 15,644.44 over the year 2007-08), largely due to sizeable net outflow of funds from domestic capital market by FIIIs. In fact, intraday fall of 1,968 points in absolute terms in BSE Sensex on January 21, 2008 was the highest recorded fall in the history of Sensex .The market sentiment remained bearish due to the rising domestic inflation, increasing oil prices and volatility of in international financial markets in the wake of uncertainties about US sub-prime mortgage market and credit market exposures and negative portfolio investment flows during February – March 2008.Reflecting this bearish trend , the market capitalization of shares traded declined sharply and nosedived in the range of 48 % to 54.6 % at end-December 2008This also had propelled the price-to-earnings ratio to fall in all the market segments reflecting the downward trend in stock prices. Meanwhile, the Indian equity markets became weakened during September – December 2008, following sharp decline in stock markets across the globe and perceptible shift in investors' preferences .Reflecting the volatile capital market

conditions, the net inflow of saving into mutual funds, which so far recorded a steady rise during 2005-07, turned negative in 2008. The private sector mutual funds having experienced losses and liquidity problems witnessed heavy redemption pressure in 2008 and recorded a net outflow of Rs.12,506 crore and there was a sharp decline in the volume of assets which they have managed so far. The decline of asset value has had a harmful effect on the upper and the middle class people through the decline in the demand for consumer durables and fast-moving consumer durables.

Bond, money and credit markets had been affected indirectly through the dynamic linkages. The domestic bond markets were affected, since the government securities market and the corporate bond market were opened up. They were affected indirectly, since the drying up of bond and credit markets globally made corporate substitutes overseas funds with domestic funds. Cumulatively, these impacted the forex markets, warranting the use of forex reserves and the management of liquidity in money markets. The drying up of liquidity, a fallout of repatriation of portfolio investments by FIIs, affected credit markets in the second half of 2008-09. This was compounded by the risk aversion of the banks to lend and the reluctance of the borrowers to borrow, because of the considerable uncertainties in the level of economic activity. Paul Krugman's remark in early January 2009 in this connection is worth remembering, 'This looks an awful lot like the beginning of a second Great Depression... recent economic numbers have been terrifying, not just in the United States but around the world. Manufacturing, in particular, is plunging everywhere. Banks aren't lending; businesses and consumers aren't spending.' However, the extent of the external financial and monetary shock on the Indian monetary- financial system is found to be in contraction in reserve money by more than 15% between August 2008 and November 2008. Reserve money growth collapsed from 26.9% in August 2008 to 10.3% in November 2008 and further to 6.4% in March 2009. Despite these, M1 growth and M2 growth decelerated. The reduction in capital flows (arising out of deceleration in reserve money (M_0) largely on account of the decline in NFA of RBI (a major determinant of reserve money growth), simultaneously with the outflow of foreign exchange of the country, as a fallout of the global financial crisis put RBI in great pressure. To deal with the emergent situation of liquidity crunch and virtual freezing of international credit, and at the same to ensure that the financial contagion arising from the global financial crisis in no way would permeate the Indian banking system, the RBI at that time had no other option but to respond quickly to this situation after going through the abrupt change in its monetary policy front in the second half of 2008-09, particularly after the fall of Lehman's Brothers in September 2008, by facilitating monetary expansion through decrease in the cash reserve ratio (CRR) of scheduled banks, the repo rate under the liquidity adjustment facility (LAF) and reverse-repo rates under the LAF and the statutory liquidity ratio (SLR). The repo rate was reduced in a successive of steps from 9% in September in 2008 to 5% in March 2009 and further to 4.75 % in April 2009 with immediate effect as announced in the Annual Policy Statement of RBI for 2009-10 (with a corresponding reduction in the reverse repo rate from 6% to 3.5 %, and further to 3.25 %). The CRR was also reduced from 9% to 5% of net demand and time and retained unchanged at 5 % over the same period, whereas the SLR was brought down by 1% to 24 %. Altogether, it has been estimated that these rupee

liquidity augmentation process will release to be of order of Rs. 4,22,793 crore overall primary liquidity into the system.

Subsequently, credit growth decelerated sharply to 17.1% in March 2009, partly because of transmission of OECD recession effects to Indian exporters and organized manufacturing. From October 2008, there were also falls in FDI. Its share declined to 26.4% during April-December 2008-09 on account of FII outflows as a result of the global financial crisis. The cumulative effect of the above is on real-sector activity. It is now possible to argue that the global forces have dampened the domestic activity.

It is now obvious also that such global crisis will adversely affect upon workers of India through falling employment, lower wages (sometimes through reduction of even nominal piece- rate wages among more than 8 million home-based women workers working in the unorganized sector) and more adverse working conditions, and indirectly through reduced access to public goods and services. The global crisis also meant that the economy has had been experiencing extreme volatility in terms of fluctuation in inflation level.

VI Impact of Global Recession on the Indian Cultivators

The impact of the crisis on Indian agriculture has even more severe than has been apprehended. .It is well-known that the farmers in our country face problems like critical agro-climatic variations such as erratic rainfall distributed over time and space, frequent droughts or floods, cyclones, rising temperature, volatile monsoons, soil degeneration, lack of institutional credit and insurances leading to excessive dependence on private money-lenders, difficulties in marketing and high volatility of crop prices. Further in liberalized world the Indian farmers have to work in highly uncertain and volatile international environment and often are exposed to import competition against highly subsidized large agricultural producers in the developed countries. They are told to diversify their production from growing mixture of traditional crops to export –oriented cash crops and to increase export capabilities in order to survive. But the fact is that farming is going to be unprofitable day by day as revealed by the 59th round of NSSO which states that 40 % of the farming community are ready to give up farming in favour of jobs due to tremendous hike in cost of cultivation in each unit of land. Volatile crop prices often leads also the farmers to respond to the wrong signal and they, finding no other alternatives have to adjust themselves by changing their cropping pattern which eventually demands high prices for inputs like pesticide and fertilizers etc. This requires for them new varieties of seeds and other inputs supplied by MNCs. Small and marginal farmers find themselves in real difficulty if crops fail or output prices remain low. Very often these cash crop producers do not net the benefit of global price boom of these commodities. Further, they have to face continuous rising prices of inputs. Financial liberalizations measures have caused significant slowdown in the growth of bank credit, particularly from commercial banks to rural areas and a relative fall in proportion to bank credit flowing to the priority sectors, especially agriculture. Bank credit growth fell from 22.3% in 2007-08 to 17.3% in 2008-09 (*Economic Survey,2008-09*). As a result, traditional money-lenders who had been marginalized by decades of efforts to bring institutional banking to the rural areas, are making a comeback, emboldened by the financial liberalization measures that have undermined the spread of banking to the poor. The availability

of public services and access to them has over time deteriorated for most people, especially – but not only – in the rural areas. The majority of India's citizens live in more fragile, vulnerable and insecure material circumstances than before. This wretched condition would ultimately lead to anger bred by persistence backwardness and rising inequalities, which in turn, accentuate the growth of extremist activities like Naxalite and Maoist movements .However, the impact of the slowdown in rural banking fell disproportionately on poor and small borrowers. The agrarian crisis in most part of the country is often substantially related to the decline in the access of peasant farmers to institutional finance, which is the direct result of financial liberalization. As per the Report of the Committee on Financial Inclusion (January 2008), more than 73 % of farmer households have no access to formal sources of credit. The need of the hour is thus to create innovative institutional mechanisms that would provide credit and financial products (including insurance products) specifically designed to meet the needs of the farm sector so that they can be able keep their risk-bearing ability in conformity with the changing situations. But measures so far taken by the government, which have reduced credit towards farmers and small producers have contributed to rising costs, greater difficulty of accessing necessary working capital for cultivation and other activities, and reduced the economic viability of cultivations, thereby adding directly to rural distress. There is ample evidence here in India that the debt crisis of the cultivable community, which has been associated with to a proliferation of farmers' suicides and other evidence of distress such as migration, malnutrition,(the latter arising out of macro and micro-nutrients, which can be because of inadequate or inappropriate intake and /or inefficient biological utilization due to physical or environmental factors) and even hunger deaths due to inadequacy of food in different parts of rural India, has been related to the decline of institutional credits .The steep and unprecedented fall in food grains absorption per head, comparable only to the situation in the initial years of World War II, has entailed a sharp increase in the numbers of people in hunger, particularly in rural areas, and for very many it has meant starvation (*Ghosh*, 2009). By and large, despite the “Agricultural Debt Waiver and Debt Relief Scheme 2008” for the marginal and small farmers and other farmers recently announced in the 2008-09 Union Budget, farmer suicides are far more prevalent in the states with more commercialized agriculture, dependent on heavy inputs of irrigation, fertilizers, pesticides and seeds by transnational corporations and the incidence is greater among farmers with higher levels of debt per person or per acre.

Besides, the adverse situation in the global economy between September 2007 and October 2008, experiencing both stagnation (of growth momentum) and the rising inflation at the same time cast its darker shadow on the industrial producers and the farming community in particular. The global commodity price- led inflation driven mostly by the rise in prices like energy and agricultural products was immediately transmitted onto our domestic economy testifying the fact that the global demand supply imbalances do influence the domestic inflation. We witnessed meanwhile in the Indian economy the sharp and unprecedented uptrend in commodity prices as reflected in the rise of whole sale price index (WPI) inflation , which remained in double digits for 21 weeks(June to mid- October 2008), reached its peak of near 13 % in August 2008. With the WPI inflation and CPI inflation (whose fate was almost the same over the period extending upto

January 2009), the Indian economy was under the spell of heavy price pressure. It, reinforcing the slow moving tendencies in our domestic economy, while at the same time, strengthening the recessionary forces in the domestic economy already at work, ultimately accentuated the miseries of the industrial producers and the farming community in particular, as within the commodity groups the prices of food articles (for 2008-09) was also very high during that time.

The global meltdown in commodity prices thereafter particularly in energy, metals and agricultural intermediates across the world, most of which are tradeables, has led to corresponding decline in domestic prices (*Economic Survey, 2008-09*). The fall in international prices of several commodities (both agricultural and non-agricultural) has impinged on small produces and farmers' income via import competition as well as low prices in sectors such as cotton and oilseeds production. Farmers eventually face lower prices of their output even as food prices have continued to increase, by more than 10 % in the past year and more than 40 % in the past five years.

VII Effect of Global Financial Crisis and Economic Slowdown on Employment in India

Major markets in India have been seriously affected by the global financial crisis and the follow-on of global economic downturn with a dearth of employment opportunities in the financial year 2008-09. US corporates' reduction of outsourcing as a fallout of the Us financial meltdown has had an obvious direct impact on extensive job losses in India, though this constitutes a miniscule number of massive labour base of India. Some sample survey data in this connection will help us to indicate employment losses in the wake of the global financial crisis and economic slowdown.

According to the report on "Effect of Economic Slowdown on Employment in India", which is based on a sample survey of 2581 units conducted by the Labour Bureau, Ministry of Labour and Employment, during October-December 2008, covering eight sectors like mining, textiles and garments, metal and metal products, gems and jewellery, automobiles, construction, transport, and information technology (IT)/ business process outsourcing (BPO) industry, there was decrease in employment of about half a million workers during the period. The most affected sectors were gems and jewellery, transport and automobiles where employment has declined by 8.58% , 4.03%, and 2.42% respectively during the period . In textile sector, 0.91% of workers have lost their jobs. Another thin sample survey conducted to asses the employment situation in January 2009 over December 2008 indicated a loss of about 1 lakh jobs in the month of January 2009. The employment decline was more rapid in case of export units (1.13% per month) compared to non-export oriented units (0.81% per month), pointing to the direct role of global meltdown. A sample survey conducted by the Department of Commerce for 402 exporting units revealed job loss(direct & indirect) to the tune of 1,09,513 persons during August 2008 to mid-January 2009. Another survey in a single state (Gujarat) has found that more than 400 thousand jobs have been lost due to recession in the diamond industry by February 2009(*Task Force for Diamond Sector 2009*). The Confederation of India Textiles Industry has estimated that at least 1.2 million jobs in textile and garment production had been lost by March 2009, not to speak on the substantial declines in money wages for daily

contracts and piece rate work for the usual workers and migrant workers, the latter coming from the far- off backward and most distressed regions of the country. What emerges, in fact, is that the employment squeeze in the organized sector in the recent years has a tremendous impact on the unorganized sectors via the backward linkages with the former. Even the National Commission for Enterprises in the Unorganised Sector (NCEUS) is of the view that the recent global crisis has impacted serious repercussions on the Indian economy and especially the poor who are in the unorganized workers (of whom women workers constitute more than 15 million) working in sectors like construction, zari, charka or other handloom work, textiles, apparel, leather products, gems and jewellery, metal products, carpets, oil mills, marine products, and handicrafts, food processing and also potentially hazardous work involving acids and chemicals. Even the nominal piece rate wages for the women workers have fallen in many of these activities in which they are engaged, while at the same time they are facing the rising prices of necessities. This obviously affects budgets for both the poor male and women workers, for whom food itself still accounts for more than half of total household expenditure. The situation urgently calls for a revival from the part of the government in the form of a major fiscal stimulus comprising of (i) Programmes to boost pro-poor public investment in physical and social infrastructure, (ii) Expansion in scope and coverage of social security schemes for the unorganized workers so that they are immediately assured of a minimum level of social protection, (iii) Schemes /Programmes which protect and promote incomes of the poor.

VIII What is to be Done

There is no denying the fact that the unfolding of the financial crisis has laid bare the flaws of an economic model driven exclusively by the proliferation of finances. It also reveals the vulnerability of an international financial system based on the growing debt of the US. And it has by now become clear that this is no ordinary meltdown or so. So the focus of crisis management should be different. And the objective would be to restore the Indian economy to a high growth path consistent with price and financial stability. There now appears to be considerable agreement across the wide spectrum that easy money and massive fiscal stimulus are indispensable to prevent the current slump from getting even worse. As a result, creating of a number of monetary easing and liquidity enhancing measures by the RBI by reduction in CRR, SLR and key policy rates like repo and revised repo rates etc., for facilitating the flow of funds from the financial system to meet the growing needs of productive sectors at one hand , and the same time making a hefty package of increased public spending and tax cuts by the Government to boost demand and to create employment and public assets are now on the way on the Indian economy, as the economy is seriously impacted by the twin global shocks – unprecedented increase in the global commodity prices particularly of crude petroleum, steel and food and also the need for financing 11th five year plan priorities and farmer loan waiver coupled with the ripple effects of the deepening of the global financial crisis-- through sharp deterioration in its monetary and fiscal position, as the year 2008-09 progressed, thus largely endangering the sustainability of the process of fiscal consolidation and monetary stability. A judicious mixture of the monetary and fiscal policy is now warranted to ensure

adequate coordination between these two, so that they do not work at cross-purposes. Further, it becomes imperative to use both the traditional and unconventional instruments to arrest the loss of confidence of private investment and to counter the negative fallout of the global crisis on the Indian economy -- simultaneously through a major expansion of public investment in infrastructure and social programmes (mentioned below), financed by a monetised budget deficits.

The immediate task of the government to be out from this quagmire is to protect the citizenry from the adverse effects, including through countercyclical macroeconomic policies(Ghosh,2009). The government needs to respond quickly not only by short-and medium term measures to cope up with the crisis and its effects but also by modeling an alternative growth trajectory based on sound policy initiatives. Clearly, much more creative and imaginative policy responses are required, in consonance with the changing direction and pattern of misdirected investment and conspicuous consumption in the home market to emphasize wage-led growth (suggested many years ago by Vakil and Brahmananda though in a different context), and diversifying exports and its destination wherever it is more viable and also making moves designed to turn economic disadvantage to advantage. There is plenty of scope to diversify exports into sectors where global demand is high and on the ascend with imaginative policy designed with continuously restructuring their productive bases entwined with efficiency, improved productivity and constantly improving their global share in all the export commodities This should not go unnoticed.

The general monetary and fiscal policy measures undertaken so far has contributed very little to improve the lot of the vulnerable sections of the society, including labour. These sections have been hard hit more than the non-vulnerable sections by the financial contagion and its effect. Hence, in the interest of these sections, ensuring against financial contagion should receive immediate priority, which should include increased public expending on works, social safety nets and employment for these vulnerable sections (as already suggested by the NCEUS) through expansion of employment guarantee scheme within rural and its extension to urban areas, productive use of labour force, especially women workers, ensuring food security by moving to Public Distribution System, provision of food and other necessities at affordable rate; also a package for farmers to protect them from volatile crop prices, and to deal with burden of debt and create means for sustainable cultivation.

IX Conclusion

The neoliberal policies adopted since the 1980s such as the dismantling of government regulation in financial as well as goods and labour markets, and increased openness to trade, foreign direct investment and financial capital flows etc., have created so far a fertile ground to sow the seeds of a major global crisis following the risky developments in the credit, housing, security and other related markets. Thus the current global financial crisis is first and foremost a crisis of neoliberalism reflecting thereby the failure of unfettered market functioning, most especially in financial markets. It is also a product of the hegemony of global finance and is a structural one as well as of cyclical nature that cannot be easily resolved only through the self- regulating character of capitalism. There is one view

that the failure of governance at all levels is truly indicative of the failure of the whole economic system, or what some have described this financial tsunami as a failure of capitalism or those who contend that

It is a “Minsky moment” of pure meltdown to be counted as the actual financial collapse when liquidity dries up as unsustainable financial exuberance runs its course, in the wake of deteriorating credit standards.. A suitable redesign of international and domestic institutions may aid the process of recovery.

There is now increasing recognition that whether recession or depression, the nature of the current crisis, is altogether profoundly different from those of east Asian currency crisis that happened more than a decade ago or the crisis occurred during the Great Depression of the 1930s. The root causes of the current crisis and economic slowdown , according to the IMF(February 2009) lie in “ market failure... bred by a long period of high growth, low interest rates and volatility and policy failures in financial regulation—which was not equipped to see the risk concentration and flawed incentives behind the financial innovation boom; macroeconomic policies—which did not take into account building systematic risks in the financial system and in housing markets,” Such crisis of world- wide magnitude where the economic system of any country is more or less integrated with the world economic system in this globalized era is bound to be reflected. India as one of the emerging market economies cannot be remained immune from this crisis and now simply is suffering the after-effects of this financial tsunami unleashed in the US.

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STUDY ABOUT THE USAGE OF AGRICULTURAL INSURANCE BASED ON INDEXES IN ROMANIA

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Abstract: *In spite of the development possibilities, the agriculture in Romania is becoming a risky environment, because of the extreme weather events but also because of the lack of organization and the lack of involvement of the authorities in diminishing their effects. We can say that the performance of this sector, as well as its efficiency, depends directly of the competence of the government, the agricultural producers and the insurance agencies to reduce the specific risk for which is necessary a constant level of investment. The most used method in reducing the agricultural risk is multiple insurance, but, this insurance product does not benefit of the attention that it is worthy of, mainly because of the reduced level of income from the rural area as well as the deficient infrastructure. The high level of complexity of harvesting agricultural exploitations, the breeding of animals as well as the conditions in agriculture has made the evolution of activities in this domain to be increasingly harder, reason why there is a search for new options to reduce/eliminate risks at which the agricultural producers are exposed to namely the proposal of implementing insurance based on indexes. The purpose of the study consists of presenting a new tool in view of developing agriculture and agricultural insurance, thus new tools are being added to the ones and they bring two new attractive characteristics namely they eliminate many of the existent problems in traditional insurance of agricultural crops (moral hazard, adverse selection, bigger costs of transaction), making them more viable and less dependent on public subventions, thus being a new and useful instrument which is being added to the instruments that the Romanian government has at its disposal to manage the risks in agriculture better and more efficiently. Insurance based on indexes can help at avoiding the unwanted risks specific to this sector. This, combined with other improved instruments of managing risk, either ex ante (better irrigation systems, better adapted breeds, better plans for flood prevention, better counselling services) or ex post (improvement of offered services from insurance agencies) are powerful instruments for efficient managing of risks in agriculture.*

Keywords: *agricultural insurance; insurance based on indexes; agriculture.*

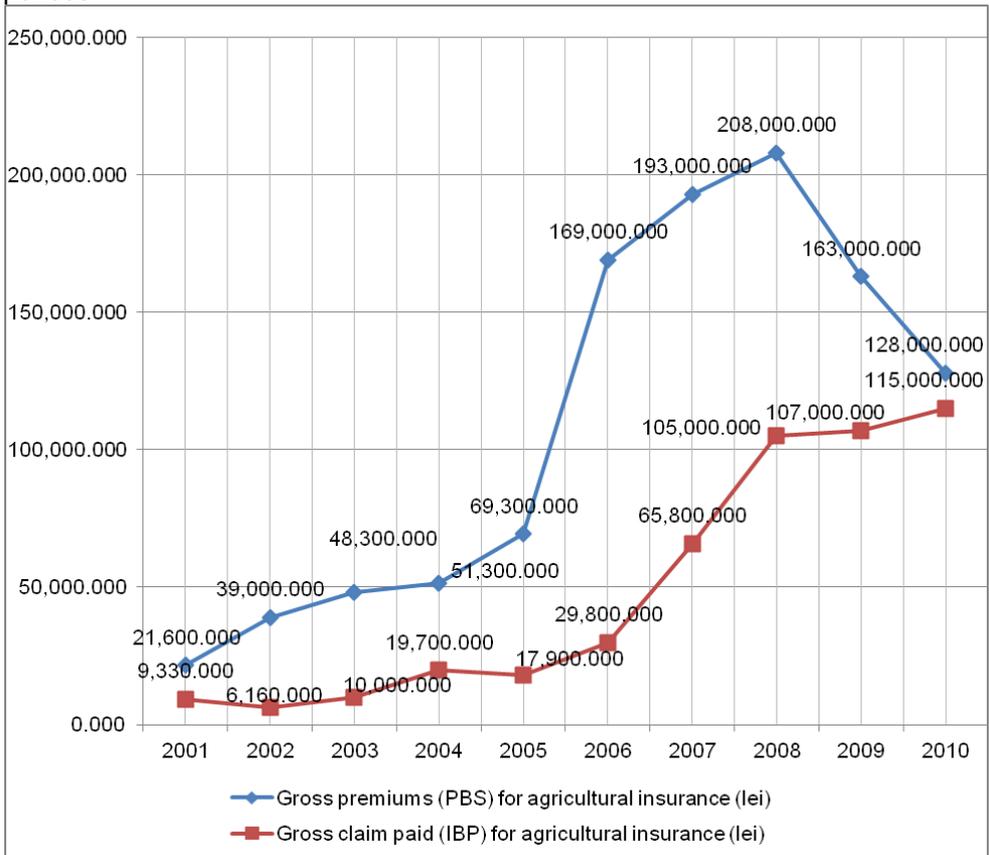
JEL classification: *G10; G22; Q14.*

1. Introduction - The Necessity of Finding new Development Alternatives for Agricultural Insurance

The most popular managing tools of agricultural risks are agricultural insurances which implies the transformation of a big expense, uncertain and in the future (pay) into an anticipated expense, certain and much diminished (insurance bonus). (Booth et al, 1999) Agricultural insurances are seen as one of the best strategies for approaching agricultural risks and to encourage farmers to embrace modern

practices of production with a big potential for better efficiency and better quality. (Olubyo SO et al., 2009) One of the main benefits of insurance is the fact that it allows the balancing of the incomes of the insured as many times as an adverse event happens. (Arrow 1971; Rothschild and Stiglitz, 1976). With all the obvious benefits of traditional agricultural insurance for agricultural producers, their development is inhibited by moral hazard (Goodwin & Glauber 1997) and the lack of long term data about agricultural production to be able to compute with precision a correct insurance bonus (Ozaki A., 2009). Thus, in theory, agricultural insurance is efficient, but, while applying them we can see a contradiction, according with Graph 1.

Graph 1: PBS and IBP dynamics of agricultural insurance in the 2001-2010 periods



Source: Author processing

As we can see, traditional agricultural insurance is ineffective because they are expensive for the government which bears the considerable costs by granting insurance to stimulate farmers to eliminate/diminish the risks at which agricultural exploitations/ animal effectives are subject to as well as for the insurance agencies after the fact that the collected gross bonuses are much smaller than the allowance paid (according to Graph 1), the damage rate being constantly going up which

transcribes to a considerable loss on this segment, facts from which results that traditional agricultural insurances are not efficient. In this context, new alternatives have to be found for transferring meteorological risks to insurance agencies by appealing to new agricultural insurance techniques which will revive this insurance segment, aiming in this purpose, insurance based on indexes.

2. Empiric Study About the Efficiency of Implementing Insurance Based on Indexes in the South of Romania for Harvesting Wheat.

The World Bank introduced insurance based on indexes in several countries under development, including Morocco, Mexico, and Ukraine, Mongolia (Skees, Varangis and Larson). The objective of this article is to prove that if the implementing of them would be or not efficient in managing the risks for wheat harvesting by the agricultural producers from the south of Romania.

In this sense, we followed in a systematic mode, the following aspects:

2.1. Reasoning the object pick for the contract of insurance based on indexes, as well as the selected analysed region

In view of determining the most important cereal cultures from Romania, in table 1 we presented the evolution of the production of agricultural cereals from the 2007-2011e periods (2011e - approximate date for the year 2011)

Table 1. Agricultural productions of cereals from Romania (mil. Euros), in the 2007-2011e periods

Components	2007	2008	2009	2010	2011
Wheat	549,2	1.278,6	559,3	775	1438,3
Rye	4	5,6	3,7	4,7	6,1
Barley	102,2	258	153,4	177,7	294,7
Oat	56,6	103,6	47,8	57	93,8
Corn	894,4	2.141,4	1256,4	1517,2	2752,2
Rice	9,7	13,4	11,9	12,3	22,8
Other cereals	12,3	18,6	10,3	15	28,5
Cereals (mil. euro)	1.628,3	3819,2	2042,6	2558,9	4636,3

Source: Eurostat, Economic accounts for Agriculture (values at current producer prices), Updated: November 2010 (for the dates from 2007, 2008) and November 2010 (for the dates from 2009-2011e)

We can easily observe that the cereal production is dominated by corn, wheat and barley. From the estimated data for the 2011 year, we can find that corn counts as 59.36% from the cereal total, wheat for 31.02% and barley for 6.36%, in total counting for 96.74% from the market of cereal production.

The main cereal cultures from Romania are those of corn and wheat, being cultivated on extended areas but in the same time registering important losses, reason why, in our study we opted for wheat as a reference culture in the view of analysing the efficiency of implementing insurance based on indexes in Romania because it is one of the most important plants harvested having a great weight in the food industry, and at the same time it is an important economical factor;

because of its toughness against less favourable environmental factors, the culture area of wheat being bigger than the corns.

As well, we picked the South-Muntenia and South-East Region of Romania, because as we can see in table 2 the harvested quantity of wheat is much bigger compared to the other regions and at the same time its production effectiveness is smaller in the Vest Region (with 16.2% smaller than the South-Muntenia and with 20.4% than the South-East), which means a bigger rate of loss that being another argument in favour of picking this region in the analysing of the implementation of insurance based on indexes in Romania.

Table 2. The harvested quantity and the harvested wheat productivity (1995-2009 average)

Region	Quantity harvested (1000 t)	Productivity (100 kg/ha)
Nord-West	457,5	27,5
Centre	347,5	27,6
Nord-East	471,2	23,7
South-East	1008,6	24,1
South-Muntenia	1474,1	25,4
Bucharest	56,4	24,2
South-Vest	965,5	23,5
Vest	751,7	30,3

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

2.2. The analysis of the relation between everyday temperatures and annual productions of wheat

In our study we will analyse the most harvested species of wheat from Romania which is the autumn wheat (*Triticum aestivum*), this being distinguished by a vegetation period of 9 months (270-290 days), in this interval the plants going through phenology fazes. The elaboration of insurance based on indexes contracts needs to have in view the particularities of the insured harvest to be able to reduce the probability of bad classification, mainly because of moral hazards or/and adverse selection. Thus, we analyse the relation between daily temperatures and annual wheat production.

An important aspect of insurance based on indexes is area risk. More specifically, the efficiency of using insurance based on indexes is followed based on registered temperatures on a referential station on an extended area. In consequence, as the surface on which the same type of insurance is applied gets bigger, the costs are smaller and the profitability is bigger, being conditioned by a correct classification of allowances.

2.3.The evaluation of historic time series and the placement locations of meteorological stations

In our study, we pick as a reference the meteorological station from Bucharest and as auxiliary meteorological stations the ones from Rosiorii de Vede (100km from Bucharest), Craiova (220km from Bucharest) and Drobeta Turnu Severin (354km from Bucharest) from which we collected daily dates from the 1971-2010 period and which we classified on the time interval to which wheat production cycles they

correspond (10.10.N – 10.07.N+1), the aim of the study being that of analysing the area differences between the reference location and the locations where we implemented the insurance based on indexes product.

In this case, the data's are collected by INMH, the analysed period being 1971-2010 with daily date from the October 10 – July 10 interval, summing up to 39 years of production. The corresponding time series for Cravioia contained missing data for the year 1972 for May, which were replaced by the average collected data registered at Bucharest and Rosiorii de Vede, on the same time period. We are considering that the quality of the analysis is not affected by short the undocumented period (31 days from a total of 10.969 days).

2.4. Establishing, presenting utilised static methods and data processing

The trigger event of insurance allowance on the insurance based on indexes case, is being represented by the passing of a strike level (bar, it represents that value of the specific coefficients from which the contract is executed and the pay is being made) looking at the average daily temperatures according to the calculus relation number (1). The strike level is agreed based on the phenology phases of wheat cultures, presented in table 3. The minimum and maximum temperatures are registered at the reference and auxiliary meteorological stations.

$$Allowance = \begin{cases} 0, & \text{if } X < \text{strike} \\ 1, & \text{if } X \geq \text{strike} \end{cases} \quad (1)$$

Where the strike level is agreed in the insurance contract,

$$\bar{T}_i = \frac{T_i^{max} - T_i^{min}}{2} \quad (2)$$

where,

\bar{T}_i - the arithmetic mean between the maximum temperature (T_i^{max}) and the minimum temperature (T_i^{min}) of the day "i"

Table 3. The strike levels on time intervals

Phenology phases	Time interval	Optimum interval of temperature (Co)	Strike level (Co)
Sprouting-Rising	10/10 – 15/11	12-20	21
Twinning	16/11 – 25/12	8-12	13
Hardening	26/12 – 10/02	5	6
Idle period	11/02 – 20/03	8-10	11
Stuffed	21/03 – 30/04	15	16
Earing	01/05 – 15/06	16-18	19
Blooming	16/06 – 10/07	18-20	21

Source: Author processing according to date gathered from specialty literature

For a more profound analysing of implementing insurance based on indexes in the South of Romania for wheat cultures, we took into consideration the Pearson correlation coefficient which will be presented in detail next.

Pearson's correlation coefficient

This coefficient gives a measure of linear dependability intensity between two variables and has the next calculus relation:

$$r(X, Y) = \frac{\text{cov}(X, Y)}{\sigma_x \sigma_y} = \frac{M(XY) - M(X)M(Y)}{\sigma_x \sigma_y} \in [-1;1] \quad (3)$$

The coefficient gives the direction and intensity relation between quantity analysed variables. A negative coefficient proves a reverse association while a positive one proves a direct association. The signification tests for this coefficient accept or reject the following null hypothesis: the discovered relation is incidental.

In table 4 we will analyse the meteorological correlation between the considered location, at a temperature level from which we can find that there are strong considerable ties between registered temperatures measured at the mentioned locations, but, the correlation coefficient between Bucharest and the other towns drops as the distance gets bigger (Roşiorii de Vede .990**, Craiova .982**, Drobeta Turnu Severin .979**).

Table 4. Pearson correlation coefficients between the location considered in the study, at a temperature level

		Bucharest	Craiova	Roşiorii de Vede	Drobeta Turnu Severin
Bucharest	Pearson Correlation	1			
	Sig. (2-tailed)				
Craiova	Pearson Correlation	.982**	1		
	Sig. (2-tailed)	.000			
Rosiorii de Vede	Pearson Correlation	.988**	.990**	1	
	Sig. (2-tailed)	.000	.000		
Drobeta Turnu Severin	Pearson Correlation	.972**	.989**	.979**	1
	Sig. (2-tailed)	.000	.000	.000	

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

Source: Author processing after the obtained data from INMH

The corresponding Sig. value equal to 0.000 shows that a significant correlation coefficient has been obtained at 0.01 thus there are smaller than 1% chances of making a mistake when we say that between the analysed locations, at a temperature level, there is a significant correlation. We can conclude that the analysed locations are correlated from a registered temperature point of view.

The obtained results of Pearson's correlation coefficient highlights the viability of insurance based on meteorological coefficient products, proving that their use is justified because of the high correlation coefficients, but, an analysis about the risk area needs to be made to evaluate the efficiency of this type of insurance.

Conclusions

A country's agriculture may be in danger from bad weather which can't be controlled but in a small matter while they can have major impacts on the realised production. The present risks in agriculture represent a challenge, especially for small farmers that don't have an insurance culture. (Johnson 1993:35-51) showed that lots of farmers estimate badly their probable losses, not being able to approximate correctly if an insurance contract is right for them or not.

Based on the data analysed above we can confidently say that the area risk is an essential component which needs to be considered while creating insurance based on indexes contracts. A high level of area risks can reduce the appeal of the insurance products in areas affected by adverse meteorological effects.

The performed analysis also proves the flexibility of contracts based on indexes, (which opens new research directions) for example they can change the reference location so that the area risks can be reduced and the insurance product can be no longer profitable. Contracts can be made by introducing a minimum period of passing the strike level, for example the pay of the allowance could be triggered just after 5 days have passed of passing the strike level agreed in the contract. Another advantage of these types of insurances is that they can be combined in more insurance products for covering more meteorological risks like excessive rain or highly diminished level of precipitations in the winter, fact which in the case of wheat can influence the production by affecting the toughening process.

Despite the importance and necessity of implementing agricultural insurance based on coefficients, as an alternative of development of agriculture and agricultural insurance, I consider that the realisation of them will be delayed because of the lack of implication from the insurance societies and reglementation authorities from the area (The supervising committee of Agriculture and the Department of Agriculture)

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EMPIRICAL STUDY REGARDING PRIVATE AND VOLUNTARY PENSIONS FUNDS FROM ROMANIA

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Abstract: *This paper continues our scientific and practical research in the pension field. The analysis of information collected, along with specialist opinions represent our optimistic research methodology used. The analysis of the time evolution of the rate of return specified for private and voluntary pension funds, investment structure, the economic dependency ratio, the number of employees compared to that of pensioners represents research strategies used (comparative and longitudinal). The hypotheses regarding relationship of conditioning between specific variables, private and voluntary pensions, are determined causative (to explain the reasons and effects of the studied phenomenon), due to the desire to understand the current reform measures in this area, established by the involved stakeholders. Qualitative treatment of the phenomenon studied allowed us to obtain the relevant conclusions and proposals, required by practical viability and sustainability of the pension system in Romania. Current measures of reforming the pension system in general, public pensions in particular, do not have a concrete date for implementation, do not reveal the consequences for the contribution already paid and used by the National House of Pensions, do not offer the details of transition to be achieved step by step from the old system to the new, do not provide a guarantee of future payment of pensions because the money is not actually in the account of future retired persons. The replacement of the current public pension scheme, funded by creating a reserve fund pensions, is an idea proposed by Mr Valentin M.Ionescu, former advisor to former president CSSPP Mircea Oancea. This is a valid solution with which we agree. In addition, our proposals regarding modifications in REVISAL, in Statement 112 and in date of taxes payment are made to help the employers in Romania. The lack of useful information for policy makers or existence of different information from one ministry to another generates the scientific limits of our approach and alter the real perception of this actual and controversial phenomenon.*

Keywords: *private pensions, investment, employment/employee, reform*

JEL classification: *J32, O16, J21, P41*

1. Introduction

Performance indicators in the private pension system refer to their specific rates of return. In fact, the minimum rate of return and the guarantee are security features of the private pension system in Romania. To strengthen the security of this system, specific legislative changes were made. Thus, legislation regarding private pensions (Pillar II) was improved (e.g.: the capital adequacy for minimum solvency requirements). Instead, for voluntary pensions (Pillar III) has been established, with certainty, the origin of the assets needed to cover technical provisions. The pension system is influenced by a

number of factors, which determine positive or negative changes on its sustainability in general, on its profitability in particular. One of the factors non-studied so far refers to causal relationships between specific variables for private and voluntary pensions.

2. Literature review

Negative correlation between the size of a private pension fund and its performance represent useful information to the participants of this system (Robu and Sandu, 2007). This information helps always the taxpayer to have control over the amount paid for retirement, according to profitability of pension funds (Ghințuială, 2011). To guide participants to private pension funds, some experts in the field (Popa and Cristea, 2007) considers necessary to publish information on investments made in large companies. Making these investments is correlated with economic dependency ratio of the elderly population (Lazarus and Prince, 2007). A reduction in the rate of economic dependence creates a real boost of contributions to private pensions (Gavriletea and Moga, 2010). Participants' movements from one pension fund to another demonstrates the financial performance of private pension system (Milos, 2012). To measure the performance of private pension funds, different indicators are used from country to country, depending on specific determinants (Musala and Pasquini, 2012; Bohle et al, 2010). Lack of profitability of private pension funds explains the absorption of some by other stable funds (Seulean and Mos, 2010).

3. Hypotheses and data sources

Taking into account the statistical data published on the website www.csspp.ro, opinions of specialists in the field and participants interests to private and voluntary pensions, we think it is necessary to conduct this study, so proposed and tested hypotheses are:

H1: There is a causal relationship between rates of return on private and voluntary pension funds - investment structure - the amount of contributions?

H2: There is a causal relationship between economic dependency ratio - the number of employees - number of participants (retired) - the amount of contributions?

H3: Current proposals to reform the Romanian pension system are relevant and applicable?

4. Rates of return on private and voluntary pension funds – investment structure – the amount of contributions

Specific rates of return on private pension funds and voluntary represent an important factor in their classification in some degree of risk and the weighted average annualized rate of return of these is analyzed by the system makers in close correlation with annualized rate of inflation. Evolution rates of return on private and voluntary pension funds which allow their classification in some degree of risk, compared with inflation of the period 2010-2011 is presented in the tables below (Table 1 and Table 2).

Table 1: Rates of return on private pension funds (Pillar II)

No.	Private pension fund Pillar II	Annualized rate of return 2010	Annualized rate of return 2011	Degree of risk 2010 și 2011	The weighted average rate of return on private pension funds, annualized 2010	The weighted average rate of return on private pension funds, annualized 2011	Annualized inflation 2010	Annualized inflation 2011
1.	FPAP Aripî	15,1962 %	8,7713 %	Ridicat	15,0991 %	8,5636 %	6,34 %	3,14 %
2.	FPAP Alico	14,9881 %	8,8422 %	Mediu				
3.	FPAP AZT Viitorul tău	15,1536 %	9,1896 %					
4.	FPAP BCR	14,4079 %	9,3243 %					
5.	FPAP BRD	12,6533 %	7,9405 %					
6.	FPAP Eureko	13,7575 %	8,7950 %					
7.	FPAP ING	16,0363 %	8,1481 %					
8.	FPAP Pensia Viva	13,0094 %	8,3839 %					
9.	FPAP Vital	11,0561 %	6,8113 %					

Source: www.csspp.ro , own processing**Table 2: Rates of return on voluntary pension funds (Pillar III)**

No.	Voluntary pension fund Pillar III	Annualized rate of return 2010	Annualized rate of return 2011	Degree of risk 2010	Degree of risk 2011	The weighted average rate of return on private pension funds, annualized 2010	The weighted average rate of return on private pension funds, annualized 2011	Annualized inflation 2010	Annualized inflation 2011
1.	FPF AZT Vivace	14,8046 %	5,3708 %	Ridicat	Ridicat	15,1971 %	4,8512 %	6,34 %	3,14 %
2.	FPF ING Activ	15,4130 %	4,5574 %						
3.	FPF AZT Moderato	15,2257 %	8,1444 %	Mediu	Mediu	14,6470 %	6,5651 %		
4.	FPF BCR Plus	0,0000 %	5,3638 %						
5.	FPF BCR Medio	0,0000 %	4,3272 %						
6.	FPF Concordia Moderat	14,1512 %	7,0635 %						
7.	FPF Eureko Confort	0,0000 %	8,5503 %						
8.	FPF ING Optim	14,8363 %	6,3163 %						
9.	FPF Pensia mea	10,7647 %	7,0574 %						
10.	FPF Raiffeisen Acumulare	16,5638 %	7,4464 %						
11.	FPF Stabil	0,0000 %	5,6123 %						
12.	FPF BCR Prudent	8,0343 %	0,0000 %	Scăzut	-	8,0312	0,0000		
13.	FPF OTP Strateg	7,4738 %	0,0000 %						

Source: www.csspp.ro , own processing

Analyzing data from tables above (Table 1 and Table 2) the conclusions are:

- the majority of funds from Pillar II are quoted with medium risk level, except one fund (called "Aripi") administered by Generali company and ranked high risk;
- annualized rate of return on private and voluntary pension funds declined significantly in 2011 compared to 2010, due to absorption by other funds, exchange rate fluctuations and deepening financial crisis, with direct repercussions on unemployment;
- in the category of private pension funds (Pillar II) is a single fund ranked on high-risk, and the rest with the average degree of risk;
- in category of voluntary pension funds (Pillar III), two funds are high risk, two low-risk (later absorbed) and the rest with medium risk;
- the framing in a degree of risk depends on the structure of contributions to pension funds;
- the customers election affected by the reputation of fund managers, by the active campaign to promote funds in Romanian market, market maturity, fees or risk level represents important factors in the participants decision to pay the contributions;
- risks arising from the need of sustainability of pension systems are mainly those related to management (influenced by developments in pension fund management), portfolio investment (interest generated by the decisions of reinvestment), evolution of gains, type and duration of their careers;
- descendant evolution of rates of return generally depends on the economic cycle, the investment policies of managers (structure investment portfolios);
- reduction of the rates of return is was annihilated from measures implemented in 2011 (e.g. gradual increase of complete contribution period to obtain pension for age limit or minimum contribution period to obtain a public pension, increasing pension point according to the inflation rate and the real growth of the gross average wage, the introduction of unitary public pension system).

The increase of the rates of return for private and voluntary pension funds demonstrates the correct investment of funds, due to the growth of contributions values, proving direct relationship between the variables mentioned, for which we consider that *our first hypothesis (H1) is verified.*

5. Economic dependency ratio - the number of employees - number of participants (retired) - the amount of contributions

Because contributions to pension funds are invested by the administrators, under the law, a crucial role in assessing the profitability by a participant returns to the fund structure and economic dependency ratios. In this sense, the following tables (Table 3 and Table 4) present the evolution of investment structure for Pillar II and Pillar III.

Table 3: Evolution and structure of investments from contributions to Pillar II

	2008	2009	2010	2011
Bank deposits	111.800.000	116.800.000	311.050.000	775.330.000
Government bonds (securities)	493.000.000	1.543.500.000	2.876.020.000	4.261.550.000
Municipal bonds	19.400.000	30.500.000	55.140.000	64.470.000
Corporate bonds	175.800.000	315.700.000	476.770.000	457.650.000
Supranational bonds (Bonds of foreign non-governmental organizations)	28.700.000	91.100.000	73.720.000	81.100.000
Shares	14.500.000	222.900.000	529.560.000	688.070.000
Equity Securities UCITS	3.900.000	21.700.000	22.660.000	82.930.000
Hedging instruments	0	0	1.270.000	-750.000
Amounts in course of settlement		43.200.000	-11.880.000	5.600.000
Commodities	0	0	0	4.730.000

Source: www.csspp.ro , own processing

Table 4: Evolution and structure of investments from contributions to Pillar III

	2008	2009	2010	2011
Bank deposits	10.850.000	12.450.000	27.860.000	38.990.000
Government bonds (securities)	48.050.000	140.840.000	216.370.000	287.130.000
Municipal bonds	8.800.000	7.010.000	5.440.000	7.460.000
Corporate bonds	15.060.000	14.090.000	21.620.000	31.590.000
Supranational bonds	0	3.060.000	9.650.000	12.510.000
Shares	3.710.000	25.770.000	46.340.000	54.600.000
Equity Securities UCITS	770.000	1.100.000	1.860.000	5.310.000
Hedging instruments	0	0	40.000	-160.000
Amounts in course of settlement	0	80.000	-580.000	-940.000

Source: www.csspp.ro , own processing

UCITS - Undertaking for Collective Investment in Transferable Securities

Analyzing data from tables above (Table 3 and Table 4), the conclusions are:

- the high share in the structure of investment portfolios is held by investments in fixed income instruments (securities), assessed as having a higher degree of safety, followed by equities and bank deposits;
- the investment structures for Pillar II and III are specific to conservative investors, on long-term, cautious, which aim to optimizing the revenues of participants on their withdrawal from activity, to comply with prudential regulations;
- appearance of a new investment category - "commodities" (goods and precious metals funds) to Pillar II (in 2011) and "hedging instruments" to Pillar III (in 2010).

Regardless of law, return of pension funds is directly influenced by the evolution of participants in the three pillars and involution of employees number. Due to low fertility, external migration of the active population from Romania, the high mortality rate and increasing unemployment, economic dependency ratio records alarming involutions, presented in the table below (Table 5)

Table 5: Evolution of economic dependency ratios, number of employees, number of participants to Pillar II and III, share of participants to Pillar II and/or III to medium number of employees

No	Period	Economic dependency rate	Medium number of employees (persons)	Number of participants to Pillar II (persons)	Share of participants to Pillar II to medium number of employees	Number of participants to Pillar III (persons)	Share of participants to Pillar III to medium number of employees	Annual average number of pensioners (located in payment - persons)
1.	2008	0,89	5.046.000	4.031.421	0,80	150.745	0,03	5.685.000
2.	2009	0,84	4.774.000	4.260.175	0,89	187.172	0,04	5.676.000
3.	2010	0,77	4.376.000	4.817.886	1,10	221.600	0,05	5.664.000
4.	2011	0,74	4.162.000	5.111.289	1,23	260.379	0,06	5.589.000

Source: www.csspp.ro and www.insse.ro/cms/files/publicatii/Romania_in_cifre2011.pdf, own processing

Analyzing data from table above (Table 5), we make the following conclusions:

- reducing the annual average number of employees and pensioners, due to the high mortality among the elderly;

- annual and continuous decrease in the economic dependency rate, due to reducing the working population on labour market, discouraged to look for a job and / or declared as left abroad to work or seeking work;
- increasing the number of participants to Pillar II and Pillar III and the share of participants in Pillar II and Pillar III to the average number of employees;
- increasing the number of participants Pillar II and Pillar III under the conditions of reducing average annual number of pensioners located in payment.

The contributions to Pillar II depends on the contributions to public pension (Pillar I). If in 2008 and 2009 contribution to pillar II was only 2% from the contribution social security, in 2010 the rate increased to 2.5%, in 2011 the percentage was 3%, while in 2012 the percentage reach to 3.5%. This increase of the contributions percentage to Pillar II should provide corresponding increase of receipts, but the evolution of these contributions varied from year to year, as shown in the table below (Table 6). At the time of collection and interpretation of information needed for analysis were not published on the official website www.csspp.ro figures for December 2012, so that evolution of contributions to Pillar II 2009-2012 does not include the last month of each calendar year. Taking into account the amounts of contributions to Pillar II and the number of participants, we establish the necessary data regarding the contribution in general and average contribution/participant in particular. The results are presented in the tables below (Table 6 and Table 7).

Table 6: Evolution of contributions to private pension (Pillar II)

Year 2009	Amounts (mil.lei)	Year 2010	Amounts (mil.lei)	Year 2011	Amounts (mil.lei)	Year 2012	Amounts (mil.lei)
January	109,93	January	105,20	January	134,00	January	176,94
February	122,71	February	112,00	February	144,88	February	191,04
March	109,05	March	135,00	March	154,80	March	200,91
April	111,31	April	134,30	April	157,92	April	202,48
May	113,00	May	143,00	May	166,82	May	213,78
June	113,00	June	138,00	June	168,02	June	213,95
July	108,00	July	136,00	July	169,90	July	213,57
August	109,30	August	135,60	August	183,60	August	220,64
September	109,00	September	131,80	September	174,45	September	216,10
October	106,00	October	130,30	October	306,52	October	214,71
November	107,00	November	130,40	November	174,12	November	219,77
Monthly average	110,75	Monthly average	130,15	Monthly average	175,91	Monthly average	190,35

Source: www.csspp.ro

Table 7: Evolution of average contributions/participant to private pension (Pillar II)

Average contributions/participant with contributions each month in 2009	Values (lei)	Average contributions/participant with contributions each month in 2010	Values (lei)	Average contributions/participant with contributions each month in 2011	Values (lei)	Average contributions/participant with contributions each month in 2011	Values (lei)
In january 2009	26,81	In january 2010	31,12	In january 2011	40,20	In january 2012	31,91
In febraury 2009	29,39	In febraury 2010	33,40	In febraury 2011	27,63	In febraury 2012	34,26
In march 2009	25,72	In march 2010	40,30	In march 2011	29,36	In march 2012	35,85
In april 2009	26,00	In april 2010	39,70	In april 2011	29,83	In april 2012	35,93
In may 2009	26,00	In may 2010	42,20	In may 2011	31,42	In may 2012	37,84

In june 2009	28,00	In june 2010	40,50	In june 2011	31,55	In june 2012	37,78
In july 2009	25,00	In july 2010	40,30	In july 2011	31,80	In july 2012	60,51
In august 2009	25,00	In august 2010	40,20	In august 2011	34,13	In august 2012	38,76
In september 2009	32,00	In september 2010	39,50	In september 2011	32,28	In september 2012	61,42
In october 2009	31,38	In october 2010	39,20	In october 2011	31,99	In october 2012	60,93
In november 2009	31,49	In november 2010	39,30	In november 2011	31,79	In november 2012	61,07
Monthly average	27,89	Monthly average	38,70	Monthly average	32,00	Monthly average	45,11

Source: www.csspp.ro, own processing

Analyzing data from tables above (Table 6 and Table 7), the conclusions are:

- lowest values of contributions to Pillar II was in November 2009, January 2010, January 2011 and January 2012, while the highest values were in February 2009, May 2010, October 2011 and November 2012, due to the rise in household income in the period;
- monthly average contributions from year to year (in the period January-November 2009-2012) increased due to the rise in percentage according to legal regulations in the field;
- favorable trend of contributions to Pillar II is much slower than the payments of Pillar II, which will put serious doubts on the existence of cash liquidities required for immediate payment;
- lowest values of average contributions / participant to Pillar II were in July and august 2009, January 2010, February 2011 and January 2012, while the highest values were in September 2009, May 2010, January 2011 and September 2012 due to the increasing of expenses population in vacations;
- average monthly contributions / participant increased during January-November 2010 in compared to January-November 2009 period, due to increasing of contribution percentage by the legal regulations in the field;
- average monthly contributions/ participant decreased during January-November 2011 in compared to January-November 2010, due to the increasing of participants number for which contributions were not transferred to Pillar II, from month to month, in periods analyzed;
- average monthly contributions / participant increased during January-November 2012 in compared to January - November 2011, due to the increasing of contribution percentage according to legal regulations in the field.

Even though, from a legal perspective, in the analyzed period (2009-2012) took place an increasing in the percentage of contributions to Pillar II, have not been achieved expected revenues, due to the existence and enlarging the number of participants with empty accounts. More specifically it is about people who have opted to certain funds from Pillar II, but these options have not materialized into actual contributions paid. Although, from one year to another (2009-2012), the number of participants in Pillar II recorded substantial growths, this did not materialize in the amounts of money for investments. It can be seen from the evolution of participants, for wich, no contributions were transferred from the beginning of collection period. The informations are presented in the table below (Table 8).

Table 8: The evolution of participants in general and of those for which, no contributions were transferred, from the beginning of collection into accounts of private pension funds (Pillar II)

Participants to Pillar II from Registry 2009	No persons (thousands)	Participants to Pillar II for which no contributions were transferred, from the beginning of collection in the system(2009)	No persons	Participants to Pillar II from Registry 2009	No persons (thousands)	Participants to Pillar II for which no contributions were transferred, from the beginning of collection in the system(2010)	No persons (thousands)	Participants to Pillar II from Registry 2011	No persons (thousands)	Participants to Pillar II for which no contributions were transferred, from the beginning of collection in the system(2011)	No persons (thousands)	Participants to Pillar II from Registry 2012	No persons (thousands)	Participants to Pillar II for which no contributions were transferred, from the beginning of collection in the system(2012)	No persons (thousands)
31.01.2009	4.580,79	31.01.2009	1.178.148	31.01.2010	4.936,52	31.01.2010	338,11	31.01.2011	5.211,18	31.01.2011	281,17	31.01.2012	5.544,44	31.01.2012	236,85
28.02.2009	4.642,00	28.02.2009	1.192.355	28.02.2010	4.971,80	28.02.2010	331,54	28.02.2011	5.243,92	28.02.2011	279,07	28.02.2012	5.575,91	28.02.2012	234,75
31.03.2009	4.693,93	31.03.2009	1.288.859	31.03.2010	5.004,23	31.03.2010	325,33	31.03.2011	5.272,09	31.03.2011	275,73	31.03.2012	5.603,40	31.03.2012	232,98
30.04.2009	4.731,54	30.04.2009	1.291.815	30.04.2010	5.026,72	30.04.2010	319,93	30.04.2011	5.294,31	30.04.2011	272,39	30.04.2012	5.635,83	30.04.2012	237,89
31.05.2009	4.752,94	31.05.2009	1.339.074	31.05.2010	5.041,24	31.05.2010	314,41	31.05.2011	5.308,59	31.05.2011	268,12	31.05.2012	5.649,41	31.05.2012	235,62
30.06.2009	4.775,55	30.06.2009	1.369.287	30.06.2010	5.055,10	30.06.2010	309,34	30.06.2011	5.324,82	30.06.2011	264,45	30.06.2012	5.662,52	30.06.2012	233,58
31.07.2009	4.797,79	31.07.2009	1.406.396	31.07.2010	5.072,01	31.07.2010	305,11	31.07.2011	5.342,63	31.07.2011	257,73	31.07.2012	5.674,81	31.07.2012	231,12
31.08.2009	4.819,20	31.08.2009	1.407.268	31.08.2010	5.091,83	31.08.2010	300,71	31.08.2011	5.379,02	31.08.2011	251,46	31.08.2012	5.691,92	31.08.2012	228,85
30.09.2009	4.838,97	30.09.2009	1.437.876	30.09.2010	5.110,52	30.09.2010	296,74	30.09.2011	5.403,42	30.09.2011	248,13	30.09.2012	5.708,61	30.09.2012	226,65
31.10.2009	4.859,94	31.10.2009	1.491.970	31.10.2010	5.130,34	31.10.2010	293,72	31.10.2011	5.442,48	31.10.2011	245,50	31.10.2012	5.706,91	31.10.2012	200,56
30.11.2009	4.885,08	30.11.2009	1.486.375	30.11.2010	5.157,41	30.11.2010	288,89	30.11.2011	5.476,48	30.11.2011	242,35	30.11.2012	5.737,07	30.11.2012	199,31
Monthly average 2009	4761,61	Monthly average 2009	1.353.584	Monthly average 2010	5.054,34	Monthly average 2010	311,26	Monthly average 2011	5.336,27	Monthly average 2011	262,37	Monthly average 2012	5.653,71	Monthly average 2012	227,11
Share 2009 (%)	28,42			Share 2010 (%)	6,16			Share 2011 (%)	4,92			Share 2012 (%)	4,02		

Source: www.csspp.ro, own processing

Analyzing data from table above (Table 8), we make the following conclusions:

- lowest values of the participants in Pillar II were in January 2009, January 2010, January 2011 and January 2012, while the highest values were in November 2009, November 2010, November 2011 and November 2012 ;
- lowest values of the participants for whom, no contributions were transferred from the beginning of collection in the Pillar II, were in January 2009, November 2010, January 2011 and November 2012, while the values were higher in October 2009, January 2010, January 2011 and April 2012;
- monthly average number of participants is increasing in the period, while, the average monthly participants without contributions in the same analyzed period is decreasing, due to the same unfavorable trend in the proportion of people without contributions in the total participants to Pillar II.

The reduced number of employees in comparison with the increased number of pensioners, due to the high level of economic dependency ratio of the elderly, demonstrated causal relationship between these variables, which is why we consider that *the second hypothesis (H2) is verified.*

6. Measures to reform the pension system in general, especially the public one

The development of private pensions depends on the financial sustainability of the public pension system. To achieve this goal, the current Minister of Labour, Ms Mariana Câmpeanu want to change the regulatory framework for the establishment of the Swedish pension model. In this model exist personal accounts of each pensioners. Pension systems with defined nominal contribution pension or notional defined contributions (NDC), customize each employee's contribution to public social insurance through personal account opened by the Treasury. In this account appear recorded all the contributions paid monthly during the active period. The owner can examine the evolution of potential transfers. However, those contributions will be invested in order to achieve profitable returns, but will be used to pay pensions to current retirees. Hence, what is recorded are actually future financial rights, earned on the account of contributions paid. Unlike private pensions, where personal contributions are doubled by investment returns, in state pension such as NDC, existing contributions are doubled by annual interest rate imposed by the government and by pension point. Considering the need to shift from a redistributive pension system at a accumulation system, and the specialists arguments (see website www.finantistii.ro), we put the following questions:

- *What is concrete date of implementation of the new pension system?*
- *What will happen to the contributions already paid?*
- *How will make the transition from the old system PAYG to the new one NDC?*
- *If that money are not into the actual account, how will be paid from bank account, the values to the pensioners who have deposited their monthly contributions?*

7. Conclusions, limits and perspectives

To find relevant answers to the questions above, we consider that, when determining the pension value, we must take into account the time value of money. This idea (shared by us) has been exposed by Mr. Valentin M.Ionescu, former advisor to former president CSSPP Mircea Oancea (see website www.contributors.ro/wp-content/uploads/2012/10/studiu-pensii-Institutul-Ordoliberal.pdf). In fact, it is proposed to replace the current public pension scheme funded by creating a reserve fund pensions. The current proposals for pension reform, made by the policy makers, we consider that are not

relevant and applicable (the reasons are explained in the paper), which is why we appreciate that *last hypothesis (H3) is not fulfilled*. In order to pursue the collection of social security contributions and empowering decision makers among employers, we make the following proposals:

- introduction in REVISAL database all data on persons employed under civil contracts and other types of contracts, which involving the payment of social security contributions;
- including at the end of the "Declaration of payment of fiscal debts within the unique account" (Statement 112) the summary of the situation regarding payment documents for employers and employees;
- establish monthly or quarterly for tax payments (depending on turnover) no later than the 20th of the following month or quarter ended.

Scientific limits of this work (lack of comprehensive information on private pension funds and voluntary) and practical (implementation or non-implementation of the proposed measures by those involved in the process) requires us to deepen this subject of constant actuality.

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SUB-SECTION: CORPORATE FINANCES

VENTURE CAPITAL IN HUNGARIAN ACADEMIC SPIN-OFFS

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Abstract: *As part of a research about Hungarian academic start-ups, I made a survey examining part of the answers of a long questionnaire created for the whole research filled in by academic spin-offs of most important Hungarian universities. The study is structured as follows. First I will present the most important operational information on university spin-off companies taking part in the research. Then I will give an insight to the details of financing spin-offs, thoroughly analyzing the institutional and the non-institutional venture capital and the role of funding opportunities – applications. I examine which financing sources dominate in academic spin-off companies, what are the experiences of the spin-offs in the field of the three financial sources mentioned before, in order to be able to answer how would what kind of changes would be needed to subserve venture capital financing Hungarian spin offs, with high growth potential. The study ends with a summary.*

JEL classification: *G24, venture capital*

1. Introduction

The goal of our research was to assess, get to know as widely as possible the pioneering national university spin-off companies. As a *first step*, based on the definitions found in the professional literature we created *our own definition*, which we used throughout the assessment. During the research we considered companies of founders who have developed technologies or created research results through their university work and utilized these within them – as spin-off companies. The determination follows the narrower interpretations. The researcher had to be a university associate in the moment of company foundation, however it was not expected from them to give up their academic careers. Moreover, we did not expect from the parent-university to have a formal connection (ownership or contractual) with the company. Concerning the immaterial means passed to the spin-off companies we also applied limitations: it had to be the passing of an intellectual property based on some kind of new technology and/or a codified knowledge. The parent institution had to be a state university.²

The assessments were taking place in four large university cities, in Budapest, Debrecen, Pécs and Szeged. There is no available integrated database, statistics on the national spin-off companies, which made the research difficult, therefore as a *second step we developed a database*. To identify potential university spin-off companies the researchers participating in the research used their own personal contact systems, the university technology-transfer offices, as well as internet sources. During the implementation we succeeded in identifying 80 university spin-off companies, and half of them, 40 companies we successfully involved in the

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² In two cases the parent institution independently or together with the university, but it was an academic research institute.

personal queries. According to our estimations, we succeeded in identifying half of the national university spin-off companies in line with our definition. We layered the sample based on the geographic locations of the companies' real activities, 40% of the queries are located in Budapest, while 20%-20% to the provincial cities. During the research we implemented a questionnaire-based personal query. *The third step* examined the composed questionnaires, beside the companies' basic information (company name, headquarters, year of foundation, sector of activity, knowledge-intensive industry, information from annual reports), also the innovative activities and intellectual portfolio, the founder researcher as a person, his/her motivations, social capital, and the companies' connection and cooperation with the parent-institution. Moreover, information on the companies' functioning, growth, performance and financing were also subjects of detailed analysis. For the uppermost accuracy we tried to make the personal interviews with the founder university researchers in all cases, the queries lasted for 45-60 minutes in average. Hereinafter we will present *the main empirical results* from 38 filled questionnaires³.

2. The Hungarian university spin-off companies' activities

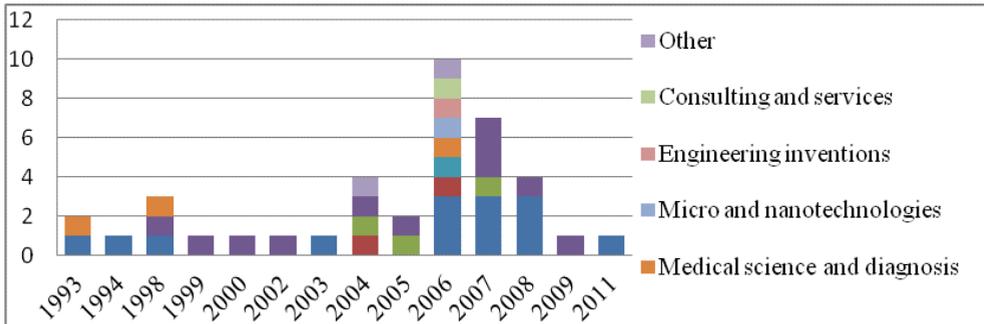
The Figure 1 shows the number of Hungarian spin-off companies participating in the assessment by the year of foundation and knowledge-intensive activity sectors. As indicated on the diagram, more than half of the companies participating in our research were founded between 2006 and 2008, right before the outburst of the global economic crisis, mainly in the field of information communication technologies and biotechnology. Until 2003 university spin-off companies were founded solely in the fields of biotechnology and pharmaceutical industry, medical science and diagnosis, as well as information communication technologies. From 2004 the range of new companies got more colorful by chemical industry, consulting and services, engineering inventions, micro and nanotechnologies, other natural sciences, as well as electronics.

We can see reduction of the number of company startups, which can be partially explained by the crisis, which have started in 2008 and escalated in 2009, which influenced the financing of universities on one hand, and on the other led to the drying out of the funding sources that were abundantly available in the period of 2004-2007, after the enforcement of the act on research and development and innovation.

The 59,5% of the questioned companies develop products based on new technology and sell them to business consumers and 51,4% provide innovative services for business consumers, therefore more than a half of the companies apply the B2B (business to business) business model. Compared to the previous a lot less 27% and 24,3% from the same activities sell directly to the consumers in other words they apply the B2C (business to consumer) model. Only 13,5% of the companies sell new (basic) technologies. (Figure 2)

Figure 1: The number of Hungarian university spin-off companies by knowledge-intensive activity sectors and the year of foundation in 2012
(pc)

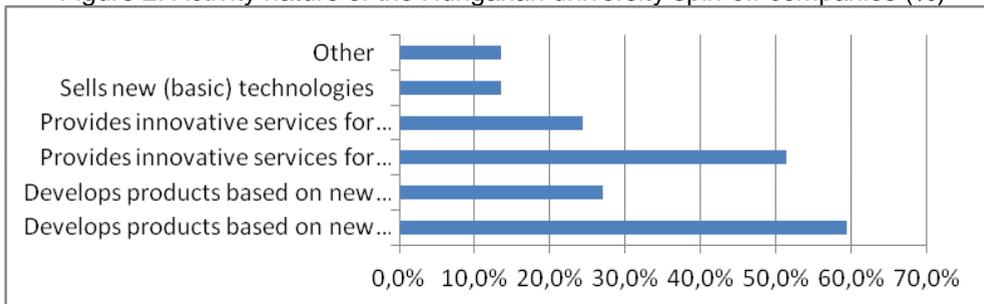
³ Two companies were excluded from the sample since they did not comply with our definition.



Source: own compilation

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Figure 2: Activity nature of the Hungarian university spin-off companies (%)

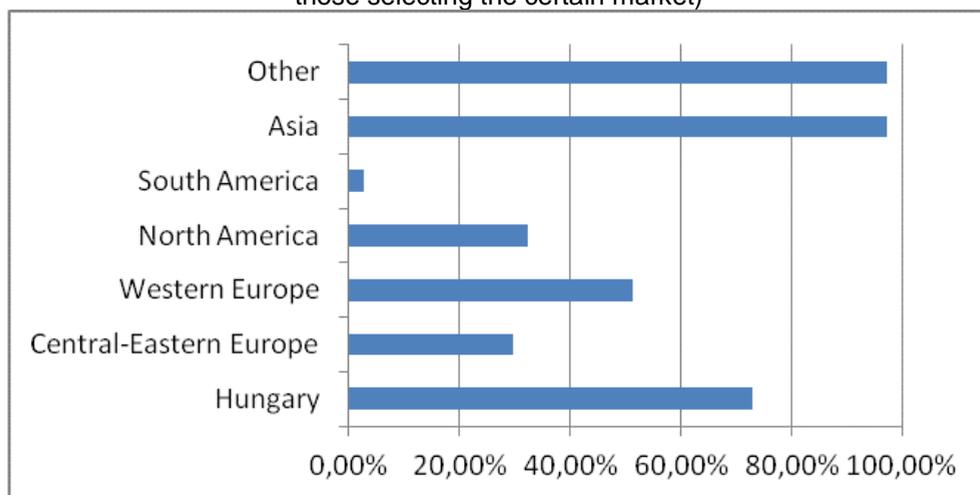


Source: own compilation

Comment: multiple answers allowed

The main markets of the companies based on the current or planned revenue are shown on the Figure 3 97,3% of the respondents ticked Asia, 73% Hungary, 30-50% European countries, but North America counts or could count as a market only for one third of the companies. The Northern European countries, Africa, Australia, etc. were in the other category, and it was ticked by almost all respondents just like Asia.

Figure 3: Target markets of the Hungarian university spin-off companies (% of those selecting the certain market)



Source: own compilation

3. The financing of Hungarian university spin-off companies

The Table 1 shows the percentage of the companies within the sample reporting to have been received financial support in the given phase of growth. Since the current phase of lifecycle is different among the companies, hence the company being in an early phase could not have chosen an answer of e.g. financial support for expansion, but the data in the columns can be compared with each other. Two-thirds of the companies used their own savings in the seed period, while one-third received non-refundable financial support from the state. The companies that financed their activities through involving a foreign capital or an angel investor or a close family member, also reached the high percentage of 22,2%.

In the start-up phase the non-refundable financial sources got the most scores as financing sources (41,7%), the own savings got the second place (36,1%). The sequence is very similar among other companies being *in other early stages or early expansion*, where the respondents ranked 33,3% and 19,4% the above mentioned sources. In the phase of *expansion* most of them selected the non-refundable sources, but the own savings were preceded by close family members and financing through customers. By the way, financing through customers in all phases indicated 16,7%.

In the start-up period the venture capital financing received the highest proportion, which were followed by the period of early growth and seed, but in the expansion period non of the companies received venture capital. Financing through distant family members, friends, other non-financial companies and suppliers were selected in little number, and an even smaller proportion chose the refundable state support (e.g. preferential loans), parent companies as well as short term and long term bank loans. The short term bank loans were selected in the early growing stages, while the long term bank loans in the start-up phases in 13,9% and 11,1%. The significance of university sources is similarly low, it only got over 10% in the

seed phase. Overall, the Hungarian spin-off companies within the sample primarily rely on own resources and non-refundable state funds in financing their activities, and the 3F-s' role is also significant (family, friends, fools – i.e. strangers) in the seed and start-up phases.

Table 1: Financing sources of the Hungarian spin-off companies in the various phases of their lifecycle (proportion of those indicating the given answer compared to the total number of respondents, %)

Financial sources	Seed	Start-up	Other early	Expansion
Stranger individual/external capital/angel investor	22,2	13,9	2,8	2,8
Distant family members, friends	2,8	0	2,8	2,8
Close family members	22,2	11,1	5,6	16,7
Own savings	66,7	36,1	19,4	8,3
Other non-financial company	5,6	2,8	2,8	0
Venture capital company	5,6	13,9	8,3	0
Refundable state (EU) support	8,3	5,6	2,8	0
Parent company	5,6	11,1	8,3	2,8
Non-refundable support	33,3	41,7	33,3	19,4
Short term bank loan	2,8	2,8	13,9	2,8
Long term bank loan	5,6	11,1	8,3	8,3
University	11,1	8,3	8,3	2,8
Supplier	2,8	2,8	2,8	2,8
Customer	16,7	16,7	16,7	16,7

Source: own compilation

Remark: more answers were acceptable

The institutional venture capital does not mean general funding source for them, despite the fact that technology-oriented companies, in the same time spin-off companies with big expansion potential are more likely to receive venture capital than other companies.

7.1. The institutional venture capital financing of the Hungarian spin-off companies

The respondents indicated their experiences connected to venture capital financing in all different cases on a five-point scale (Table 2). Considering the average of the answers the highest value was reached by the variable indicating that the venture capital investors do not know enough about the given technology. The international competitiveness of the applied technologies do not mean problems in the aspect of

the growing of the companies as mentioned previously, but in the aspect of finding investors it doesn't. The new nature of the technology may cause this information gap, therefore the venture capital investors do not know the applied technology, but if – not only in the owners' opinion of realistically – the technology or the product is internationally competitive, there would probably be will from the venture capital investors' side to finance the company. The availability of the venture capitals for the spin-off companies could be resolved through dissolution of the informational asymmetry.

The venture capital investors do not like to invest small amounts, which is the second significant problem and a problem also confirmed in the international literature, is the venture capital investors moved in the direction of financing companies in later phases of growth or companies with bigger capital needs and mainly to out buying due to economics of scale reasons. The developed capital gap and informational asymmetry together result in a financing gap in the early stage (Becslyné, 2008; Freear et al., 2002; Freear et al., 1994; Freear and Sohl 2001). The financing gap could be overbridged through angel investors and through angel investors' networks. The supply of venture capital of the spin-off companies is also trammled by the high yield expectations of the investors, which is an internationally known an characteristic of the supply's side similarly to the previously said, since usually the industry is characterized by great growth potential, aiming at international markets, promising high yield of investment when exiting (Karsai, 1997). On the demand side, namely from the companies' view the most important problems arising are the fear of freedom of decision restraint, on the other hand they do not have adequate entrepreneurial and management skills. These are general problems in other countries, too, but as long as the change in approach does not happen, the spin-off companies cannot expect to receive higher venture capital financing than before.

Table 2: The experiences of the Hungarian university spin-off companies in the field of venture capital financing

Value	Opinion
4,0	The venture capital investors do not know enough about the given technology
3,7	The venture capital investors do not like to invest small amounts
3,6	The venture capital investors have high yield expectations
3,5	The involvement of venture capital investors restricts the company leader(s)' freedom of decision during the functioning of the company
3,2	The venture capital investors averse to financing seed, start-up or early stage companies
2,9	The investment is hampered by the low quality business plan
2,8	The investment is hampered by the lack of entrepreneurial, management skills
2,7	The economic policy does not support enough the venture capital investments

2,6	There is not enough information about the venture capital investors
2,6	The possibilities of exiting of the company for the venture capital investors are bad

Source: own compilation

7.2. The informal venture capital financing of the Hungarian university spin-off companies

In the aspect of angel investors the respondents identified the biggest problem to be in the small number of angel investors and the lack of angel investor's networks in Hungary (Table 3). So the angel investors are not the solution for the financial gap formed through institutional venture capital's international tendency neither in the aspect of university spin-off companies. According to the respondents the economic policy's insufficient support for angel investor nature investments is a significant burden. Government intervention on both demand and supply side could contribute to the efficient functioning of the informal venture capital segment and to the advantages of potential possibilities, but the government must not in any way take over the role of the angel investors (Karsai, 2002), namely it can only support the functioning of the industry indirectly, by improving the investment environment on the supply side, and by creating an entrepreneurial environment stimulating innovation on the demand side (Kosztopoulosz - Makra, 2004). The change of entrepreneurial attitude, the change of approach of individuals having adequate capital for informal investments, and the creation of an entrepreneurial layer with management skills could lead to results in this area.

The informative gap connected to angel investors means a similar problem to the respondents as in the case of institutional venture capital, but according to the international literature the informational asymmetry is intensified in this case, namely the companies seeking capital and the angel investors find each other even harder (Harding, 2002). Since the role of angel investors in Hungary is minimal, hence the biggest problem lies in the lack of angel investors and not in the efficiency of the industry's functioning. The second step in the segment's development is the development angel investors' network, which could play an important role in overcoming the second financing gap ensuing from the redirection of formal capitals to later phases (Aernoudt, 2005). According to Wheatherby (2007) the financial gap is getting narrower in the western countries resulting from their market reactions, since the "super angels" and their groups overbridge the problem, and on the other hand the initial capital requirements of certain technology-oriented companies, especially of internet companies significantly dropped.

Table 3: The experience of the Hungarian university spin-off companies with angel investors

Value	Opinion
4,7	There are only few angel investors in Hungary
3,6	The angel investors' networks (partner mediator organizations) are missing in Hungary
3,6	The economic policy does not support sufficiently the angel investor nature investments
3,1	The professionalism, expertise of the angel investors is insufficient
3,1	The investment is trammled by the lack of entrepreneurial and management skills of the company leaders seeking capital
3,0	The exiting possibilities of the angel investors are limited
2,6	The angel investors do not understand our company's technology
2,6	The quality of the business plan of the company seeking capital is unacceptable
2,5	The company owner(s) do not wish to share to any extent their control over the company with an external party
2,3	There is not enough information available on the role and characteristics of the angel investors
1,9	The angel investor does not have the needed sum of capital
1,9	The angel investors' yield expectations are too high

Source: own compilation

7.3. Financing of the Hungarian university spin-off companies through application possibilities

We could already see at the selection of financing methods based on lifecycle phases that the non-refundable state funding is one of the main resources of the spin-off companies, and as I mentioned already 62% of the respondents already received state or community funding. Most of the respondents find the application procedures too bureaucratic, but they believe that these fundings helped the development of their companies. According to the respondents the delay of the call for proposals and imbursements makes the planning and functioning of the companies difficult. The difficult implementation of obligatory commitments and the too high own contribution in the aspect of companies is moderately valid. The companies find it least important that the applications redirect the company's focus from the markets and that the decision making processes are impenetrable and corrupt (Table 4).

Table 4: Experiences of Hungarian university spin-off companies with application procedures

Value	Possible answers
4,2	The application procedures are too bureaucratic
4,1	The funding through application helped the development of our company
3,9	The eventuality and delay of call of proposals make planning difficult
3,9	The delay of imbursement made the functioning and the development of our company difficult
3,0	The obligatory commitments connected to the application are hardly implementable
2,9	The required own contribution is too high
2,6	The call for proposals redirect the company's focus from the market work
2,3	The decision making concerning of applications is impenetrable and corrupt

Source: own compilation

8. Summary

Most of the Hungarian university spin-off companies included in the sample were established between 2004 and 2008. Parallel to the global economic crisis the propensity for spin-off company establishment dropped, in the past four years only two companies were established. Most of the spin-off companies are connected to biotechnology and pharmaceutical industry, as well as information communication technology among the knowledge-intensive activities. In the aspect of business activities for the companies the "business to business" model is more characteristic than the „business to consumer". The main markets if selling are the ones in Asia, but Hungary is also a significant target.

The biggest problems in the aspect of venture capital financing are the informational asymmetry and the shifting of the investors' interest on later phases in the lifecycle. The companies find it hard to give up their independence in decision making and they are not ready for venture capital involvement, which impedes the realization of venture capital investments. The biggest obstructions of angel investments are the small number of professionally prepared angel investors in Hungary and the lack of angel investors' networks, too. The biggest problems of application procedures are the overloaded bureaucracy and unpredictability.

Summarizing all, the companies see their most important financing possibilities in applications and non-refundable sources, namely they expect from the government to directly support them with "soft" money. The companies primarily expect from the government to cover their capital needs for growth, even after the state financial resources dry out. The government on the other hand could support the faster growth of spin-off companies through the stimulation of both demand and supply side of the institutional and informal venture capital industry, and that growth would also contribute to the development of the national economy.

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SENSITIVITY ASSESSMENT MODELLING IN EUROPEAN FUNDED PROJECTS PROPOSED BY ROMANIAN COMPANIES

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Abstract: *The extension of the European Union with the last two “waves” of new members in 2004 and later in 2007 brought new opportunities for the countries in Eastern Europe, especially those linked with the usage of European funding to support public or private investments. It is obvious that “effective utilisation of EU support can foster the success of economic performance”. Financing investment projects proposed by the SMEs can be realized through several financial programmes, especially those established under the European Regional Development Fund (ERDF). In order to be approved investment projects must comply with the requirements of the financing program especially those related to a proper realized Cost Benefit Analysis (CBA). A major emphasis within the CBA consists from sensitivity and risk assessment modelling. Sensitivity analysis aims to identify those variables / risks that may impact during project development and operational period and may lead to failure of positive factors leading to significant change in the financial and economic profitability of the project. Sensitivity analysis used to measure consider identifying risk factors that have the greatest influence on the net present value in general, and in particular on EU-funded projects, the financial and economic rates from financial modelling to analyse cost-benefit analysis (CBA) (including rate gap financing for investment projects where required) and indicate their impact during project cycle reg. Sensitivity analysis can help identify poor design choices and can highlight the need to obtain further information on certain variables. Regarding this, the current paper analysis the decision system and the proposed indicators within the sensitivity and risk assessment system which is used for selection of investment projects. The analysis is made using as a case study an investment project developed by Romanian companies. Both approaches of sensitivity analysis: deterministic and stochastic analysis, were tackled within the paper. As final conclusions of this paper we will demonstrate the theoretical and practical role of cost-benefit analysis – sensitivity and risk assessment to select the best applications that will be proposed for funding under the European grant programs.*

Keywords: Sensitivity analysis, Cost benefit analysis, OFAT, Risk analysis, European Regional Development Fund, Monte Carlo Simulation

JEL Codes: G17, G21, F35, O16, H43, C63, C61

1. Introduction

The extension of the European Union with the last two “waves” of new members in 2004 and later in 2007 brought new opportunities for the countries in Eastern Europe, especially those linked with the usage of European funding to support public or private investments. It is obvious that “effective utilisation of EU support can foster the success of economic performance”.

Financing investment projects proposed by the SMEs can be realized through several financial programmes, especially those established under the European Regional Development Fund (ERDF). In order to be approved investment projects must comply with the requirements of the financing program especially those related to a proper realized Cost Benefit Analysis (CBA) as mentioned by the European Union(2008).

A major emphasis within the CBA consists from sensitivity and risk assessment modelling. Sensitivity analysis is considered one of the key elements in the risk assessment of investment projects, especially since is considered a keystone in evaluation of risks.

The definition of the sensitivity analysis as mentioned by Saltelli(2000) is that sensitivity analysis is “the study of how the variation in the output of a model (numerical or otherwise) can be apportioned, qualitatively or quantitatively, to different sources of variation”.

Sensitivity analysis aims to identify those variables / risks that may impact during project development or in the project operational period and may lead to failure of positive factors leading to significant change in the financial and economic profitability of the project.

Sensitivity analysis is used to measure, consider and identify risk factors that have the greatest influence on the net present value in general, and in particular on EU-funded projects, the financial and economic rates from financial modelling to analyse cost-benefit analysis (CBA) (including rate gap financing for investment projects where required) and indicate their impact during project cycle. As mentioned above, within the context of cost benefit analysis a very important element is represented by the risk assessment.

The compulsory steps for risk evaluation of an investment are:

- Identification of the main risks
- Analysis of sensitivity
- Distribution of the probabilities of critical variables
- Risk analysis
- Evaluation of the acceptable risk
- Risk management

As observed above, the sensitivity analysis creates the basis for the risk analysis and helps identification of major risks, which must be taken into consideration by the beneficiaries, management authorities and target groups.

2. Sensitivity analysis modelling issues

The sensitivity analysis studies how the variation in the numerical results of a project can be attributed quantitatively to different sources of variation of input parameters (input) base. Thus, it provides check of the robustness of the numerical

results of a project and, more specifically, highlights the major risks that may affect the whole project cycle, during implementation.

Sensitivity analysis (or post-optimality analysis) is used to determine how the optimal solution is affected by changes, within specified ranges.

- Sensitivity analysis is important to the manager who must operate in a dynamic environment with imprecise estimates of the coefficients.
- Sensitivity analysis allows him to ask certain what-if questions about the problem.

The sensitivity analysis can be classified in two categories: the deterministic approach and the stochastic approach.

Deterministic sensitivity analysis assumes, that basic economic parameters results from a known interval (in larger sizes: a compact set) and quantifies the equilibrium outcome variable spread. In other words, the deterministic sensitivity analysis can be implemented based on a numerical formula step by step. The deterministic sensitivity analysis presumes that the ordered set of basic parameters is an element of a given subset of all possible choices of parameters. It tries to determine upper and lower limits of appropriate subset of the economic results of the project.

Stochastic sensitivity analysis treats the vector of parameters as a stochastic variable with a given distribution, putting economic balance model in stochastic variable. It aims to calculate the first moments of these variables, indicating the robustness of the results change. The stochastic sensitivity analysis should be implemented by a Monte Carlo algorithm or Gauss Quadrature.

Sensitivity analysis can involve more or less balance calculations, so usually there is a compromise between accuracy and time calculation. This is already true regarding the comparison between stochastic and deterministic approach that the stochastic approach is more relevant for the case of multidimensional sensitivity analysis.

A good sensitivity analysis should conduct analysis on the full range of probable values of the key parameters and their interactions, in order to assess the impacts of changes in key parameters.

Sensitivity analysis: aims to identify the project's critical variables. This is done by letting the project variables vary according to a given percentage change and observing the subsequent variations in both financial and economic performance indicators.

The main steps in order to perform a proper sensitivity analysis are presented as:

- Quantification of the factors of uncertainty in each input (Wikipedia, 2013).
- Identification of the model output which is supposed to be analysed as mentioned in the above mentioned study: "the target of interest should ideally have a direct relation to the problem tackled by the model".
- Simulation of the proposed model for a large a number of times, depending "by the method of choice and the input uncertainty" (Sacks, 1989).
- Calculation of the sensitivity using the resulting number outputs.

In some cases this procedure will be repeated, until it is obtained a proper sensitivity analysis. This is common especially when dealing with high-dimensional analysis where the user has to screen out unimportant variables before performing a full global sensitivity analysis(Saltelli, 2000).

The most common model for sensitivity analysis is the one-factor-at-a-time model also known as OFAT or OAT (Czitrom, 1999). This model supposes:

- Moving one input variable at a time while the others are kept at their baseline (nominal) values in the first stage,
- The second stage consists in returning the variable to its nominal value, and later repeating for each of the other inputs in the same way (Czitrom, 1999).

As mentioned by Ascough et al (2005) there are different ways of classifying sensitivity analysis methods: such as mathematical, statistical (or probabilistic), and graphical (Frey and Patil, 2002). Alternatively, the sensitivity methods can be classified as screening, local, and global (Ascough et al, 2005).

When using the OFAT model the sensitivity is determined by measuring the changes in the output and comparing them with the input data. This model is preferred by analysts since it is very easy to establish and later to analyze its results. However this model it is not effective in cases when are dealt with simultaneous changes in input variables. But this model is still preferred as mentioned by Saltelli and Annoni(2010) since it helps the analyst to determine immediately which factor caused the failure of the model.

Usually when this happens the analysts are turning to local methods (Griensven et al, 2006), screening (Campolongo et al, 2007), regression analysis, scatter plots, Gaussian or Monte Carlo filtering (Frey, and Patil, 2002 or Saltelli, 2008).

In case of failure of OFAT methods, Frey and Patil(2002) and Yoe, C. (2012) suggest using Monte Carlo simulation methods since they “can be used to generate multiple values of each model input and corresponding output”, and later a “least squares regression method can be used to fit a standardized first or second level equation to the data obtained from the original model” (Yoe, 2012)

3. Case study – usage of sensitivity analysis in EU funded projects

In general, the feasibility of investment projects is based on IRR and NPV criteria. Moreover, for EU-funded projects is necessary to realize a CBA, including many other criteria that confer viability of the project, such as gap financing, socio-economic impacts, regional strategy, environmental protection, so on (Droj, L. and Droj, G., 2012). Therefore, in the economic analysis of projects there are certain aspects of project feasibility which may require sensitivity and risk analysis. Sensitivity analysis estimates the effects on achievement of project objectives when certain assumptions materialize or not (European Union, 2008).

In order to test the usage of sensitivity analysis in EU funded projects, we selected a proposed infrastructure investment project and we created the sensitivity analysis model based on OFAT and Monte Carlo simulation.

The test company 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.

Considering the selected test company, the procedure which was followed to conduct a sensitivity analysis (Ascough et al, 2005) included the following steps:

- A. identification of variables

- B. elimination of deterministically dependent variables
- C. elasticity analysis
- D. choice of critical variables

The variables were identified based on the specific conditions of the investment proposed and were varied one at a time, while keeping the other parameters constant (European Union, 2008). The “*Guidance On The Methodology For Carrying Out Cost-Benefit Analysis - Working Document No. 4*” (European Commission, 2006) suggests “considering as “critical” those variables for which a 1% variation (positive or negative) gives rise to a corresponding variation of 5% in the NPV’s base value”. In case of failure of establishing initial variables, different criteria can, however, be adopted.

Arbitrarily chosen percentage changes are not necessarily consistent with the variables’ potential variability. The calculation of the switching values can reveal interesting information, by indicating what percentage change in the variables would make the NPV (economic or financial) equal to zero. (European Commission, 2006)

In order to determine the risk level and to establish the mechanisms to manage them the risk matrix was developed. The first step in developing a risk matrix was to determine risk factors, their weight and their level of appreciation. Table no. 1 Establishing risk factors is presenting how the risk factors were established and how were weighted.

Table 1: Establishing risk factors

RISK FACTORS	RISK WEIGHT	Level of appreciation (Ni)		
		N1	N2	N3
(Fi)	(Pi)			
Internal Risk F1	P1 - 60 %	Low impact	Medium impact	High impact
Economical Risk F2	P2 - 15 %	Low vulnerability	Medium vulnerability	High vulnerability
Social Risks F3	P3 - 15 %	Low impact	Medium impact	High impact
Political Risk F4	P4 - 10 %	Low vulnerability	Medium vulnerability	High vulnerability

Source: Data processed by author

Next we determined the level of risk and total risk score for risk assessment based on the information.

The total value of the risk is established based on the following algorithm:

$$P_t = \sum_{i=1}^n N_i \times P_i \text{ where}$$

N_i represent the level of the risk for each criteria and P_i the weight

The risks where classify in 3 category :

- Low risk between 1 and 1.7
- Medium risk 1,71 -2,2
- High risk 2.21 -3,1

Having regarded that the improper performance of the works, schedule failure and increasing the value of the investment are economically manifested in the form of increased investment value we determined the sensitivity analysis for the following indicators:

- Increase of inflation
- Wage growth
- Increased demand
- Increased investment price

A sensitivity analysis result by changing in key variables and evaluated on a scale from -3% to +3%. In the following table we present the result for the internal rate of return on equity in case of changes for the above mentioned indicators:

Table 2: Sensitivity analysis IRR

	-3	-2	-1		+1	+2	+3
Parameters	IRR	IRR	IRR	IRR	IRR	IRR	IRR
Increase of inflation	5,50	5,22	4,94	4,65	4,35	4,05	3,74
Wage growth	4,75	4,71	4,68	4,65	4,61	4,58	4,55
Increased demand	-1,21	0,45	2,5	4,65	6,88	8,92	10,76
Increased investment price	5,21	5,02	4,83	4,65	4,46	4,28	4,11

Source: Data processed by author

The values obtained for the net present value and internal rate of return on equity is used to construct the graph of sensitivity will be presented in the figures below, the methodology for its realization was also presented by Van Hauwermeiren M, Vose D. și Vanden Bossche S. (2012) . The sensitivity analysis was later generated with a specialized software: ModelRISK – VoseSoftware. In the figure no.1 Sensitivity analysis IRR we present how different variables are influencing the IRR.

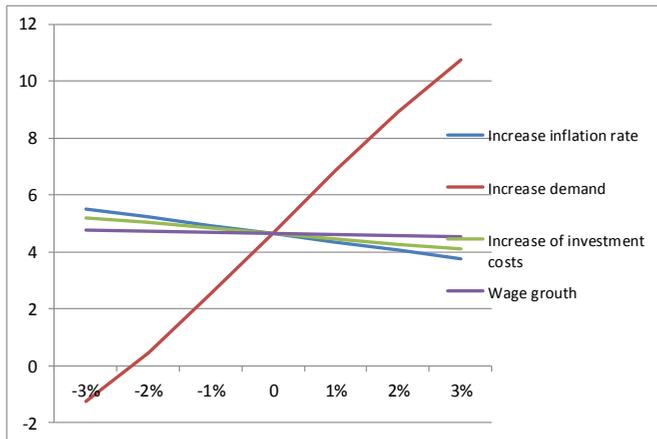


Figure 1: Sensitivity analysis IRR

Source: Data processed by author with ModelRISK – VoseSoftware

In the following table we present the result of the sensitivity analysis, on a scale from -3% to +3%, for the net present value:

Table 3: Sensitivity analysis NPV (table)

	-3	-2	-1		+1	+2	+3
Parameters	NPV	NPV	NPV	NPV	NPV	NPV	NPV
Increase of inflation	393,8	241,9	+87	-181,3	-229	-388	-474
Wage growth	-140	-152	-175	-181,3	-185	-189	-195
Increased demand	-5133	-3567	-1846	-181,3	1767	3663	5620
Increased investment price	231,7	131	+31	-181,3	-208	-268	-368

Source: Data processed by author

The sensitivity analysis of NPV generated with a specialized software product: ModelRISK – VoseSoftware. In the figure no. 2 Sensitivity analysis NPV we present how different variables are influencing the NPV. As shown in the table and figures presented, the sensitivity analysis and the risk for financial analysis company retains the basic parameters of the project within the limits imposed by the donor.

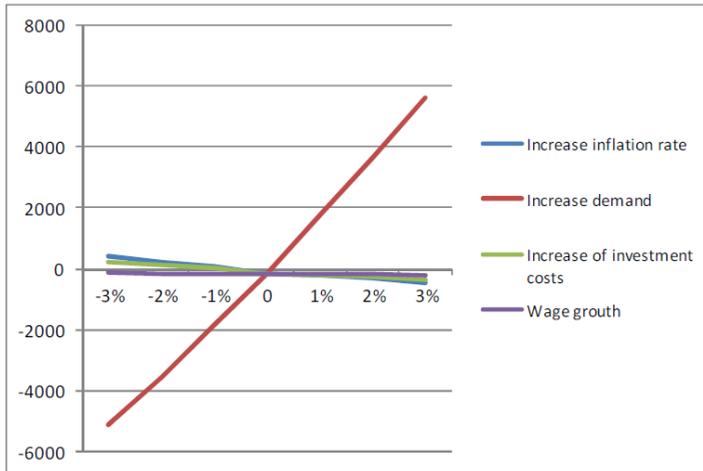


Figure 2: Sensitivity analysis NPV

Source: Data processed by author with ModelRISK – VoseSoftware

We also notice that the most prominent impact is in case of changing in the demand for the proposed services or products, which could be critical in case of a change up 2-3%, mainly because the cost of production is not changed: since the equipment used must operate continuous the energy costs and wages remain constant, only a larger fluctuation in demand will require personnel changes.

Table 4: Triangular distribution of the costs

	Initial Value	Low	High	Variation
Inflation Rate	1004798	90,00%	120,00%	101,03%
Wage raise	7960	90,00%	105,00%	102,22%
Decrease in Demand	1353815	99,00%	101,00%	100,02%
Price of Investment	1115181	97,00%	110,00%	108,41%
Total	3481754	Total cost including risk		3586309,55

Source: Data processed by author

Next we performed the Monte Carlo risk assessment for the sensitivity analysis above. The first scenario (moderate scenario) was developed assuming that the main types of project costs follows a triangular distribution where the minimum is 90% of the estimated costs of the reference year, while the maximum is 110% of the original cost estimates. Most probable values are estimated costs based on the reference year. The total cost simulation based on risk factors was processed with Monte Carlo method with ModelRISK – VoseSoftware. In the figure no. 3 Total cost simulation based on risk factors – Histogram plot and Spider Plot Modelation we

present the results of cost simulation on two different graphics: histogram plot and Spider Plot.

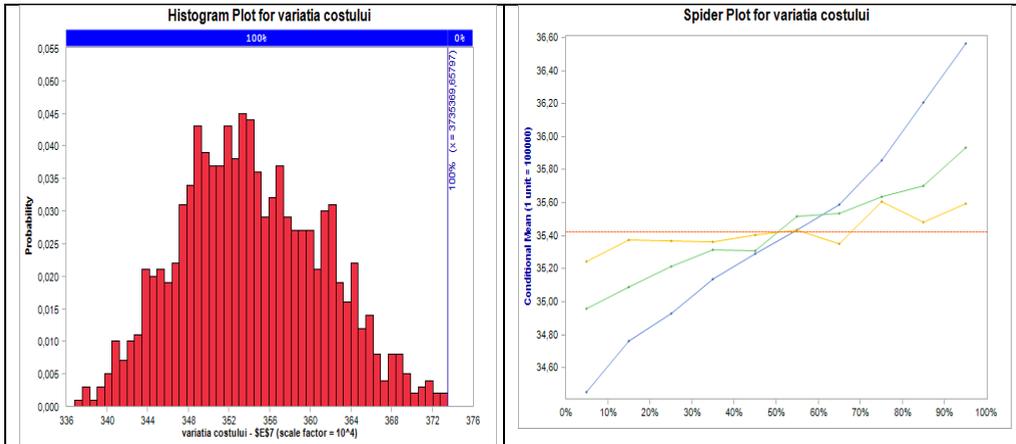


Figure 3: Total cost simulation based on risk factors – Histogram plot and Spider Plot Modelation

Source: Data processed by author with ModelRISK – VoseSoftware

As observed from the graphics and analysis presented above the biggest influence over the sensitivity analysis is realized by the demand factor, which can have a significant impact over the feasibility of an investment. Also this factor can cause significant changes over all other factors and in this context may prove improbable to function the OFAT method.

4. Conclusions

Financing investment projects proposed by the SMEs can be realized through several financial programmes, especially those established under the European Regional Development Fund (ERDF). In order to be approved investment projects must comply with the requirements of the financing program especially those related to a proper realized CBA. A major emphasis within the CBA consists from sensitivity and risk assessment modelling. Sensitivity analysis is considered one of the key elements in the risk assessment of investment projects, especially since is considered a keystone in evaluation of risks. The research within this paper focused on determining the factors which influence the sensitivity analysis of an investment project and to determine which method are appropriate to be used. Both approaches of sensitivity analysis: deterministic and stochastic analysis, were tackled within the paper, with a focus over OFAT and Monte Carlo simulation.

In conclusion the sensitivity analysis can be used successfully “to explore how the impacts of the options you are analysing would change in response to variations in key parameters and how they interact”(European Union, 2009). And in the same time sensitivity analysis can be considered particularly useful to pinpoint “which assumptions are appropriate candidates for additional data collection to narrow the degree of uncertainty in the results”(OMB, 2006). In this context the sensitivity

analysis can be considered the minimum necessary component of a quality risk assessment report. However, after the case study, a serious question raised over the efficient usage of the OFAT methodology in sensitivity analysis, since its unable to cope with the interferences between different variables. It seems that OFAT is mainly desirable to be used in the initial stages of the sensitivity analysis and selection of indicators. Later, in the analysis other methods should be used: especially local/global methods, screening, regression analysis, scatter plots and Gaussian or Monte Carlo filtering. But the methodology should be better adapted to the specific study subject: domain of study, data available, historical data available, software capacity, etc.

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PROPOSAL OF A COMMON SCORING SYSTEM FOR SELECTION OF EU FUNDED PROJECTS DEVELOPED BY ROMANIAN COMPANIES

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Abstract: *Since the start of the European Union Structural Funding Programs 2007-2013, especially those focused on financing investments proposed by private companies, a big change seems to be taken place. Large numbers of companies have applied for grants within these programs and especially for funding under the European Regional Development Fund (ERDF). But after the initial enthusiasm and initial success reported by both the Management Authorities and private beneficiaries big issues have aroused regarding lack of financial resources for co-financing to support investments or expenditures in the initial stages funding the project. Under this context the banking sector was called for support and was expected to be heavily involved in ensuring external financing. This was not as initially predicted. A big concern came from the fact that the projects, even if achieved excellent scores on the technical evaluation from the management authorities, had huge problems in receiving even basic approval from the banking system. Since it seems that most of these inconsistencies are derived from the evaluation phase of projects this study tries to focus on establishing an equilibrium between banking analysis indicators and the scoring system used by the European Union management authorities. Identifying common criteria used for selection of good sustainable projects to be funded within European Structural Funds constitutes a big challenge for the management authorities and for the banking institutions as well. The applicants must realize financing application based on a set of indicated criteria. In order to achieve financing, these entities learned to modulate their financial indicators and their business plans according to the requirements. But a large number of already approved projects by the ERDF managing authorities found themselves in impossibility to comply with banking standards as well. Correlation of both European Union and banking system criteria, especially the Cost and Benefit Analysis Indicators with the banking financial indicators could be a great solution to current challenges: making the projects proposed for financing bankable, also, and thereby increase the absorption capacity of the beneficiaries. To solve this problem the current study proposed the creation of a mixed scoring assessment system containing 15 indicators for which were established various evaluation values. The main goal of the system was to fulfil both the evaluation criteria of European Union management authorities and the creditworthiness criteria used by the banking sector. In the final stage of this paper the assessment system was tested over a number of 50 Romanian companies, which were selected for European financing.*

Keywords: *financial analysis, Cost Benefit Analysis, European funding, selection system, bankability, European projects*

JEL classification: *H43, G30, G32, C61, G17, G21*

1. Introduction

Since the start of the European Union Structural Funding Programs 2007-2013, especially those focused on financing investments proposed by private companies, a big change seems to be taken place. Large numbers of companies have applied for grants within these programs and especially for funding under the European Regional Development Fund (ERDF).

But after the initial enthusiasm and initial success reported by both the Management Authorities and private beneficiaries big issues have aroused regarding lack of financial resources for co-financing to support investments or expenditures in the initial stages funding the project. In these phases of the projects, European funding grant recipient must invest their own financial resources to support the projects. These resources will be repaid later by the Management Authorities of the Programmes, if they are carried out respecting the national legislation, the rules of the programme and are considered eligible expenses under the conditions of the financing contract.

Under this context the banking sector was called for support and was expected to be heavily involved in ensuring external financing. This was not as initially predicted. The increase of applicants for special banking products which were required for sustaining project grants was initially received with surprise and distrust by the banking sector. But given the effect of the financial crisis and that since this area of activity is proving to be profitable for the banking sector, most Romanian banks have created special packages of products which exclusively dedicated for co-financing and/or pre-financing, to ensure different types of projects European funding.

Soon, big concerns arise from the fact that the projects, even if achieved excellent scores on the technical evaluation from the management authorities, had huge problems in receiving even basic approval from the banking system.

Since it seems that most of these inconsistencies are derived from the evaluation phase of projects this study tries to focus on establishing equilibrium between banking analysis indicators and the scoring system used by the European Union management authorities. Identifying common criteria used for selection of good sustainable projects to be funded within European Structural Funds constitutes a big challenge for the management authorities and for the banking system as well.

The applicants must realize financing application based on a set of indicated criteria. In order to achieve financing, these entities learned to modulate their financial indicators and their business plans according to the requirements. But a large number of already approved projects by the ERDF managing authorities found themselves in impossibility to comply with banking standards as well.

2. Are the European projects Bankable?

As mentioned by Droj(2012) creditworthiness or “bankability” analysis are performed quite often in the last years especially concerning investment projects. The term bankability, comes from the term bankable and was defined in the Business Dictionary(2012) to be a “Project or proposal that has sufficient collateral, future cash-flow, and high probability of success, to be acceptable to institutional lenders for financing” or more simple defined a project “Acceptable to or at a bank”, as mentioned by Eze(2010). The European Investment Bank(2012) based on

Vinter(2006) considers that a “project is considered bankable if lenders are willing to finance it”.

As reflected in recent studies(Hampl et all, 2011) the realization of infrastructure investments, especially on European structural funding are conditioned by making these investments bankable, even if bankability is perceived differently by the different stakeholders: banks, project management companies, beneficiaries, European/national management authorities.

But from this point on the bankability of a project and its compliance to European funding can take different paths. While the banks seem to concentrate and emphasize more on the capacity of the beneficiary to generate stable cash flows and on the fact if the project is capable to cover the long-term debt service(Hampl et all, 2011). It stressed the importance of ensuring „the project’s soundness, diligence in legal, technical and economic matters (Hampl et all, 2011) for all factors involved. This is presented in the picture below:

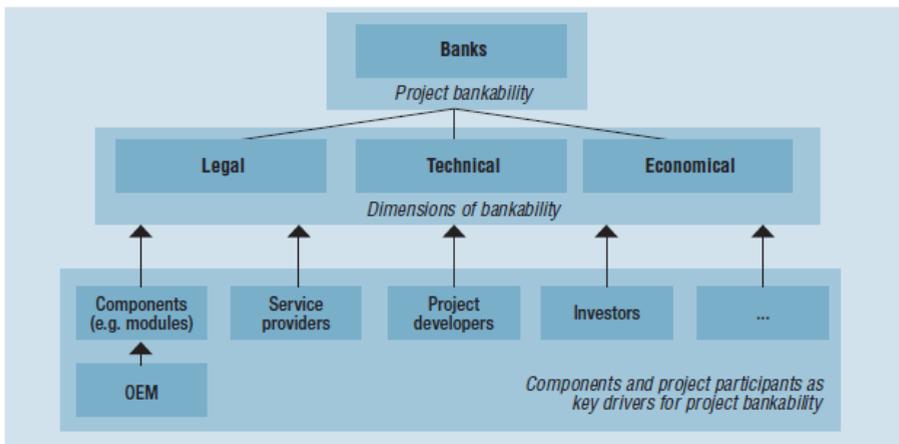


Figure 1: Drivers for legal, technical and economical dimensions of project bankability assessed by banks

Source: Lüdeke-Freund, F.; Hampl, N. & Flink, C. **Bankability von Photovoltaik-Projekten, 2012**

Under this concern the European funding programs concentrate on rather different indicators which are evaluated in the European projects. These indicators are based especially on Cost Benefit Analysis Methodology. In order to take the decisions, the EU 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. These social-economic types of analysis are reviewed also by some banking experts (Iorga, 2011).

Cost-benefit analysis methodology (European Union, 2008) 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 for providing all possible situations. 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).

Correlation of both European Union and banking system criteria, especially the Cost and Benefit Analysis Indicators with the banking financial indicators could be a great solution to current challenges: making the projects proposed for financing bankable, also, and thereby increase the absorption capacity of the beneficiaries (Droj, 2012). The consent with these ideas are also present in a study which is called "Co-responsibility - The key to success" (Iorga, 2011) where in a slide points out to the fact that "bankability of a project is the sole responsibility of the bank" so it is recommended that the entire process absorption of European funds to become "bankable" so in terms of its development is important to select "bankable beneficiaries".

3. Romanian companies - between EU funding and banking standards – proposal of a common system of assessment

In order to solve this issue the steps overtaken in this paper were concentrated towards validation through different methods of the most efficient selection criteria in order to obtain a common system which should ensure that a project is both bankable and also eligible for financing under EU funding. In this chapter we analyzed and tested a large number of criteria which should allow funding an investment project by the banking system and the managing authorities as well.

In general the financing institutions: Management Authorities and banking institutions, as well are using different models in order to realize the scoring of the beneficiary of a loan or a grant. These models were presented by Oracle Financial Services(2008):

- *Rules based scoring/rating* – represents a scoring model which is established based on the experience of the model's designers. The main advantage of this system consists in automatization of the traditional risk assessment process and "allows the user to assign weighted values to key elements deemed essential to sound credit decisions" as mentioned in a report of Oracle Financial Services(2008).
- *Statistical methods* – are consisting in analyzing "all variables relevant to default or business failure using regression techniques". To develop credit-scoring systems, different statistical methods such as linear probability models, logit models, probit models, and discriminate analysis models are used. The first three are statistical techniques for estimating the probability of default (PD) based on factors like loan performance and borrower characteristics. The linear probability model assumes that the PD varies linearly with the factors; the logit model assumes that the PD is logistically distributed; and the probit model assumes that the PD has a (cumulative) normal distribution. Discriminate analysis differs: instead of estimating the PD, it divides borrowers into high and low default - risk classes.
- *Casual models* consisting in simulation models, option pricing or cash-flow analysis.

Finally the above mentioned research highlights the fact that only a Hybrid approach, obtained by combining these models can bring successful results as observed in Figure 2 Approaches to Credit Scoring/Rating Models.

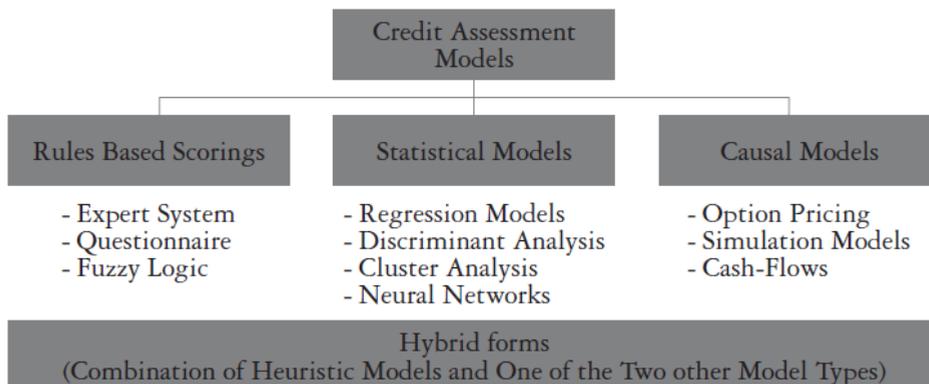


Figure 2: Approaches to Credit Scoring/Rating Models

Source: Oracle Financial Services, Credit Risk Analytics: A Cornerstone for Effective Risk Management, 2008

4. Proposal of common evaluation system - Case study

The steps taken in this paper focused on validation by various methods of the most effective selection criteria for funding of a project to be eligible for both the banks and EU funding. These criteria were tested both qualitatively and quantitatively and were based on the use of spread modelling methods possible to be used in a system of evaluation. In this context was proposed a common economic and financial evaluation system appropriate to select beneficiaries which comply both to EU sectorial grants and bank rating system, as well (Bente, 2011). Ideally the submission and acceptance of a project by European funding authorities should make it directly eligible for financing within the banking sector.

The evaluation system proposed in this paper was tested over 50 companies which benefited on EU funding. The criteria which constitute the main elements of the study are divided in four chapters:

- Applicant's ability to implement the project
- Financial analysis of the project (based on CBA criteria)
- Financial analysis of the company (based on diagnostic analysis)
- Analysis of the non-financial elements of the investment

In the following lines we motivate the score given to each criterion and sub-criteria, the importance of each chapter as a whole but also in terms of evaluation criteria. The maximum score obtainable is 100 points and was intended both to achieve the related eligibility criteria for funding European projects and for having bankable projects as well.

Table 1: Criteria for evaluating an investment project to determine both the eligibility for EU funding as well as its bankability

No.	Criteria / Sub-criteria	Maximum points
1.	Applicant's ability to implement the project	30
1.1.	Applicant's ability to carry out the proposed investment	10
1.2.	The ratio between the value of investment and annual turnover	10
1.3.	Project budget	5
1.4.	Level of warranties of the beneficiary	5
2.	Financial analysis of the project	25
2.1.	Financial indicators(NPV, FRR)	10
2.2.	Projected cash flow	8
2.3.	Economic analysis and risk assessment	7
3	Financial analysis of the company	35
3.1	Analysis of financial statements	10
3.2.	Solvency analysis	5
3.3.	Analysis of global financial autonomy	5
3.4	Self-financing reimbursement rate	5
3.5.	Return on Equity	5
3.6	Banking history of the beneficiary	5
4.	Analysis of non-financial elements of the investment	10
4.1.	Analysis of target market / competition	5
4.2.	Business Idea	5

Source: Proposed by author

Below we intend to present the results of testing the evaluation model over other 30 companies that have not been taken into account to develop the model and that were funded in 2007-2009 were completed successfully investments are operating period of the investment. Assessment of the post implementation stage over 30 companies was based on the criteria they had to accomplish in the initial evaluation stage of the investment project.

For the first chapter of evaluation - Applicant's ability to implement the project were awarded a total of *30 points* since is considered an important chapter of evaluation present both in evaluations characteristic of the banking sector and in the implementation of grant programs. Regarding the sub-criteria were proposed to be granted 10 points to each of the first two sub-criteria:

1.1 *Applicant's ability to carry out the proposed investment* and 1.2 *The ratio between the value of investment and annual turnover* because was desired to be quantified the important historical elements in the analysis of both eligibility and bankability. From the point of view of the applicant's ability to carry out the

proposed investment the analysis focuses on both quantitative and qualitative criteria considering the crucial elements required.

Criterion 1.3 Project budget (maximum 5 points) is followed strictly at the level of management authorities and also within the banking system both in terms of clarity, realism and its time-schedule.

Criterion 1.4 Level of warranties of the beneficiary (maximum 5 points) is an essential criterion for the determination of the proposed credit / letter of guarantee from a bank account. This item can be correlated according to Government Decision 606/2010 on the security / mortgage of movable or immovable obtained funding. This criterion was used by organizations such AIPPIMM in evaluating projects submitted under the START Programme. The results, as it can be seen in the picture below, obtained pointed out that most of the most beneficiaries of funding (about 80%) achieved good scores highly on this criterion, which can be explained by the fact that both the initial assessment criteria proposed by Financing Authorities and especially the evaluation criteria have high relevance to the success of project funding.

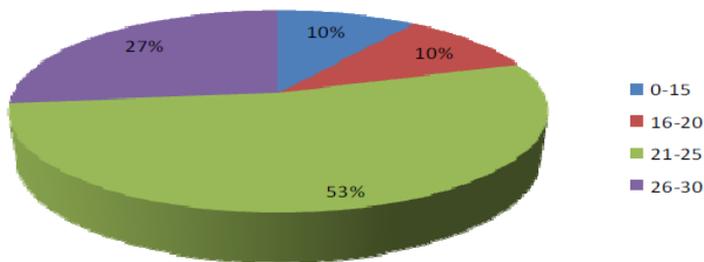


Figure 3: Applicant's ability to implement the project

Source: Data processed by author

2. Financial analysis of the project (according to requirements of the European Commission - CBA) – it is an important criterion awarded with 25 points and is composed from three other sub-criteria: **2.1 Financial Indicators** – which are important to be determined by the banking system and the management authorities as well since contains the calculation of NPV, FRR and their correlation with the sustainability elements. **2.2 Projected cash flow** – it is necessary to be positive in both analysis and receives a maximum of 8 points, being considered an essential condition for the financial sustainability of the investment. **2.3 Economic and risk analysis** – receives a maximum score of 7 points. This analysis is particularly important especially regarding major infrastructure projects. In case of simple investment projects is recommended to be realized only the realization of a brief analysis and risk control strategy.

As observed in figure 4, below level scores were obtained in chapter: "The financial analysis of the project" and this can be explained by the fact that funding bodies require, as basic conditions, IRR values well below those considered acceptable by

banks. Also in this aspect of the analysis, were realized corrections due to the different methodologies used in practice. Increased attention should be paid towards bankability of projects.

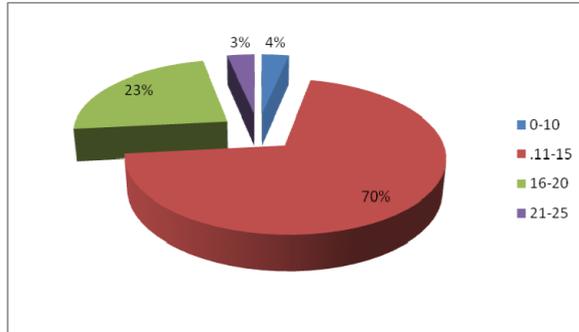


Figure 4: Financial analysis of the project
Source: Data processed by author

3. *The financial analysis of the company* benefits from a maximum of 35 points distributed on a number of 6 criteria. To the first criteria were allocated a maximum number of 10 points: 3.1 *Analysis of financial statements*. The following four criteria were allocated a maximum of 5 points for obtaining average values of the indicators proposed: 3.2. *Solvency analysis* 3.3 *Analysis of global financial autonomy* 3.4. *Self-financing reimbursement rate*, 3.5 *Self-financing reimbursement rate*. The last criterion 3.6 *Banking history of the beneficiary* is considered to be a key element in the analysis of a company both when contracting new loans but also when monitoring the level of financial discipline at the level of beneficiaries. Financial analysis of a company provides very clear results about the financial potential that companies which contract EU funding must benefit to implement their projects. Thus any of the analyzed companies did not score the three lower thresholds. In this context we can assume the Iorga's observation (2011) is accurate: "European funds are not designed for beneficiaries 'with no money'".

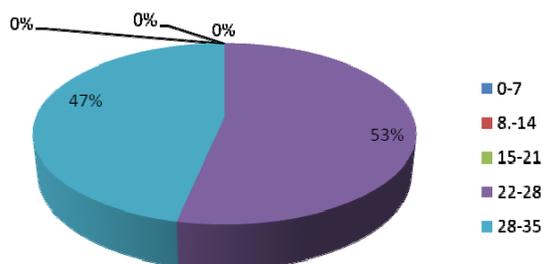


Figure 5: Financial analysis of the company
Source: Data processed by author

4. For analysis of non-financial elements of the investment are allocated only 10 points divided equally on two simple criteria to evaluate: 4.1 *Analysis of target market / competition* and 4.2 *Evaluation of business ideas*. These elements may indicate some qualitative aspect of business proposals. As shown in the above lines were not proposed criteria and allocation of scores to the socio-economic elements of project: number of jobs created, equal opportunities, sustainable development, utilization of local resources. In the analysis of non-financial items we can observe that the winning projects received higher scores on the scale proposed by the author. Thus 77% of the projects reviewed have achieved scores above 7 points which shows that better construction of non-financial elements at the level of applicant companies is imperative to be achieved and later measured during the selection process.

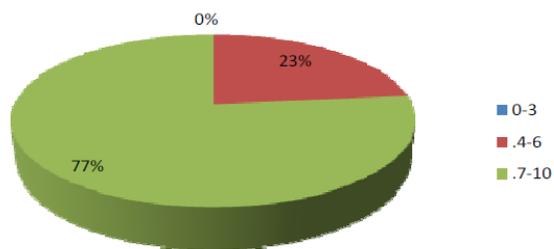


Figure 6: Analysis of non-financial elements of an investment
Source: Data processed by author

5. Conclusions

Identifying common criteria used for selection of good sustainable projects to be funded within European Structural Funds constitutes a big challenge for the management authorities and for the banking institutions as well. The applicants must realize financing application based on a set of indicated criteria. In order to achieve financing, these entities learned to modulate their financial indicators and their business plans according to the requirements.

Correlation of both European Union and banking system criteria, especially the Cost and Benefit Analysis Indicators with the banking financial indicators could be a great solution to current challenges: making the projects proposed for financing bankable, also, and thereby increase the absorption capacity of the beneficiaries.

To solve this problem the current study proposed the creation of a mixed scoring assessment system containing 15 indicators for which were established various evaluation values. The main goal of the system was to select those indicators/variables which fulfil both the evaluation criteria of European Union management authorities and the creditworthiness criteria used by the banking sector. Upon completion of the analysis of the four criteria for selection, as observed in the lines above, the projects were approved for funding and recorded superior results on the proposed selection grid, so it can be validates for a larger usage. Of course this proposed model should be based on the specifics and

extension of each proposed programme: major infrastructure projects business / tourism / industrial cannot be assessed in the same way as those involving minor investments or those developed by micro-enterprises. It should also be separated the investments which require bank financing from those who do not need it.

A better attention should be given to the input data which are used for calculation, especially when assessing the financial analysis of the project, because the banking system and the management authorities use the same type of analysis but with different data and sometimes different simulation methods.

Applications for Analysis and Assessment linking the financial analysis with the bankability of projects should be expanded and developed properly, perhaps through the technical assistance programs of the European Commission. A partnership between management authorities, banks and / or consulting companies could generate, in 2014 – 2020, higher acceptable rate by the European Union and the banks. This will really take to a significant influence of the banking and financial measures in order to encourage the absorption capacity.

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PROFITABILITY AND SOURCES OF GENERAL MANUFACTURERS IN 2009-2011

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Abstract: Analysis of capital structure of corporations is a key issue of economics and the effect of its fluctuation can be observed on several fields of the life of corporations. It yields influence shall I say the competitiveness of the sector, property status or financial and profitability situation of corporations, effectiveness of management, market value of the company as well as the expectable output rate of equity for owners. My empirical analysis is based on data containing 5 manufacturer enterprises from Hungary between 2009 and 2011. To substantiate my aims, during my research in the scope of a technical literature processing I reviewed the most important parameters of the fluctuation of financing, fund- and capital structure, especially considering their agricultural references. I cared especially the followings: financing and the system of the sector supports, thus reviewing: root causes of lack of capital in agrarian sector, connection between capital structure and profitability of the sector. I demonstrated capital structure theories considered to be the most important also in a technical literature processing, emphasizing their practical materialization, thus proving the fact that up to this day there is no existence of an accepted ruling theoretical trend for defining development of an optimal capital structure. With regression calculating I searched the volume of influence of chosen indices of capital structure on financial and profit situation of corporations, in addition I studied which variant of those that take a part in development of capital structure, should be in functional relation with profitability indices. I try to assess the reasons of the changes in the structure of resources of enterprises in order to find the determinants effecting the capital structure. Furthermore, I determine the capital structure with that profit running could be achieved in the most effective way. As a result of my review I can state, that the capital structure proportions take serious effect on the fluctuation of profitability and I defined a proportion of foreign capital and own capital which if reached or exceeded, may lead to operation producing deficit.

Keywords: manufacturers, capital structure, liability, profitability

JEL classification: M40

INTRODUCTION

Analysis of capital structure of corporations is a key issue of economics and the effect of its fluctuation can be observed on several fields of the life of corporations. Executives must take into consideration during the maximization of the company value the examinations concerning the forming of the optimal capital structure because these decisions affect a lot of other segments of the business activity (Nemessályi, 2003).

Capital structure is the mixture of sources of funds a firm uses, that can be viewed as the permanent financing the enterprise represented primarily by long-term debt, preferred stock, and common equity but excluding all short term credit (Baker and Wurgler, 2002). It reflects the composition of the permanent financing sources and the ratio of the equity capital and the long-term liabilities of the company which are modulated by the long-term financing decisions (Pupos, 1997).

The financing of the production companies occur via a multi-channeled system: it can happen in the form of internal aggregation, credit and state subsidy.

MATERIAL AND METHOD

In my study the calculations concerning the examination of the liabilities and capital structure of the production companies are based on the data of 2009-2011 of 5 companies that made a yearly account operating in the Észak-Alföld Region.

When examining the relationship between the capital structure and the profitability I wanted to find out that based on the average of the analyzed 3 years is there a relation between the capital structure and the profitable operation of a company.

After the analyze of the processions occurring within the capital structure of the companies, examining the correlation-calculations I wanted to find out whether the relation between the capital structure and the business indexes of the companies can be proven, and if yes, what is its kind. Does the applied capital structure affect the profitability of the companies. I examined with the regression-calculations the volume of the effect of the chosen capital structure indexes to the financial-income situation of the companies and which one of the variables determining the capital structure is in a strong relation with the profitability indexes (Bács et al, 2005).

RESULTS

The current situation of the capital structure of the company affects several areas of the operation of the company. It influences the competitiveness of the sector, the wealth, financial and profitability situation of the companies and the effectiveness of the business too. This study focuses on the examination of the relationship between the capital structure and the profitability.

	Berettyómenti			Mechanikai Művek			DÉSZ KER		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Equity Capital	312793	455816	642107	298146	336682	405747	202481	203585	205552
Long term liability	55133	196322	153438	39546	100590	136144	335070	115220	0
Short term liability	280604	121952	148640	235314	74300	68071	124539	157583	279534
<i>Total assets</i>	648530	774090	944185	573006	511572	609962	662090	476388	485086

	FARMGÉP			POLYDUCT		
	2009	2010	2011	2009	2010	2011
Equity Capital	156577	171739	178644	544385	576525	596831
Long term liability	150574	120001	94103	11511	24700	15292
Short term liability	292146	228490	284388	140666	86647	90013
<i>Total assets</i>	599297	520230	557135	696562	687872	702136

Table 1: The resource structure in the period of 2009-2011 (data in thousand HUF)

Source: Own compilation

The analysis shows the run of the capital structure of the agricultural business associations in the period of 2009-2011 based on the timeline of the relevant data of the balance sheet and the profit and loss account of the given companies. The calculation of the averages helps to examine and calculate the indexes that are relevant in this issue.

The changes in the resource and capital structure of the production companies are shown in Table1. Taking into consideration the ratio of the equity capital it can be said that the trend is ascendant in all of the five companies. This is due to lack of loaning possibilities at good conditions restraining with this the step of development of the companies. Besides this the companies reinvested a part of the incomes of the previous years and the ratio of their liabilities shrank because their investments did not grow with the same scale and in relation with this fact the ratio of their equity capital grew.

	Berettyómenti Zrt			Mechanikai Művek			DÉSZ KER		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Operating profit	105563	131743	181154	55150	55150	71033	25456	8801	14429
Financial earnings	-32852	-77913	-35819	-	-	-	-	-6599	-
Earnings before taxes	72711	53830	145335	41618	41618	54997	14878	2127	5046
Balance sheet earnings	69627	52533	139928	38536	38536	46465	6444	1104	1967

	FARMGÉP			POLYDUCT		
	2009	2010	2011	2009	2010	2011
Operating profit	54615	29534	20215	86311	39869	41861
Financial earnings	-10878	-20618	-18920	-9374	9506	-3070
Earnings before taxes	44685	15271	8655	61775	45067	29181
Balance sheet earnings	41308	15162	6905	21797	32140	20306

Table 2: The earnings indexes of the production companies, 2009-2011 (data in thousand HUF)

Source: Own compilation

Table 2 shows the main contents and the changing of the earnings of the businesses. The balance sheet earnings calculated on the basis of the database that I had in the examined period showed a growth only in the case of 2 companies, the Berettyómenti Zrt and the Mechanikai Művek and at the same time it dropped in the case of the other companies, the DÉSZ-KER, the FARMGÉP and the Polyduct Kft in the period of 2009-2011.

We can get an informative picture about the shaping of the capital structure and the profitability situation of the production companies examining the indexes. Of course during the analysis the optimal value of the indexes cannot be unambiguously determined because they reflect the specific business situation of each company too.

Examining the change of the capital structure of the companies using the indexes I examine the quantity and the relation of the items of the assets and liabilities

shown in the balance sheet valuating this way the change of the indexes pointing out the sort and the standard of the business through the run of the wealth and capital structure, the change of the assets and liabilities.

As it can be seen in Figure 1 the equity capital / total liabilities index showing the capital strength of the company has the highest value at the Polyduct Kft. where it grew from 75 percent in 2009 to 83 percent in 2011. When valuating and determining the optimal level of the index the costs and expenditures of the single source-elements must be considered too (the cost of the share capital is the dividend, the cost of the foreign funds is the interest rate generally). It is specifically positive if the equity capital grows due to the profitability of the company. On the other side the highest is the ratio of the equity capital within the total capital, the company has to pay less interest rates and capital redemption.

In connection with the things mentioned above the capital leverage index – i. e. the ratio of the liabilities compared to the equity capital – show the total indebtedness of the company. This index was extremely high at the FARMGÉP Kft., in 2009 it was almost 300 percent.

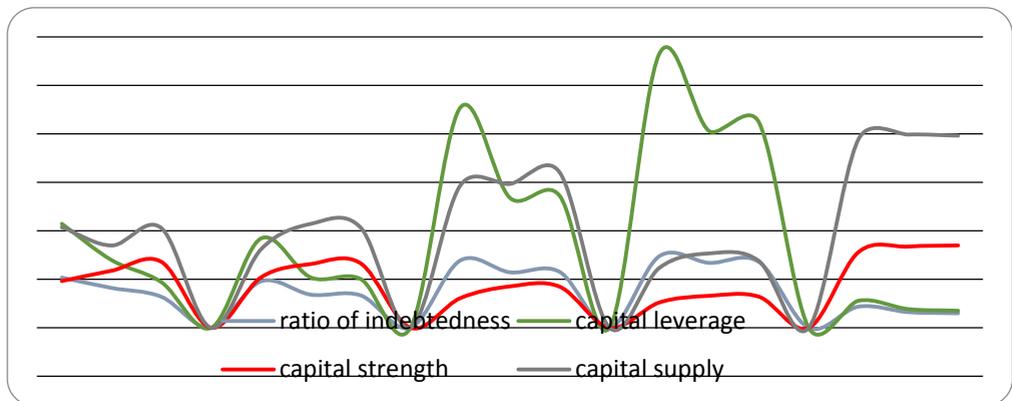


Figure 1: Analysis of the companies on the basis of the indexes I.

Source: Own compilation

During the examination of the profitability indexes shown on Figure 2 it could be seen the huge decrease of the earnings due to the unsecure economic situation of the year 2010. Examining the company data it can be said that the profitability of the equity capital in all of the examined years exceeds the profit on income which even this way exceeds the profit on assets. The yield on the equity capital higher even than the profitability of the total capital is considered a positive event because on the one hand it is a result of the growth of the equity capital and on the other hand it also means that in the given years the profit of the equity capital exceeded the cost of the foreign capital. The higher is the profitability of the equity capital compared to the profitability of the total capital, the more efficient is the utilization of the capital.

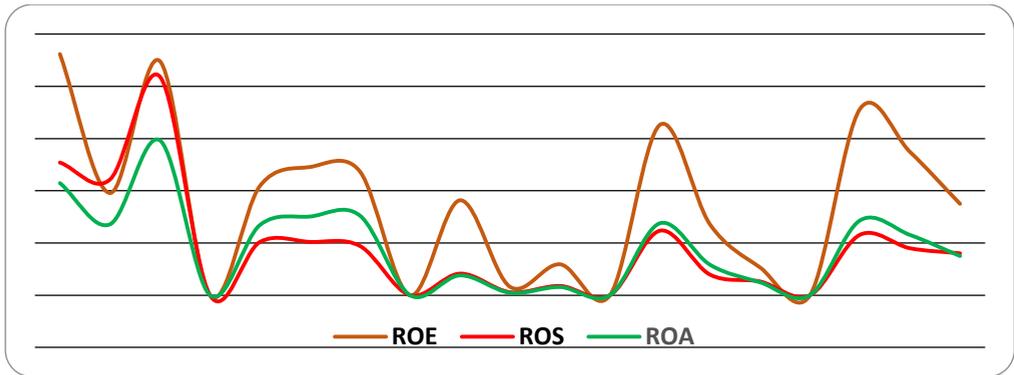


Figure 2: Analysis of the companies on the basis of the indexes II.

Source: Own compilation

In the next part of the examination I analyse of the relationship between capital structure and profitability, revealing determining factors of profitability and defining their effects. In this manner, I am looking for the answer whether selecting capital structure should take effect on the fluctuation of profitability of corporations, and if so, how. I examine the linear relation and its intensity with correlation examinations than with regression analysis I determine the functional relation between the examined variables.

With correlation calculation I test the correctness of the following assumption:

Hypothesis: *There is relation between the indexes describing the operation and the business of the companies and the changing of the capital structure in the field of the companies.*

Examining the data of the balance sheet and the profit and loss account concerning the capital structure it can be said that the income is in close correlation with the assets and this can lead to a positive relation with the fix costs and the subsidies too. The income shows a strong positive correlation (+ 0.7915) with the interest rates to be paid and this way it is in a negative relation with the earnings of the financial operations (- 0.7635). The income has strong positive correlation with every asset-group that means that they change in the same direction. Within the assets the correlation of the stocks with the income is the highest (that confirms the more intensive reaction of the current asset demand than the fixed assets to the increase of the output that can refer to a high capacity reserve in the sphere of the companies).

Besides these facts it is important to emphasize the positive correlation between the income and the net current asset (+ 0.7178). The high net current asset is namely typical in the case of the companies with a conservative financing strategy so there is a statutory relation between the financing strategy and the income. Because of the strong negative relation between the equity capital and the foreign

capital the growth of the equity capital reflects the growth of the value of the net current asset.

I performed regression analysis of studied database on the base of two starting point. In one case I wanted to find an explanation: the chosen capital structure indexes that shows on the best way the structure of the liabilities how affect the financial-income situation of the company, and in the other calculation I wanted to find out which one of the indexes determining the capital structure has a functional relation with the profitability indexes. I attributed two important parameters to the significant linear relations found in the course of the chosen statistical procession: the determination coefficient that shows the strength of the linearity, the correctness of the appropriateness and the beta coefficient which shows that the single alteration of the explanatory variant how much does alter the result variant's value.

Table 3: The regression result of the capital leverage

Pending variant	β_0	P(β_0)	β_1	P(β_1)	95% CI		R ²
Profitability of the equity capital	0,26351	0,000	-0,1867	0,000	-0,18123	-0,16145	0,8215
Income / equity capital	0,53140	0,003	0,8976	0,000	0,81176	0,92126	0,8327

Source: Own calculation

CONCLUSIONS

The analysis of the relation between the capital structure and the profitability, to pint out the effect of the capital structure to the profitability is an essential part of the examinations concerning the capital structure of the companies. Results of further calculations also confirmed: fund structure proportions take serious effect on the variation of profitability. Symmetry of equity shows positive connection between profitability indices and the fluctuation of liquidity, moreover the raise of foreign capital proportion on the whole goes together with the lessening of taxed throughputs.

The results of the correlation calculations done prove my assumption, i.e. that statistically it can be proved that there is relation between the capital structure and the financial, profitability indexes of the business associations.

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CORPORATE GOVERNANCE CODES OF BEST PRACTICE OF TOP ROMANIAN BANKS

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Abstract: *Very much research has been developed into debating what caused the global financial crisis and the possible solutions for avoiding a future one. Therefore, concern with governance issues and their focus has increased dramatically in recent years. An effective corporate governance requires supervision and stability of the authority and rights and also obligations of shareholders, stakeholders, and civil society altogether. Corporate governance cannot be considered a fixed number of regulations and procedures, but an innovative process by which the most crucial decisions in companies are managed, values and cultures are redefined, and the leaders are assessed. The governance of banks can be assessed in the same way as the corporate governance of any type of organization because the supervision of banks depends and is coordinated by the internal control bearing factors, which sometimes can lead to a bank default. The purpose of the case study is to examine the existence and regulations compliance for top ten Romanian Banks (for the year 2011), due to the fact that the banking sector considers the implementation of principles of corporate governance as having a significant importance.*

Keywords: *Corporate Governance; Codes of Good Practice; Financial Sector.*

JEL classification: *G34; G39; G20.*

1. Introduction

Very much research has been developed into debating what caused the global financial crisis and the possible solutions for avoiding a future one. Therefore, concern with governance issues and their focus has increased dramatically in recent years.

The term “Corporate Governance”, according to James Wolfensohn, former president of the World Bank, represents a fusion between the government of national states and the governance/management of companies, leading to an increasing capacity and importance of the governance of corporations in the world economy.

Corporate Governance is traditionally defined as the “system by which companies are directed and controlled.” (The Cadbury Report (1992), paragraph 2.5.)

The OECD Principles of Corporate Governance (2004) defines corporate governance as representing “a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the framework through which the objectives of the company are set, and the method of attaining those objectives and monitoring performance are determined.”

An effective corporate governance requires supervision and stability of the authority and rights and also obligations of shareholders, stakeholders, and civil society altogether.

Corporate governance cannot be considered a fixed number of regulations and procedures, but an innovative means by which the most crucial decisions in companies are managed, values and cultures are redefined, and the leaders are assessed.

In his 2009 report referring to the causes of the crisis, Lord Adair Turner, chair of the UK's Financial Services Authority, has determined seven possible causes:

- (1) global macroeconomic imbalances;
- (2) the increase of the banks' involvement in risky trading activities;
- (3) growth in credit;
- (4) increased leverage of companies;
- (5) failure of banks to manage risks;
- (6) unbalanced capital buffers; and
- (7) a misplaced calculations in assessing risk.

The global economic crisis, having the financial institutions at its centre, created economic turmoil and enormous costs on society. The magnitude and impact of the financial crisis caught many corporate managers and boards of directors by surprise and affected central banks, regulators, supervisors, and shareholders.

According to Nichitean Andra and Asandului M. (2010), banking crises can be considered the consequences of poor governance of Financial Institutions. The authors concluded that the causes of the crises can also be linked to the process of corporate governance in the financial sector. The authors also stated that principles of corporate governance should be applied in the banking sector due to the impact that the banks have on affecting the public economies, governments and increasing scarcity of the world's population.

The governance of banks can be assessed in the same way as the corporate governance of any type of company because the supervision of banks depends and is coordinated by the internal control bearing factors, which sometimes can lead to a bank default.

Effective governance is a necessary process, acutely much based on specific regulations. Strict regulations concerning capital, liquidity, banking activities are essential for the financial system, and effective governance coordinates and monitors the real processes inside the financial institutions.

Poor governance of financial institutions was not the sole source of global financial crisis, but it was an additional factor in the context of general vulnerability of the world economy.

Effective governance can contribute in a positive attitude in preventing future crises or narrowing their impact on the world economy; these arguments represent the basis for justifying the investment in good governance.

The participants in the governance system, namely the boards of directors, management, regulatory factors, and shareholders need to have an innovative approach to stronger corporate governance.

The financial sector needs better methods of assessing governance and of cultivating the behaviours and approaches that make governance systems work well.

2. Corporate Governance Regulations and Codes of Best Practice

Following the Cadbury Report from UK in 1992, one of the Organization for Economic Cooperation and Development (OECD)'s first projects was to develop a set of principles of corporate governance. The first such set was completed in 1999 under the name OECD Principles of Corporate Governance. These principles provided models for good practice and were not promoting an exclusive corporate governance framework for the OECD countries, but rather at promulgating principles that could be applied in all OECD and non-OECD countries.

On 22 April 2004, the 30 OECD countries approved the 2004 OECD Principles of Corporate Governance, confirming the already identified and explained 1999 corporate governance practices.

The OECD Principles aimed to promote authorities in their desire to improve the legal and institutional regulations for financial institutions and all companies for developing a good system of corporate governance. One of the unique aspects of the OECD Principles is that they operate across borders, and without preference for any particular corporate justice practice or board structure – they focus, in the true sense of the word, on 'the principles of corporate governance'.

The document containing the OECD Principles is divided into two parts: the first comprises the core principles while the second part presents the principles with annotations and is intended to help readers understand their reasoning.

The principles in the document refer to the following areas:

- I) Ensuring the basis for an effective corporate governance structure;
- II) The rights of shareholders and key ownership functions;
- III) The equitable treatment of shareholders;
- IV) The role of stakeholders;
- V) Disclosure and transparency;
- VI) The responsibilities of the board.

The Basel Committee on Banking Supervision (2006) also represents a specific regulation, emphasising banking supervisory matters. Its purpose is to provide a better understanding of key supervisory issues and improve the quality of universal banking supervision.

In any event, the crisis has been an opportunity to re-examine corporate governance practices in banks and other financial institutions, to determine their role in the crisis, and to learn from past mistakes.

Such an investigation is without doubt salutary. It has become a global exercise, extending beyond those countries directly involved in the meltdown, to developing countries, emerging markets, and transition economies.

The first Code of CG in Romania was issued in June 2000 by the International Center for Entrepreneurial Studies and was the focus of public companies listed on BSE. Code rules have not been so well received by the market on the basis that they had particular regard to the protection of minority shareholders. Subsequently, in 2008 issued the Code of Corporate Governance of BSE, which comprises 19 principles.

In 2012, the Bucharest Stock Exchange (BSE)'s Board approved the launch of a BSE - EBRD common corporate governance project in Romania, worth a total of 296,000 Euros.

The project's aim is to amend corporate governance and regulations for the listed companies in Romania, by improving the recommendations in the BSE's Code of Corporate Governance.

In 2008, the BSE drew up a corporate governance rules related to the companies listed on the BSE. Companies listed on the 1st tier were required to follow minimum 14 recommendations, by issuing an Annual Corporate Governance Statement showing which elements they have complied with, and providing arguments in the contrary.

For the fiscal year 2011, the listed Romanian companies reported for the first time the degree of compliance; still, the clarity of most companies is insufficient and the BSE desires to develop the best practices in Corporate Governance.

The BSE has therefore founded the Institute of Corporate Governance (BSE-IGC), whose purpose is to raise at European standards the cultural identity and environment of Romanian firms and has also approached the Legal Transition Team ("LTT") of the European Bank for Reconstruction and Development to strengthen the implementation of the BSE Code.

3. Corporate Governance Codes of Best Practice of Top Ten Romanian Banks

The purpose of the case study is to examine the existence and regulations compliance for top ten Romanian Banks (for the year 2011), due to the fact that the banking sector considers the implementation of principles of corporate governance as having a significant importance. The table below presents the first ten Romanian banks, for the year 2011, according to a specific methodology of Ernst & Young Romania, presented and described within the 2012 Report called Major Companies in Romania. The position of banks takes into consideration their market share and also their reported profit/loss for the previous fiscal year.

Out of the ten Romanian banks presented below, only two of them, namely Banca Transilvania S.A. and BRD - GROUPE SOCIETE GENERALE S.A. are listed on Bucharest Stock Exchange, and BANCA COMERCIALĂ ROMÂNĂ S.A became delisted until 2009.

Despite this fact and also knowing that usually, the listed companies are required to comply with the specific Corporate Governance BSE Code and to have their own Code of Best Practice, all the ten financial institutions presented in the table respect the organisational values, serving them to maintain and improve their good reputation, respect for clients and generally for all categories of stakeholders that interact with their institution.

Table 1: Top Ten Romanian Banks (2011)

Rank	Company Name	Market Share	Profit/Loss 2011
1	RAIFFEISEN BANK S.A.	7 (%)	320.068.972
2	BANCA TRANSILVANIA S.A.	7 (%)	131.870.976
3	VOLKSBANK ROMANIA S.A.	5 (%)	-698.881.415
4	BRD - GROUPE SOCIETE GENERALE S.A.	14 (%)	465.265.368
5	CEC BANK S.A.	7 (%)	67.445.929
6	UNICREDIT ŢIRIAC BANK S.A.	6 (%)	103.062.227
7	ALPHA BANK ROMANIA S.A.	5 (%)	-117.707.116
8	BANCA COMERCIALĂ ROMÂNĂ S.A.	20 (%)	-510.818.823
9	ING BANK N.V. AMSTERDAM SUCURSALA BUCUREŞTI	4 (%)	129.611.734
10	RBS BANK (ROMANIA) S.A.	2 (%)	100.068.925

Source: 2012 Edition Major Companies in Romania, 2012, developed by Ernst & Young Romania and doingbusiness.ro, [Online], Available: <http://mcr.doingbusiness.ro/uploads/50f92056b46aaMCR2012.pdf>, National Bank of Romania, Trade Register, Ministry of Finance

Referring to the first financial institution in the top, namely Raiffeisen Bank S.A., their Corporate Governance so-called Code of Conduct, synonym of the Code of Best Practice defines the basic values of the bank and constitutes the basis of a corporate culture that respects the law and is orientated on ethic principles. The bank's Code ensures that the organisational conduct and ethical matters are in compliance with the highest standards, which are based on core values for the banking sector: customer focus, professionalism and integrity, respect, innovation, teamwork.

Banca Transilvania has created a specific section on the bank's web-site, namely Corporate Governance, referring to the Organizational Structure, Management Structure, Internal Control Structure and Incentive/Remuneration Structure. The bank's 2012 Annual report states that the system of corporate governance has been designated in line with best practices with respect to the internal organization of banks in Romania, reviewing periodically its principles and implementing a process to monitor compliance. Also, due to their corporate responsible conduct towards the shareholders, the corporate governance has placed a greater emphasis on the bank's long term success than on short-term success on the stock market, accomplished through the organisation's management system.

Volksbank has also developed a distinct section on the bank's web-site, dedicated to Corporate Responsibility and the bank shares a Code of Good Governance that emphasizes the goal of responsible corporate management and control to create sustainable and long-term value.

Within the Shareholders and Investors section of the bank's web-site, BRD - Groupe Societe Generale S.A. inserted the Corporate Governance Code. The Code comprises of six parts, namely: the Introduction; elements regarding the Corporate Governance Structures (Shareholders, Board Of Directors and Executive Management); Conflicts of Interest, Operations with Affiliated Persons

and Transactions of Insiders; Transparency, Information and Communication; Social Responsibility And Relations With Concerned Parties and Final Provisions. According to Code, the ultimate objective is to ensure the good corporate governance of the Bank, to strengthen the balance between administration, management and the performance objectives, on one hand, and control and evaluation of efficiency and performance, the adequate management of actual and potential risks and the careful supervision of compliance with the regulations, on the other hand.

CEC Bank also gives details regarding to the bank` mission, values and character, stating that the critical values are trust, honesty, stability based on safety, convenience and ease, and the bank`s characteristic values are custom and respect for the national symbol.

Corporate Governance also represents a priority for Unicredit Țiriac Bank S.A., regarding its management values, the shareholder` structure and general business facts. Since 2001, UniCredit has annually drawn up a Corporate Governance Report for distribution to its shareholders, individual and institutional investors and contains information on the Company's corporate governance structure and its level of compliance with the Corporate Governance Code for Listed Companies.

Alpha Bank has adopted and also implemented, starting with the year 1994, the principles of corporate governance, adopting clarity in communication with the Bank`s Shareholders. According to the bank`s Code, Corporate Governance is a system of principles underlying the organisation and administration of a modern company, aiming to protect and satisfy the interests of all those who relate with the company. The bank does not consider the Corporate Governance a fixed programme, but rather, by a continuous effort to integrate parameters proposed each time in conjunction with the ever increasing expectations of society. Correct corporate structures and procedures result in successful Corporate Governance, which promotes the recognition and prestige of the company. Alpha Bank`s Corporate Governance Code was last updated in 2011.

Banca Comercială Română S.A. emphasises the importance of Corporate Governance, by repositioning itself and its objectives as regards corporate governance are primarily focused on: responding to the latest changes; strengthening stakeholders` confidence; accelerating the decision-making and implementation process; improving corporate governance processes and risk management. The bank focuses on Corporate Governance essential components, such as general principles and policies, the Code of Ethics, the General Meeting of Shareholders, BCR Charter, the Supervisory Board, the Management Board, BCR Shareholders and International Activity.

Ing Bank N.V. Amsterdam Sucursala București relies on the Dutch Banking and Corporate Governance Codes that lay out elements related to: Legal framework and Regulators, Management structure, Supervisory Board, Executive Board, Management Board Banking, Management Board Insurance, Shareholder influence and Information about auditors. The bank believes good corporate governance entails a careful balance between the short and long-term interests of the company.

RBS Bank is governed by a system of Boards and committees and continually seeks to maintain high standards of corporate governance in compliance best practice.

4. Conclusion

Values and culture are the primary identities that affect the behaviour of people throughout the banks and the effectiveness of its governance arrangements. Well-implemented governance structures and processes are essential for Financial Institutions (including banks) governance. Although values and culture are not quantitative elements, they have a strong impact on corporate governance effectiveness and therefore should have an enormous importance.

Financial Institutions leaders have to oversee and evaluate governance in a different approach by considering it a vital, ongoing process and not a fixed set of procedures.

The importance of values and culture should be highlighted by promoting trust, honesty, integrity, proper motivations, independence, respect for others' ideas, openness/transparency, the courage to speak out and act. The board of directors and senior executives has to develop a particular strong philosophy that embeds these values.

Because of their ability to influence behaviour and the implementation of the Financial Institutions' strategy, values and culture are essential dimensions for the examination and commitment for supervisors. The managers should pay more attention to the culture of an organisation when making investment decisions and dealing with the stakeholders.

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PERFORMANCE ASSESSMENT OF MAJOR U.S. AIRLINES VIA CASH FLOW RATIOS

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Abstract: *The paper addresses the assessment of major U.S. airlines' liquidity and solvency based on information disclosed in the statements of cash flows as part of their 10-K Form annual reports filed with the Securities and Exchange Commission. Conducting financial statement analysis for major U.S. airlines has generated deep interest in and a significant importance towards using various frequently used cash flow ratios to gauge U.S. airlines' viability both in the short term and long term in that cash flow information is more reliable and more revealing. The main purpose of this paper is to gain a thorough insight into the financial performance of U.S. airlines for the last five consecutive years using cash flow information as a supplement to the traditional ratio analysis. For this analysis various cash flow ratios for measuring a company's liquidity and going concern status are used and described. The paper covers the cash flow analysis for both the legacy carriers (Delta Airlines Inc., United Airlines Inc, American Airlines Inc, Continental Airlines Inc., US Airways Inc) which had been founded before the passing of the U.S. airline deregulation act in 1978 and two major low-cost carriers (Southwest Airlines Co. and JetBlue Airways). All cash flow ratios for the selected U.S. carriers have been calculated based on information from their three main financial statements: the balance sheet, income statement and the statement of cash flows for the period from 2007 to 2011. The U.S. airline industry has been significantly affected by the recent economic crisis and skyrocketing jet fuel prices. Therefore, the results of the cash flow analysis show that for the most part selected U.S. airlines have liquidity problems and are likely to face financial difficulties in terms of meeting ongoing financial commitments in the long term which, in fact, explains why major U.S. airlines are highly leveraged being dependent on external sources of financing. The paper may be useful for those who have interest in financial statement analysis.*

Keywords: *Cash flow; ratio analysis; financial statement; earnings; liquidity; airline industry*

JEL classifications: *M41; M20*

1. Introduction

Traditional ratios employed to assess profitability and risk may not reveal the full picture of the company's financial performance, and in order for us to have a comprehensive understanding we need to additionally use information from statements of cash flows for further analysis. The cash flow analysis is deemed as one of the most important techniques in the overall financial statement analysis and has recently been broadly used by many analysts, corporate managers and auditors to evaluate the company's short-term liquidity and long-term solvency.

For the last two decades different authors have attempted to develop cash flow ratios to evaluate companies' liquidity and solvency based on information from statements of cash flows because it allows creditors, analysts and investors to broaden the analysis of the company's performance.

Mills and Yamamura (1998) state that when analyzing the company's liquidity cash flow information is more reliable than information from balance sheet and income statement because balance sheet data are static whereas the income statement contains different non-cash items. They proposed eight cash flow ratios that can be used to measure the company's liquidity and viability as a going concern.

Giacomino and Mielke (1993) claim that cash flow ratios are more useful in evaluating a company's financial strength and profitability. For this purpose, they have proposed nine cash flow ratios that can be employed to assess the sufficiency of cash flows necessary to meet financial and operational obligations.

Figlewicz and Zeller (1991) also developed and examined several cash flow ratios based on the statement of cash flows. The purpose of the study was to find out whether the cash-flow-based analysis might provide supplementary insight into the financial performance and liquidity of a company. For the computation of proposed ratios they used annual reports of W.T Company to find out if they provide additional information. The outcome was that apart from the traditional approach to ratio analysis they, indeed, provide supplementary information on a company's liquidity and financial performance in general. Subsequently, more ratios based on the statement of cash flows were proposed by Schmidgall, Geller and Ilvento (1993).

Carslaw and Millis (1991) in their study identified a few cash flow ratios that measure liquidity and solvency. Those ratios are cash interest coverage, cash debt coverage and cash dividends coverage.

For the cash flow analysis of selected U.S. airlines we will use cash flow ratios proposed by John R. Mills and Jeanne H. Yamamura in their article titled "Power of cash flow ratios" (1998).

2. The Assessment of Major U.S. Airlines Financial Condition Using Cash Flow Ratios

The methodology of the research is analytical and involves computing cash flow ratios based on information from the statements of cash flows of the selected U.S. airlines for 5 consecutive years (2007-2011). As a basic source of information, we will use U.S. airlines' 10-K Form annual reports filed with the Securities and Exchange Commission and obtained from EDGAR database. The main purpose of the research is to evaluate U.S. airlines' risk and financial performance via cash flow analysis.

Creditors and lenders have a concern in the company's ability to pay off its short-term and ongoing financial obligations, and using cash flow ratios provides us with more reliable information on whether the company is capable of meeting its commitments. According to John R. Mills and Jeanne H. Yamamura (1998), there are cash flow ratios that measure the company's ability to meet its short-term commitments and ratios aimed at evaluating the company's viability as a going concern. In their article titled "Power of cash flow ratios" they suggested the following list of the most useful cash flow ratios:

- Operating cash flow

- Funds flow coverage
- Cash interest coverage
- Cash current debt coverage
- Cash to capital expenditures
- Cash to total debt
- Total free cash
- Cash flow adequacy

The first four ratios are used to test a company's liquidity and solvency, and the rest of the ratios measure financial health of a company in the long term. We will evaluate selected U.S. airlines' financial health and liquidity using above mentioned cash flow ratios.

2.1. The use of Cash Flow Ratios to Evaluate Liquidity and Solvency

We will start our analysis by considering, first and foremost, cash flow ratios frequently used to gauge U.S. carriers' ability to meet their current commitments with cash provided by operating activities.

Operating cash flow ratio: The ratio is the relation between net cash flows generated from operating activities and the company's current liabilities. It indicates the extent to which the company is able to meet its current liabilities (Mills and Yamamura, 1998). The operating cash flow ratio for U.S. Airlines will be as follows:

Table 1: Operating cash flow ratio for U.S. airlines 2007-2011

U.S. Airlines					
Operating Cash flow ratio					
	2007	2008	2009	2010	2011
American Airlines, Inc.	0.16	(0.15)	0.06	0.09	0.06
Delta Airlines, Inc.	0.21	(0.15)	0.14	0.25	0.22
United Airlines, Inc	0.27	(0.16)	0.15	0.23	0.20
Continental Airlines, Inc	0.25	(0.07)	0.08	0.29	0.21
US Airways, Inc.	0.12	(0.26)	0.10	0.24	0.12
Southwest Airlines Co.	0.59	(0.54)	0.37	0.47	0.31
JetBlue Airways Corp.	0.29	(0.02)	0.42	0.48	0.43

Source: own calculations

The table above clearly shows that the selected U.S. carriers have had difficulties generating sufficient cash flows to cover their current liabilities. As we can notice, low-cost carriers such as Southwest and JetBlue have significantly higher value of operating cash flow ratio as opposed to legacy carriers which can be explained by the fact that low-cost carriers have relatively smaller total current liabilities and can cover a larger part of their current liabilities with cash from operations. Moreover, Southwest Airlines Co. being the largest low-cost carrier in the United States even competes with legacy carriers in terms of cash flows from operating activities. 2008 was a year of economic downturn followed by decreased demand for air travel and record high jet fuel prices (mid-2008) which negatively affected the operations and financial conditions of U.S. carriers (Federal Aviation Administration, 2011). As a result, all of the above mentioned airlines ended the year 2008 reporting negative

net cash flows from operations. In general, capital-intensive industries including U.S. airline industry normally generate moderate cash flows compared to non capital-intensive industries.

Funds flow coverage ratio (FFC): John R. Mills and Jeanne H. Yamamura (1998) propose this ratio as one that measures whether the company is able to pay off its unavoidable obligations such as interest, debt repayments and preferred dividends if any. Therefore, the ratio is a relation between earnings before interest, taxes, depreciation and amortization and so-called unavoidable expenditures (interest, tax-adjusted debt payments and tax-adjusted preferred dividends). EBITDA is considered as the closest component to cash flows from operations. Thus, the formula to compute funds flow coverage ratio is as follows:

$$FFC = \frac{EBITDA}{(\text{Interest} + \text{Tax-adjusted debt repayment} + \text{Tax-adjusted preferred dividends})}$$

It is highly important to note that in order to adjust for taxes, we need to divide debt repayment or preferred dividends by (1-effective income tax rate). The rule of thumb for FFC is that it should be at least 1, and the value below one indicates that the company is not able to fully cover unavoidable expenditures and will need to raise more funds in order not to default on those obligations.

For U.S. airlines the results are the following:

Table 2: Funds flow coverage ratio for U.S. airlines 2007-2008

U.S. Airlines Funds Flow Coverage Ratio					
	2007	2008	2009	2010	2011
American Airlines, Inc.	0.62	(0.87)	(0.09)	0.70	(0.08)
Delta Airlines, Inc.	0.45	(3.01)	0.32	0.77	0.69
United Airlines, Inc	0.33	(2.59)	0.56	0.73	0.82
Continental Airlines, Inc	1.19	0.12	0.37	0.83	1.24
US Airways, Inc.	3.16	(3.50)	0.70	1.23	0.78
Southwest Airlines Co.	5.12	5.64	0.78	3.54	1.07
JetBlue Airways Corp.	0.36	0.38	0.77	0.67	0.91

Source: own calculations

The results of the calculation of FFC ratio for U.S. carriers show that for the most part, U.S. airlines, especially legacy carriers have had difficulties generating EBITDA that covers unavoidable expenditures. The same cannot be said about Southwest Airlines which has had the value of FFC significantly above 1 except 2009. This can be explained by the fact that Southwest Airlines has substantially less debt obligations which implies less debt repayments as compared to legacy carriers and has been able to generate significantly high earnings before interest, taxes, amortization and depreciation to cover unavoidable expenses in recent years. American Airlines has the most conspicuous liquidity problems which

reported negative EBITDA in 2008, 2009 and 2011. As a result, being unable to meet its short and long-term commitments, the company filed for bankruptcy protection under Chapter 11 in November 2011 (AMR Corporation Form 10-K, 2011).

Cash interest coverage ratio (CIC): This ratio aims to measure the extent to which the company is able to pay off its interest obligations on all debt using cash flows from operations. Therefore, we compute cash interest coverage ratio dividing cash flows from operating activities, to which we also add back interest paid and taxes paid, by interest paid during the period. (Mills and Yamamura, 1998)

$$CIC = (\text{Cash flows from operations} + \text{Interest paid} + \text{Taxes paid}) / \text{Interest paid}$$

Highly leveraged companies such as most of the U.S. air carriers normally end up having relatively low cash interest coverage ratio in that their interest payments are higher than those of more balanced companies in terms of leverage: For U.S. airlines we have the following values of cash interest coverage ratio:

Table 3: Cash interest coverage ratio for U.S. airlines 2007-2011

U.S. Airlines Cash Interest Coverage Ratio					
	2007	2008	2009	2010	2011
American Airlines, Inc.	2.88	(1.64)	2.20	2.62	2.11
Delta Airlines, Inc.	3.24	(1.30)	2.59	3.73	4.06
United Airlines, Inc	4.48	(1.96)	3.35	4.64	3.87
Continental Airlines, Inc	3.96	0.13	2.11	5.36	3.75
US Airways, Inc.	4.58	(7.27)	3.25	6.01	3.99
Southwest Airlines Co.	47.65	(13.50)	7.51	14.59	8.56
JetBlue Airways Corp.	3.05	0.90	4.40	4.80	5.51

Source: own calculations

The table above tells us that during the above mentioned time span except 2008 both U.S. legacy and low-cost carriers were able to easily cover their interest expense with cash flows generated from operating activities. Moreover, 2008 was a year of downturn in the U.S. economy resulted from problems in the housing sector in the United States, and consequently, many of U.S. airlines except Continental Airlines and JetBlue Airways reported negative cash flows provided by operating activities in 2008. Southwest Airlines has the highest cash interest coverage ratio simply because it has significantly less interest expenditures.

Cash current debt coverage ratio: The final ratio that measures liquidity is the cash current debt coverage ratio that shows the company's ability to pay off its current debt with cash generated by operating activities after paying out cash dividends. In order to calculate this ratio we do not necessarily have to take all current liabilities but only liabilities that mature within the next 12 months. For U.S. airlines, those liabilities are short-term borrowings and current maturities of long-term debt and capital lease obligations. Thus, the ratio is a relation between the company's cash

flows from operations less cash dividends and its current debt (Mills and Yamamura, 1998). The higher the value of this ratio, the more solvent the company is considered to be.

For U.S. airlines cash current debt ratio will be as illustrated in the following table below:

Table 4: Cash current debt coverage ratio for U.S. airlines 2007-2011

U.S. Airlines Cash Current Debt Coverage Ratio					
	2007	2008	2009	2010	2011
American Airlines, Inc.	2.88	(1.14)	0.73	0.67	0.46
Delta Airlines, Inc.	1.34	(1.47)	0.90	1.37	1.46
United Airlines, Inc	2.29	(1.56)	1.01	1.00	1.92
Continental Airlines, Inc	1.74	(0.62)	0.37	1.61	1.72
US Airways, Inc.	4.29	(2.96)	0.78	2.15	1.05
Southwest Airlines Co.	69.05	(9.41)	5.12	3.07	2.13
JetBlue Airways Corp.	0.86	(0.11)	1.27	2.86	3.10

Source: own calculations

According to the results illustrated in the table above, for the most part, U.S. airlines have been able to cover their current maturities of long-term debt and capital lease obligations with cash from operations. In particular, Southwest Airlines has the highest value of cash current debt coverage ratio inasmuch as it has relatively small current debt maturing within a year whereas American Airlines has had a ratio below 1 not being able to fully cover current debt maturities for three consecutive years.

In sum, in terms of operating cash flow and funds flow coverage ratios, U.S. airlines have liquidity problems and need more funds in addition to cash from operations to cover their current liabilities or unavoidable expenditures whereas they, for the most part, can meet interest, debt and capital lease obligations with cash from operations.

Having used cash flow ratios to analyze the company's liquidity and solvency, that is, its ability to meet its current commitments with cash flows provided by operations, now we can proceed to cash flow ratios via which the analysts, auditors and investors examine the company as a going concern. The term "going concern" means whether the company is able to settle its long-term financial and operational obligations, how willingly it can finance growth in the long term (Mills and Yamamura, 1998).

2.2. The use of Cash Flow Ratios to Evaluate the Company as Going Concern

John R. Mills and Jeanne H. Yamamura (1998) in their article titled "The power of cash flow ratios" proposed the following cash flow ratios that are frequently used to measure the financial health of the company.

Cash to capital expenditure ratio: The ratio is a relationship between cash from operations and capital expenditures made during the period. John R. Mills and Jeanne H. Yamamura (1998) state that this ratio helps to find out whether the company has sufficient funds to reinvest for the future growth and, moreover, whether it is able to pay off its current and long-term debt with remaining cash. Therefore, by computing this ratio the analysts put an emphasis on the company's financial health and its ability to finance growth. In fact, growing industries normally tend to have lower value of the cash to capital expenditure ratio because growth requires a significant amount of capital expenditures (Mills and Yamamura, 1998). For U.S. airlines cash to capital expenditure ratio will be as follows:

Table 5: Cash to capital expenditure ratio for U.S. airlines 2007-2011

U.S. Airlines Cash to Capital Expenditure Ratio					
	2007	2008	2009	2010	2011
American Airlines, Inc.	2.28	(1.88)	0.44	0.65	0.49
Delta Airlines, Inc.	1.31	(1.12)	1.15	2.11	2.26
United Airlines, Inc	2.94	(2.57)	3.09	5.65	3.06
Continental Airlines, Inc	3.44	(0.87)	0.95	4.67	4.19
US Airways, Inc.	0.77	(0.98)	0.48	4.39	0.76
Southwest Airlines Co.	2.14	(1.65)	1.68	3.17	1.38
JetBlue Airways, Corp.	0.58	(0.03)	1.12	2.10	1.28

Source: own calculations

In order to be competitive major U.S. airlines adopt growth strategy that implies significant capital expenditures. Moreover, the airline industry which is characterized as being cyclical may have a frequently changeable value of cash to capital expenditure ratio, and since the airline industry itself is capital intensive, the ratio may be low. The table above shows us that the value of the ratio is quite changeable. Delta Airlines, Southwest Airlines, United Airlines, JetBlue Airlines, Continental Airlines for three successive years have generated enough cash from operations to finance capital investments and even use the rest to meet their long-term debt obligations. Negative values for this ratio in 2008 can be simply explained by negative cash flows from operations that U.S. airlines reported as a result of the economic downturn. US Airways significantly improved cash to capital expenditure ratio which dropped again below 1 in 2011. Unlike the rest of the carriers being discussed, for three successive years American Airlines has had the worst results for the ratio which has not been able to generate sufficient cash to make capital investments and reinvest the rest for future growth.

Cash to total debt ratio (C/TD): The ratio compares the company's cash flows provided by operating activities to total liabilities. This ratio is deemed to be very useful and important, in particular for credit-rating agencies, credit specialists and so on, because it measures the company's ability to meet its future commitments. The companies with low cash flow to total debt ratio are more likely to face financial problems in the future (Mills and Yamamura, 1998). The formula is as follows:

$$C/TD = \text{Cash flow from operations} / \text{Total debt}$$

U.S. airlines have the following values of C/TD ratio presented in the table below.

Table 6: Cash to total debt ratio for U.S. airlines 2007-2011

U.S Airlines Cash to Total Debt Ratio					
	2007	2008	2009	2010	2011
American Airlines, Inc.	0.07	(0.06)	0.02	0.04	0.02
Delta Airlines, Inc.	0.07	(0.04)	0.04	0.08	0.07
United Airlines, Inc	0.12	(0.07)	0.06	0.10	0.09
U.S Airlines Cash to Total Debt Ratio					
	2007	2008	2009	2010	2011
Continental Airlines, Inc	0.11	(0.03)	0.03	0.10	0.07
US Airways, Inc.	0.08	(0.15)	0.05	0.13	0.06
Southwest Airlines Co.	0.29	(0.17)	0.11	0.17	0.13
JetBlue Airways Corp.	0.08	(0.004)	0.10	0.11	0.12

Source: own calculations

Total free cash ratio (TFC): In recent years analysts and investors have begun to focus on the concept of free cash flow, because it is more reliable as a measure of the company's financial health and cannot be readily manipulated as opposed to earnings which we have discussed earlier. The term "free cash flow" has not been well defined yet. The conventional definition is that free cash flow equals cash flow from operation less capital expenditures and results in the amount what remains for paying off short and long-term debt and cash dividends after tying up funds in plant and equipment (Friedlob and Schleifer, 2003). Since there is no standardized definition for free cash flow, John R. Mills and Jeanne H. Yamamura (1998) suggested so-called total free cash ratio that measures the company's ability to meet its future cash obligations. In addition, the total free cash flow takes off-balance sheet items into consideration such as operating lease. Therefore, the ratio contains rental expense under operating lease and current maturities of operating lease obligations.

The formula of the total free cash flow ratio and the results for U.S. airlines are presented below.

$$\begin{aligned} & (\text{Net income} + \text{Accrued and capitalized interest expense} + \text{Depreciation} \\ & \quad \text{and amortization} + \text{Operating lease and rental expense} - \\ & \quad - \text{Declared dividends} - \text{Capital expenditures}) \end{aligned}$$

$$\text{TFC} = \frac{\text{(Accrued and capitalized interest expense} + \text{Operating lease and rental expense} + \text{Current portion of long-term debt} + \text{Current portion of capitalized lease obligations)}}{\text{Total Debt}}$$

The results for U.S. carriers are summarized in the following table:

Table 7: Total free cash flow ratio for U.S. airlines 2007-2011

U.S. Airlines Total Free Cash Flow Ratio					
	2007	2008	2009	2010	2011
American Airlines, Inc.	0.76	(0.11)	(0.02)	0.19	(0.02)
Delta Airlines, Inc.	0.86	(1.77)	0.30	0.54	0.59
United Airlines, Inc.	0.61	(0.76)	0.44	0.59	0.66
Continental Airlines, Inc.	0.60	0.36	0.40	0.54	0.70
US Airways, Inc.	0.60	(0.48)	0.32	0.76	0.45
Southwest Airlines Co.	0.46	0.43	0.65	0.82	0.40
JetBlue Airways Corp.	0.07	0.01	0.29	0.61	0.36

Source: own calculations

The results shown in the table tell us that U.S. airlines after making capital expenditures do not generate sufficient free cash to meet their future obligations such as interest payments, operating lease payments, the repayment of long-term debt and capital lease obligations and will need more external funds in the long-term.

Cash flow adequacy ratio (CFA): Cash flow adequacy ratio is one of the most useful ratios in the cash flow analysis that evaluates the company's capability to meet its continuous financial commitments and is the basic measure of cash sufficiency. John R. Mills and Jeanne H. Yamamura (1998) proposed their version of cash flow adequacy ratio that measures the company's credit quality. The formula starts with EBITDA less taxes paid, interest paid and capital expenditures which is then compared to the average of annual debt maturities scheduled over the next five years. Thus, the formula will be as follows:

$$CFA = \frac{(EBITDA - \text{Taxes paid} - \text{Interest paid} - \text{Capital expenditures})}{\text{Average annual debt maturities scheduled over the next 5 years}}$$

The higher the ratio, the more creditworthy the company is which means that it generates more free cash to pay off annual maturities of long-term debt (Mills and Yamamura, 1998).

For U.S. Airlines the cash flow adequacy ratio suggested by John R. Mills and Jeanne H. Yamamura (1998) will be as illustrated in the table below:

Table 8: Cash flow adequacy ratio for U.S. Airlines

U.S. Airlines Cash flow adequacy ratio					
	2007	2008	2009	2010	2011
American Airlines, Inc.	0.23	(2.30)	(1.96)	(1.05)	(1.75)
Delta Airlines, Inc.	0.58	(4.16)	(0.36)	0.71	0.89
United Airlines, Inc.	0.86	(6.60)	0.07	1.03	0.99
Continental Airlines, Inc.	0.60	(0.87)	(0.49)	0.77	1.31
US Airways, Inc.	0.26	(7.00)	(1.01)	1.57	(0.11)
Southwest Airlines Co.	(1.31)	(0.14)	0.39	2.11	0.40
JetBlue Airways Corp.	(1.94)	(1.28)	(0.14)	0.39	(0.13)

Source: own calculations

According to the table above, in 2008 and 2009 the U.S. Airlines had negative and very low values of cash flow adequacy ratio which resulted from high operating expenses including continuously rising fuel cost and crisis-related decreased demand for air travel. However, during the post-economic crisis period, many of them significantly improved their positions in regard to cash sufficiency except American Airlines that reported negative free cash flow in recent years. Thus we have discussed frequently used cash flow ratios that evaluate the company's liquidity and financial health in the long term.

3. Conclusion

The cash flow analysis conducted for major U.S. airlines shows that they have liquidity problems. If we separately consider U.S. carriers' ability to cover interest obligations or current maturities of long-term debt and capital lease obligations, then they are capable to cover them with cash from operating activities although they have difficulties generating cash to fully cover unavoidable expenditures or current liabilities. On the other hand, the computation of cash flow ratios such as cash adequacy ratio, cash to total debt ratio and total free cash ratio that evaluate the company's viability as a going concern indicates that U.S. airlines are likely to face financial difficulties when it comes to meeting future ongoing operational and financial commitments.

U.S. airline industry is highly subject to unsteadiness, seasonality and economic slumps. Difficulties in generating sufficient cash flow result from slowly growing demand for air travel, increasing operating expenses mainly driven by continuously rising fuel prices and high labor costs. Especially U.S. airlines' financial condition and operations were highly affected by recent economic crisis that began in late 2007 in the United States.

Interestingly, the results of cash flow analysis show us that low-cost carriers, Southwest Airlines in particular, have liquidity problems to a much lesser degree than U.S. legacy carriers. One of the explanations is that low-cost carriers have relatively less debt and capital lease obligations than legacy carriers do which are highly leveraged. Moreover, in the past few years, especially through 2008, a year of economic crisis, low-cost carriers have engaged in hedge activities for fuel to a larger extent than legacy carriers have and have experienced moderate increase in fuel prices significantly avoiding their adverse effects on operating profits.

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SUB – SECTION: BANKING

FINANCIAL CRISIS IN BANKS

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Abstract. The present paper tries to cast some light on the origin of the financial and banking crisis. Firstly, it emphasizes the changes made by the central banks in order to achieve better regulation and supervision of the banking system. Secondly, it attempts to answer the question whether this financial crisis could have been foreseen. Last, but not least, it offers an overview on the characteristics of a substandard credit.

Keywords: financial crisis, banking panic, substandard loans.

JEL classification: G21

1. Introduction

History shows that the financial crisis started in 2007 is not the only crisis humanity has faced and most likely will not be the last one. From time to time, the economies in the developed countries go through a period of variable recession. According to the National Bureau of Economic Research (NBER), recession is briefly defined as two consecutive quarters in which the GDP is decreasing, but other factors are also taken into account, such as unemployment.

In the U.S. history, the period between 1991 and 2001, characterized by continuous expansion, is unique because there was no clearly defined recession, although the GDP growth rate had decreased. According to the NBER, the recession which started on December 2007 came after six years of expansion and it ended in June 2009, lasting 18 months and being the second longest recession period since the Great Depression (which lasted 43 months).

The chart below shows the quarterly evolution of the US GDP for the period 1991 – 2012. As can be seen, the trend was positive, the GDP has increased from one year to another.

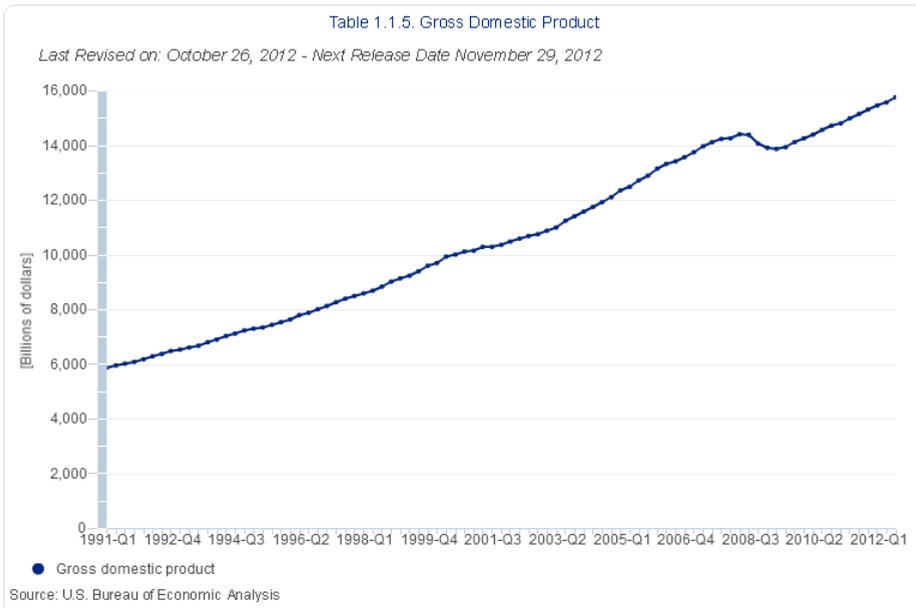


Figure 1: GDP quarterly evolution for the period 1991-2012

Source: based on data published by the US Bureau of Economic Analysis

An important study on the topic of financial crises conducted by Reinhart and Rogoff (2011) identifies a number of 296 crises in 66 countries, during a time span of 800 years. In their book, the two authors focus on the payment incapacity of both developed and developing states, determinant which didn't have a major influence for the 2007 crisis. The financial crisis may have ended, but it has generated a new turbulent period, namely the sovereign debt crisis. Greece is the most affected country in the context of this new crisis. In order to overcome financial difficulties, it received a bailout from the European Union and IMF, with the condition of applying harsh austerity measures.

Reinhart and Rogoff also study 138 banking crises which occurred after the Second World War. The aim of this analysis is to identify the effects of a banking crisis on a country's economic growth rate, and on the growth rates of the budget deficit and national debt. According to the authors, there are two common characteristics of the banking crisis unfolded in developed and developing countries. The first characteristic refers to the increase of the capital inflows during the period preceding the crisis. The second characteristic refers to the price increase of residential property and/or business.

2. The roots of the banking financial crisis

The financial crisis started in the U.S. in the first half of year 2007, when several mortgage banks went bankrupt. The first bank to fall victim to the credit crunch in substandard conditions was the bank Mortgage Lenders Network on February, 5, 2007. On June, 7, 2007, U.S. investment bank Bear Stearns prohibited withdrawals from two of its own funds that invested in American CDOs, due to the fact their value had dramatically declined.

The biggest and the most important French bank, BNP Paribas, also faced problems. On August, 9, 2007, it also prohibited withdrawals from own funds, because the CDO market (based on mortgages) was no longer offering reliable prices. On August, 10, 2007, due to a shortage of liquidity on the interbank market, central banks all over the world started injecting money in the banking system: the Federal Reserve allocated 43 billion dollars, the European Central Bank 215 billion dollars, and the Bank of Japan 8 billion dollars.

Problems began to occur in other banks. For example, on August, 16, 2007, Countryside Financial, the largest US mortgage bank, avoided bankruptcy by receiving a loan of 11 billion dollars from a banking consortium. On August, 28, 2007, local German bank Sachsen Landesbank managed to avoid bankruptcy caused by American CDOs being taken over by Landesbank Baden-Württemberg. On September, 13, 2007, the BBC reports that the Bank of England secretly provided 21 billion pounds sterling to the mortgage bank Northern Rock. The news generated massive withdrawals the very next day, this being the first British banking panic since 1830. During the whole year 2007, the US Federal Reserve continued decreasing the benchmark interest rate from 5.25% to values approaching zero. The purpose of such strategy, applied by other central banks like the European Central Bank or the Bank of England, was to decrease credit rates, especially those granted for the real estate market.

Difficulties continued in 2008, when the investment bank Bear Stearns was saved from bankruptcy by merging with other commercial bank, due to the intervention of the Federal Reserve. IndyMac, one of the largest savings banks in the US was placed under the management of Federal Deposit Insurance Corporation (FDIC) and was nationalized in the end. Fannie Mae and Freddie Mac, the two government-sponsored mortgage companies, which were backing more than half of the residential mortgage market, were placed under the administration of the Federal Housing Finance Agency (FHFA).

It is generally known that, in a sound economy, banks sustain and lend each other through the interbank market. These loans are on very short term (one day or night) to cover liquidity shortages. The liquidity excess of one bank is offered as a short term loan to a particular bank which lacks financial resources. The value of the interbank rate is close to the Federal Reserve (FED) reference rate, with the condition of mutual trust between banks. For example, if the reference rate is 5.25%, the interbank rate is between 5.30-5.35%, varying by 5-10 percentage base points from the reference rate. As previously mentioned, the Federal Reserve lowered the benchmark interest rate, and during July-August 2008 the interbank rate was set to approximately 2.65%. On September, 18, 2008, the rate increased from 3.75% to 6% in a single one day, signaling mutual distrust between banks and refusal of loans, fact that generated a liquidity crisis.

In his 2009 work called *"Slapped in the Face by the Invisible Hand: Banking and the Panic of 2007"*, Gary Gordon stated that "the shadow banking system" which generated the credit crisis is, in fact, vulnerable to banking panic. The events unfolded in August 2007 led to a banking panic. According to Gordon's definition, a banking panic is a systemic event during which the banking system cannot meet its financial obligations, thus becoming insolvent. If in the 19th and 20th centuries, the phenomenon translated into people running to the banks in order to withdraw their money due to the lack of trust (episode also linked to the bankruptcy of the British

Northern Rock bank), the current panic translated into mutual distrust between banks and their refusal to grant each other loans (episode started on September, 18, 2008). The question arising now is which event determined the increase of the interbank rate on September, 18? The explanation would be the following: one of the most important American investment banks, Lehman Brothers, dating back to 1850s, suspended payments and filed for protection from creditors under Chapter 11 of the US Bankruptcy Code. The bank had assets worth 691 billion dollars and its bankruptcy was the biggest in the world, exceeding by far the one of Washington Mutual, of 328 billion dollars. Lehman brothers share price decreased by 90% in the same day. The Federal Reserve refused to bail it out, in spite of the fact that it saved Merrill Lynch during September, 13-14.

The reasons behind FEDs refusal of saving Lehman Brothers could be twofold: investment banks were “too big to fail”; Lehman Brothers had to be turned into a scapegoat, as a warning sign for other banks. Various voices in the media warned that, if the central bank always intervened and saved banks in distress, these credit institutions would take even more risks in the future. Another possible explanation for why the FED stepped back could be found in the statements of the Lehman Brothers CEO, Richard S. Fuld Jr., who assured and reassured the public that his institution was having no problems that the bank could not face on its own. Lehman Brothers was an investment bank, not a commercial or savings bank that granted direct loans on the housing market or collecting deposits from the general public. However, the bank had been extremely exposed to loans granted in substandard conditions, because it was one of the main players in the securitization process that turned mortgages into securities. The bankruptcy of this investment giant affected not only other banks who acted as counterparties of Lehman Brothers in these complex operations, but also various hedge funds which had previously invested in the CDSs sold by the bank. Exposures generated by investing into securities linked to mortgages were backed by credit insurance. The bankruptcy of Lehman Brothers also affected AIG, the biggest insurance company from the US market, at that time. AIG had a leading position as a CDS issuer for numerous clients, including Lehman Brothers. Moreover, AIG had made important investments into the CDOs issued by Lehman Brothers and other investment banks. When Lehman Brothers filed for Chapter 11, AIG’s rating was downgraded. As a consequence, AIG had to put 18 billion dollars as collateral in order to insure its CDSs contracts, but the company could not provide such financial resources. On September, 17, 2008, AIG followed the footsteps of Lehman Brothers, calling for the already famous Chapter 11. All these events led to a decrease of the trust between financial institutions and an increase in the interbank interest rate, in the end.

The financial crisis did not limit within the borders of the US, it spread to the global level because of the financial derivatives acquired by financial groups from the American institutions. For example, on November, 14, 2007, HSBC bank reported an accounting devaluation of 3.4 billion dollars, caused by an American subsidiary of the bank. On December, 6, 2007, RBS – the largest bank in the world in terms of assets – assessed a decrease in its net worth of 2.5 billion dollars. The German institution Deutsche Bank incurred a loss of 3.2 billion dollars, and the French bank Société Generale issued on February, 19, 2008 new shares worth 5.5 billion Euros in order to cover losses of 4.9 billion Euros, caused by a single trader named

Jerome Kerviel. The French bank also lost 3.2 billion dollars due to the mortgage-backed securities from the American market. This was only the beginning, which was followed by other reevaluations and losses incurred by different banks. As the problems increased in the banking sector, two solutions emerged: banks were either receiving bailouts from the state, or were nationalized.

3. New regulations in the banking system amid the ongoing crisis

The financial crisis has revealed the need for better regulation and supervision of banks. An important change was related to the improvement of the quantity and quality of bank capital. Under Basel III, banks will face strong majority equity indices, such as general tangible capital (also called capital base). This tangible capital is basically formed of the common shares and reserves which will be increased from 2% to 4.5%, plus a "conservation reserve" of 2.5%, so the effective capital rate will be of 7%. Banks failing to reach this level of capital will have restrictions on the payment of dividends and bonuses.

Following the American model, an indicator of the indebtedness degree is also taken into discussion, but the European banks still oppose to it. This indicator, determined as a rate between assets and capital, will be established at a maximum level of 33. The resentment coming from the European banks is based on the fact that, in case of some banks like UBS or Deutsche Bank, the indicator exceeds 70 since the crisis has started.

The three pillars of Basel II and III are well known:

- Pillar I: Minimum capital requirements;
- Pillar II: Supervising banking activity;
- Pillar III: Market discipline.

According to Pillar II, another change could refer to introducing additional capital taxes (1-2%) for those banks which might cause a systemic risk and for those banks which might incur short-term high risks, due to their remuneration system. Switzerland is one of the countries which has anticipated these international standards, increasing minimum capital requirements for its two main banks at 10%. Given the fact that the current crisis was generated by a liquidity shortage, there are several voices calling for implementing a better system of liquidity reporting and stricter liquidity requirements. Another condition would be an increase in the transparency related to trading CDSs and securitization. By using securitization, the banks were trying to decrease the credit risk and transfer it to other parties, while maintaining in their portfolios only low risk credits. Notwithstanding this, bank were much too exposed to purchasing mortgage-backed securities. According to the new regulations, banks will have to keep minimum 5% of their loans. There is also the discussion of a "mortal danger" for the banking system, namely generated by the banks which are "too big to fail". The Lehman Brothers episode proved that any bank can go bankrupt. Hence, there is the tendency to prevent that banks become too big.

4. Could be anticipated financial crisis?

In his 2009 book called "23 Things 23 Things They Don't Tell You about Capitalism", Ha-Joon Chang presents an interesting episode from Great Britain, related to the financial crisis:

„In November 2008, Queen Elisabeth II visited the London School of Economics, which has one of the most highly regarded economics department in the world. When given a presentation by one of the professors there, Professor Luis Garicano, of the financial crisis that had just engulfed the world, the Queen asked: 'How come nobody could foresee it?' Her Majesty asked a question that had been in most people's mind since the outbreak of the crisis in the autumn of 2008. During the last couple of decades, we were repeatedly told by those highly qualified experts (...) that all was well with the world economy. We were told that economists had finally found the magic formula that allowed our economies to grow rapidly with low inflation (...). So it was a real puzzle to most people, including the Queen, that things could go so spectacularly wrong in a world where clever economists were supposed to have sorted out all the major problems. How could all those clever guys with degrees from some of the best universities, with hyper-mathematical equations coming out of their ears, have been so wrong? Learning of the sovereign's concern, the British Academy convened a meeting of some of the top economists from the academia, the financial sector and the government on 17 June 2009. The results of this meeting was conveyed to the Queen in a letter, dated 22 July 2009, written by Professor Tim Besley, a prominent economics professor at the LSE, and Professor Peter Hennessy, a renowned historian of the British Government at Queen Mary, University of London. In the letter, Professor Besley and Hennessy said that individual economists were competent and 'doing their job properly on its own merit, but that they lost sight of the wood for the trees' in the run-up to the crisis. There was, according to them, 'a failure of the collective imagination of many bright people, both in this country and internationally, to understand the risks to the system as a whole'. A failure of the collective imagination? Hadn't most economists, (...) told the rest of us that free markets work best because we are rational and individualistic and thus we know what we want for ourselves (...) and how to get it most efficiently? (...) The great and the good of the economics world of Britain, then, were basically admitting that they don't know what has gone wrong."

In our opinion, at that time, various people were not aware that a financial crisis had erupted. But, taking a retrospective look, we can see now there were many signals that could indicate the occurrence of a crisis. The current situation is not the first financial crisis faced by humanity. History has shown us many other examples, and specialists have identified some common elements by assessing all previous similar events. In the literature, the following red flags are tackled:

- dramatic increases in the values of shares, properties and goods;
- household economies approach zero or become negative;
- increase in short-term loans granted to households, firms and banks;
- long-term stable growth, without major obstacle;
- increasing deficit of the current account;
- increase of bank assets and liabilities as a percentage in the GDP;
- increase of the loan indicators and frequencies of loan repayment;
- small risk premiums (credit margins, CDS margins), leading to an increase for risk seeking behavior.

The information contained by the following graphs could draw the attention of both financial specialists and general public.

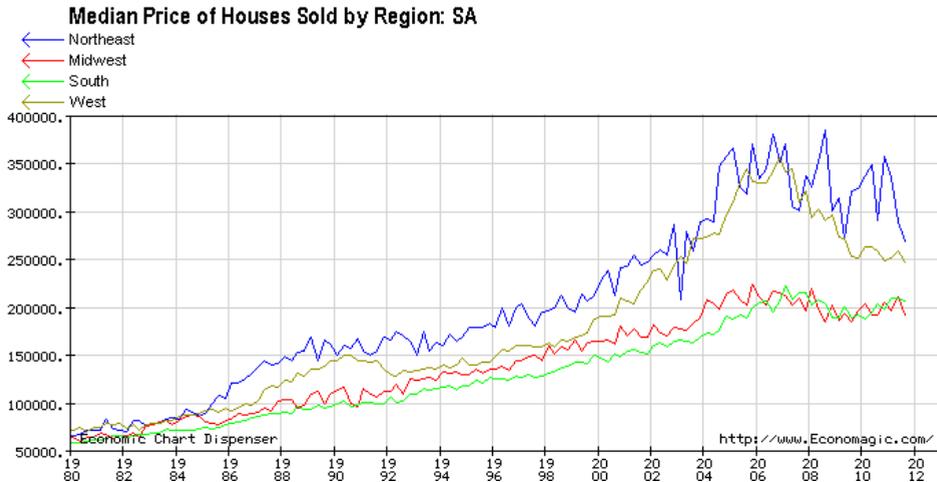


Figure 2: U.S. home prices in the region
 Source: Processing of data published authors of Economagic Times Series

As can be seen from the graph above, house prices increased the most in the Northern or Western parts of the US. The Western region was the most affected by the financial crisis: the prices increased until 2007, then they decreased and this trend continues in the present. In the South and Middle West, prices have not skyrocketed, but they slightly decreased after the financial crisis hit.

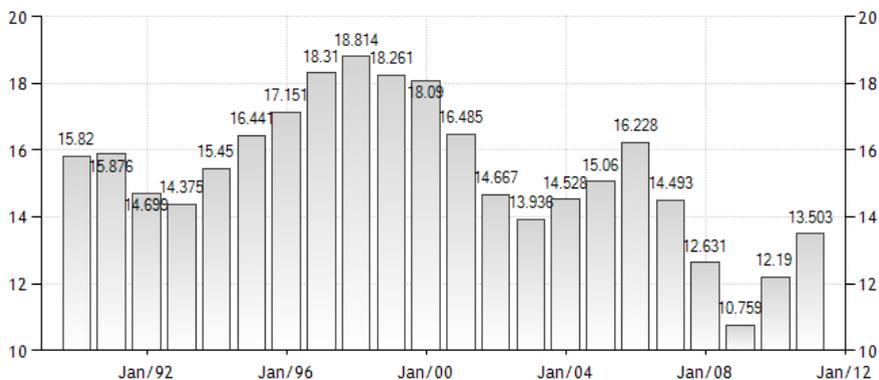


Figure 3: The evolution of gross national savings
 Source: Processing of data published by authors of Trading Economics

The period analyzed was 1990-2012 and one can observe a decreasing trend of national economies. During the crisis, household savings dramatically decreased and, in the year 2009, they represented no more than 10% of the GDP.



Figure 4: The evolution of current account (% of GDP)
 Source: processing of data published on Trading Economics

As can be seen from the graph above, the current account deficit widened in the period anticipating the crisis, and even though this shortfall has decreased, it is still negative. The current account deficit translates into higher imports than exports, low savings rate and an economy oriented towards consumption, all these features are to be found in the US. As mentioned before, all the signs announcing a crisis were present, but few people have paid attention to them.

5. Loans in substandard conditions

An important issue which triggered the financial crisis and has contributed by far to the maintenance and enhancement of the crisis refers to the substandard loans, granted to borrowers who did not meet the conditions to access a bank loan.

Table 1: US household financial obligations (billion \$)

Year	Mortgages	Consumer loans	Others	Total
1996	3,578	1,214	654	5,446
1997	3,818	1,272	735	5,825
1998	4,157	1,347	805	6,309
1999	4,531	1,446	911	6,888
2000	4,902	1,593	969	7,464
2001	5,379	1,703	958	8,040
2002	6,036	2,000	800	8,836
2003	6,894	2,103	868	9,856
2004	7,835	2,220	974	11,029
2005	8,874	2,321	989	12,184
2006	9,875	2,416	1,163	13,444
2007	10,539	2,555	1,273	14,367
2008	10,498	2,594	1,174	14,266
2009	10,335	2,479	1,255	14,069
2010:II	10,150	2,419	1,344	13,913

Source: Johan A. Lybeck, 2011:p. 111

From the table above, it can be seen that the value of mortgage loans in the US has tripled. Even more remarkable, these mortgages were not considered premium or standard, but substandard loans. Practically, the value of these loans has increased from virtually zero to 1300 billion dollars, at the end of the century. In assessing the conditions for granting a credit, specialists use FICO scores, developed by Fair Isaac Corporation, a company that developed this model 50 years ago. FICO score starts at 300 and goes up to 850. A FICO score below 600 means the risk of failure is 51%, a score between 600 and 649 means the risk of failure is 31%. A customer is considered "standard" if he has a FICO score greater than 700. A standard loan has a FICO score of 725 and a substandard loan has a score of 628. These levels applied before the crisis, but in 2010, the scores were lowered due to many difficulties borrowers faced. Hence, the boundary between standard and substandard credits was set to 640. When establishing a FICO score, the bank took into consideration the payment history of the borrower, weighting 35% in the model. The history of the client was assessed at 15%, the income of the client at 30%, the degree of credit card use at 10% and the client's work place at 10%. If the FICO score was low, the loan was classified as substandard. It is not surprising to see that, before these requirements were modified, many persons had not been able to get such a loan. The strategy was very simple: in the beginning, these loans had very profitable interest rates, in order to obtain as many clients as possible; after two years, the interest rate was recalculated (and, of course, increased); that was when problems usually appeared. The population was no longer able to pay the financial obligations, they had to leave their homes purchased through the mortgages. As a consequence, banks began registering losses due to investments linked to these mortgages.

6. Conclusions

The financial crisis has its roots in the US housing market. Through the securitization process, this crisis spread worldwide, not just in the United States and not just in the banks, but also the insurance companies. Many banks faced bankruptcy; some were saved by capital injection, others by nationalization. However, a giant – Lehman Brothers - was "left" to fail, and the consequences have been felt across the entire banking system. The crisis highlighted the fact that changes needed to be made in the regulation and supervision of banking institutions, by imposing stricter rules on derivatives, which were poorly regulated before this crisis.

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SERVICE QUALITY: A CASE STUDY OF BANCA ROMANEASCA

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Abstract:

Scope of the study: *The study would try to throw some insights into the existing services provided by the banks and the gap between the customer expectations, perceptions and the actual state of performance. The results of the study would be able to recognize the lacunae in the system and thus provide key areas where improvement is required for better performance and success ratio.*

Research Objectives:

-To find out the level of expectation and the level of perception of the customers from the services offered by the banks.

- To compare the level of perception and expectation of the services offered by the banks.

- To know which service quality dimension the bank is performing well and in which dimension it needs improvement.

-To address the importance of improving service quality in the banking industry.

This study was structured in two directions: identify expectations of customers before using the services of Banca Romaneasca and their perception about the quality of banking services after becoming bank customers.

Data collection *was obtained using questionnaires and the collected data were summarized in a summary of the results grid, applying then calculations and analysis on them. They showed such attitudes, opinions and perceptions of customers about the quality of services are offered by Banca Romaneasca, and then were formulated recommendations clear and immediate on the quality of customer service provided to adapt SERVQUAL dimensions to the socio-cultural context specific to the Romanian banking market.*

A questionnaire was developed to identify underlying dimensions of bank quality and to asses consumers' perceptions of the importance of each of these dimensions.

Hypothesis- H_0 : *There is a statistically significant difference between perceptions and expectations of Banca Romaneasca customers.*

The results of the service quality analysis show that reliability and empathy are the two most critical dimensions of service quality, and they are directly related to overall service quality.

Keywords: *SERVQUAL, dimensions, Tangibles, Reliability, Responsiveness, Assurance, Empathy*

JEL classification: *G21, M31*

1. Generally Introduction

Clearly, service quality is an issue that has engaged academics, leading to substantial debate over its conceptualization. In 1988, PZB developed SERVQUAL, a method to assess customer satisfaction for service industries, which started a stream of research on service quality measurement that continues to this day. Their measurement involved the difference between customers' perceptions and expectations based on five generic dimensions: tangibles, reliability, responsiveness, assurance and empathy.

Cronin and Taylor (1992) suggested that service quality can be predicted adequately by using perceptions alone. In addition, Carman (1990) suggested that in specific service situations it might be necessary to delete or modify some of the SERVQUAL dimensions. Teas (1993) argued that measuring the gap between expectations and performance can be problematic.

When SERVQUAL, consisting of the five original dimensions, was originally conceptualized by PZB (1988), it was used to assess four organizations – a bank, a credit card company, a repair and maintenance organization, and a long distance phone service carrier.

Much of the existing literature which critically evaluates SERVQUAL has focused attention on either the coverage of the items, the principles of measurement or issues in administration (Karin Newman, 2001). Despite these concerns, SERVQUAL has been widely used, not least in the financial services sector. However, adopting and implementing SERVQUAL in a business context may raise other issues about the value of this approach to monitoring and measuring service quality.

One stems from the mode of SERVQUAL's administration, which has raised fundamental questions about the composition of the sample, and its insensitivity to customer, product ownership and service encounter.

The second stems from the use of an unweighted SERVQUAL measure, which fails to gauge customers' priorities across the five quality dimensions let alone their associated elements.

The third practical issue is that of retrospection caused by both the construction of the questions and the length of time it takes to collect, process and analyze the data and disseminate the information. Internally, it is apparent that other concerns affected the value of SERVQUAL and these included the presence of information silos which meant that important information from a range of sources, including SERVQUAL, was not effectively disseminated. This may in part reflect a problem relating to the integration of aspects of the service quality improvement programme across the organisation as is evidenced by the lack of any clear linkages between SERVQUAL and the bank's strategy.

2. Applying the SERVQUAL method. Case study: Banca Romaneasca

The research was carried out over three weeks in the period 01.03.2013-22.03.2013, on a sample of 250 people, and within the next two weeks will take place development and presentation of conclusions. The main objective of this study to find out and to compare the level of perception and expectation of the services offered by Banca Romaneasca.

The proper method consists in analyze the determining factors of perceptions and expectations of customers. Most factors are developed in the form of questions

addressed to customers on the basis of questionnaires, interviews or focus group meetings. After analyzing the results, the service provider will find out what their customers want and if they are satisfied with the way they are served. The difference between customers' perceptions (P) and expectations (E) is the main purpose of measuring customer service quality. SERVQUAL is built on a response scale designed to include both customer expectations and perceptions regarding service. The method allows evaluation but at the same time it is a tool for improvement and comparison with other organizations of the sector (Droj, L., 2010).

SERVQUAL method was applied to Banca Romaneasca, among bank customers in order to delineate and confirm the extent to which services offer the bank meets quality standards or customer expectations and points where improvements can be made for a more favorable perception of services.

The sample was applied in 250 people, the results confirming its position in the market but the main guidelines that the bank has to its customers.

The questions from the questionnaires used by reviewers are grouped by service quality dimensions in total SERVQUAL contains 22 questions that are adjusted according to the type of service evaluated. When completing the questionnaire client should consider the extent to which the service should meet specified quality attributes, respectively, to appreciate what it means for that service quality based on its own experience as a user of the service. The answers reflect customer expectations and perceptions of Banca Romaneasca service quality.

Customer responses consisted in of two marks each attribute grant, on a Likert scale with 7 degrees of intensity. If the respondent believes that the service meets attribute when given high note 7 ("total agreement"), or on the contrary minimum grade 1 ("strongly disagree").

At four questions related to tangibility dimension of banking services quality, the results of the perception indicate a slight increase in the level perceived by customers to their expectations. In all discussions, registered gaps are positive, the highest level in terms of land bank in a recipient. Thus the values recorded visual impression given by bank customers around the level of agreement 5 from 7 (Table 1).

Table 1. Gap score for Tangibles Dimension

Statement	Expectation Score	Perception Score	GAP Score
Tangibles	Average for Dimension		0,19
1. Excellent banking companies will have modern looking equipment.			
2. The physical facilities at excellent banks will be visually appealing.			
3. Employees at excellent banks will be neat appearing.	5,72	5,88	0,16
4. Materials associated with the service (such as pamphlets or statements) will be visually appealing at an excellent bank.	5,64	5,88	0,24
	5,60	5,74	0,14
	5,52	5,74	0,22

Source: Made by author

Reliability became the prime focus of organisational activity. "Getting it right first time all the time" became the target for account accuracy, keeping promises, meeting deadlines and providing timely and accurate information to customers. Efforts to improve cash machines' availability and dependability received unprecedented attention. National operating standards were devised and a monitoring and measurement system put in place alongside a major programme of investments in information technology.

Regarding this size, the bank analyzed records results somewhat lower than tangibility dimension, the gaps it recorded was the lowest. But what is important is the bank register positive gaps again customer expectations are exceeded by their perception of service delivery by the bank. The lowest gap level is 0.06, in terms of readiness to perform the services required (Table 2).

Table 2. Gap score for Reliability Dimension

Statement	Expecta tion Score	Percept ion Score	GAP Score
Reliability	Average for Dimension		0,14
5. When excellent banks promise to do something by a certain time, they do.	5,36	5,56	0,20
6. When a customer has a problem, excellent banks will show a sincere interest in solving it.	5,34	5,50	0,16
7. Excellent banks will perform the service right the first time.	5,30	5,36	0,06
8. Excellent banks will provide the service at the time they promise to do so.	5,30	5,42	0,12
9. Excellent banks will insist on error free records	5,40	5,58	0,18

Source: Made by author

Analyzing the third dimension, the bank's responsiveness to customer needs, the willingness to assist customers and provide them with prompt service, we can see the best improvements in the perception of respondents towards their expectations. This is the best record in terms of availability of bank employees to help customers and to meet their demands. Gaps Media is the best of all 5 sizes (Table 3).

Questions related to assurance dimension for Banca Romaneasca recorded the highest levels of agreement, and a gap close to the maximum of the 5 dimensions. Thus the statement on confidence in the security of bank transactions, the answers of respondents recorded the highest level of agreement of 6.10, while the statement on confidence inspired by the behavior of employees, the level of agreement is high, even and the gap between perceptions tunes and one high, at 0.38 (Table 4).

Table 3. Gap score for Responsiveness Dimension

Statement	Expectation Score	Perception Score	GAP Score
Responsiveness	Average for Dimension		0,26
10. Employees of excellent banks will tell customers exactly when services will be performed.	5,38	5,48	0,10
11. Employees of excellent banks will give prompt service to customers.	5,38	5,58	0,20
12. Employees of excellent banks will always be willing to help customers.	5,38	5,74	0,36
13. Employees of excellent banks will never be too busy to respond to customers' requests.	4,72	5,12	0,40

Source: Made by author

Table 4. Gap score for Assurance Dimension

Statement	Expectation Score	Perception Score	GAP Score
Assurance	Average for Dimension		0,24
14. The behavior of employees in excellent banks will instill confidence in customers.	5,60	5,98	0,38
15. Customers of excellent banks will feel safe in transactions.	5,92	6,10	0,18
16. Employees of excellent banks will be consistently courteous with customers.	5,50	5,72	0,22
17. Employees of excellent banks will have the knowledge to answer customers' questions.	5,42	5,60	0,18

Source: Made by author

Regarding the empathy dimension we record low but positive size of gaps. We see that customer perception regarding the special attention provided to each client, there is one that exceeds all expectations. Also the statement "The bank's focus is the client's interests.", recorded the lowest level of perception of whole SERVQUAL model, but also among the lowest levels of expectations. In addition any banks ability to provide personalized support every customer is exceeding all expectations (Table 5).

Table 5. Gap score for Empathy Dimension

Statement	Expectation Score	Perception Score	GAP Score
Empathy	Average for Dimension		0,14
18.Excellent banks will give customers individual attention.	5,24	5,30	0,06
19. Excellent banks will have operating hours convenient to all their customers.	5,64	5,76	0,12
20. Excellent banks will have employees who give customers personal attention.	5,26	5,30	0,04
21.Excellent banks will have their customer's best interests at heart.	4,78	5,04	0,26
22. The employees of excellent banks will understand the specific needs of their customers.	5,34	5,58	0,24

Source: Made by author

Gap that's recorded scores for each of the 5 dimensions are positive, it is gratifying reason for the bank as proof exceed customer expectations in terms of services. However, considering the relative importance of the five dimensions, it was preferable that the gap size for confidence, the most important being the higher one, but it is better than the second dimension as important, namely responsiveness register highest level (Table 6).

As regarding the results data bank features you appreciate most respondents, we observe a very high close rates recorded. However of the 5 features that stand out on the bank's ability to perform the promised service certainty and accuracy, while the appearance of utilities, equipment, staff and the bank's promotional materials do not reach a level of 18.20% than the prospect of surveyed. However test results confirm previously recorded in this model, which gave confidence dimension utmost importance, and the lowest tangibility dimension (Table 7).

Table 6. Calculations to obtain unweighted servqual score

1. Average Tangible SERVQUAL score	0,19
2. Average Reliability SERVQUAL score	0,14
3. Average Responsiveness SERVQUAL score	0,26
4. Average Assurance SERVQUAL score	0,24
5. Average Empathy SERVQUAL score	0,14
TOTAL	0,97
AVERAGE (= Total / 5) UNWEIGHTED SERVQUAL SCORE	0,194

Source: Made by author

Table 7. The importance given to each dimension

Features	Percentage
1.The appearance of the banks physical facilities, equipment, personnel, and communication materials.	18,20%
2. The banks ability to perform the promised service dependably and accurately.	22,38%
3. The bank's willingness to help customers and provide prompt service.	19,16%
4. The knowledge and courtesy of the bank's employees and their ability to convey trust and confidence.	20,40%
5. The caring, individual attention the bank provides its customers	20,06%

Source: Made by author

5. CONCLUSION

The GAP analysis can highlight many aspects of banking services. A negative GAP is a unfavorable aspect of the bank in question, because of a higher than current expectations of bank service offered. The existence of such a negative GAP should draw an exclamation point to that bank and taking action in a short time. Otherwise, the bank risks very much, which may reach the loss of customers. Fortunately Banca Romaneasca has recorded only positive GAP, the biggest GAP in Responsiveness (0,26), followed by Assurance (0,24).

The reliability had a relatively small average GAP (0.14), should be noted that this dimension recorded a positive GAP, so customer expectations were below perception, which we consider a good thing.

Although SERVQUAL model was criticized by many writers about either how to design and to operationalize the concepts of quality and satisfaction, or the predictability, reliability and validity of building size instrument, it remains a model for the analysis and measurement quality and customer satisfaction.

With regards to Banca Romaneasca, the results indicate applying SERVQUAL method exceed customer expectations in all categories of claims and in all 5 sizes, the largest degree of agreement being registered in terms of the safety of the bank. Well as level gaps recorded responsiveness and safety are two dimensions in which the respondents are exceeding expectations with a level above the average gap in sites with a level around 0.25.

Another improvement could be to extend opening hours, although there appear other variables such as increased staff costs due to extending working hours and their production of a certain discomfort. Bank should focus on training of its employees in understanding specific customer needs by providing individualized advice and banking products, attracting and maintaining customers in a permanent state of comfort.

The current difficult economic environment and the need to increase competitiveness of Romanian banks in terms of increased competition due to globalization of the economic process, accelerated in Romania joining the

European Union, requires a more pragmatic and realistic approach to quality of services that banks offer Romanian. With maturation of the Romanian banking market, quality of services tends to consist of a decisive competitive advantage for banks in the effort to increase sales and profitability.

Regarding the representativeness of the sample we can mention that the level of confidence is 95%.

The added value of this paper consists in providing an overview of the quality of services offered by the bank and identifying the bank dimensions that should be improved

This study is perceptible to improvements due to limitations such as small sample size, lack of a comparison with results that would have been obtained for other banks, which could surprise the more convincing the service quality bank offered the local banking market.

The future research directions aims on creating a comparative analysis of the quality of services offered by other concurrent banks with Banca Romaneasca.

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THE QUALITY OF BANKING SERVICES - A BASIC PREMISE OF A BANK SUSTAINABILITY

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Abstract *In recent years, organizations are obliged to render more services in addition to their offers. The quality of service has become an aspect of customer satisfaction. It has been proven by some researchers that service quality is related to customer satisfaction. Others used service quality dimensions to evaluate service quality. The main purpose of this study is to examine the relationship between customer satisfaction and service quality in service sectors with respect to the service quality dimensions.*

Customer satisfaction has been a subject of great interest to organizations and researchers alike. The principal objective of organizations is to maximise profits and to minimise cost. Profit maximisation can be achieved through increase in sales with lesser costs. One of the factors that can help to increase sales is customer satisfaction, because satisfaction leads to customer loyalty (Wilson et al., 2008), recommendation and repeat purchase.

Romanian banking system can be characterized as a dynamic business environment in which banks encounter considerable difficulties to increase or at least to maintain market share. Increasing the number of banks led, on the one hand to increased competition, and on the other hand has increased standards that banks must meet to gain a net advantage in this area.

Competition between banks is a factor that generates increasing demands from customers, putting pressure on management. People everywhere are now more and more access to information, both quantitatively in terms of sources and in terms of quality, so it is expected that banks working together to meet the needs where when and how they want. Otherwise, customers are willing to make changes, and the bank risks losing its market share for competitors.

Considering all of this, the main concern of credit institutions in Romania should be to maintain a portfolio of clients. Long-term cooperation relations between a bank and its customers is the proof of that bank's efforts in providing quality services that meet consumer demands.

Keywords: *Customer satisfaction, Service quality, dimensions, SERVQUAL, service sectors, competition*

JEL classification: *G21, M31*

1. Introduction

Keeping existing customers is a challenge for banks and a starting point in trying to improve performance, financial performance. It is therefore necessary more and more to focus all efforts aimed at improving services, a bank has more than won as not only meet our customer needs, at their request, but even they anticipated. As some researchers, "high-quality services resulting in satisfied customers" who "becomes, then, loyal customers." In other news, the high standards adopted by some banks to bring them a competitive advantage over others, in that if the customer is satisfied, most likely will continue to use the services of the institution that has worked and even recommend his knowledge, ignoring offers other banks. So it is important to review the quality of services so that you can identify those that need improvement. Banks should be responsive to the feedback they provide to customers and nuance, in the sense of knowing which aspects are crucial in obtaining a degree of satisfaction as close to maximum. Only then will be able to distinguish between other actors in the banking and loyalty to their customers.

In terms of consumer services can be perceived as benefits or experiences, so to say he is satisfied or rather, the client evaluates every contact he had with the bank: indirectly, through ATMs, Internet Banking etc. or directly with staff within the bank. So I would say the following idea: quality is the aspect that concerns the banking institution and customer satisfaction is the result of how the bank providing the services. The overview of the degree of satisfaction of a consumer banking products and services is made when the customer actually walks bank and when they call for electronic devices.

2. The need to analyze banking services quality and customer satisfaction

The analysis of banking services quality and customer satisfaction is imperative for several reasons.

The first reason is determined by the idea that the services by their nature are intangible products offer a bank can be easily copied by competitors, and its provision of services is no exception. Since there are tangible and can not be seen, they can be easily adapted as a competing banking institution, without the bank to stand out in a negative way. All banks in Romania offers customers the ability to withdraw money from ATMs to access their accounts via Internet Banking service. In addition, is almost no differences between the characteristics of these services from one bank to another. In these circumstances, the mere fact that credit institutions include in their offer these services is no longer a competitive advantage. However, how it is treated within a bank customer can be a major difference, is almost impossible gestures staff, ambience and atmosphere of competition created to be reproduced. What distinguishes the modern channels of traditional service delivery channels is the fact that involve contact between man - machine, while the second category involves direct relationship between client and staff, which must meet certain quality. Attitude, gestures, experience of employees believe there are aspects difficult to copy exactly. There are researchers who have given attention to this subject and concluded that is a direct, positive, link between staff serving customers and overall satisfaction reported by him, in that staff is the factor that makes a difference: people who use services banks generally believe that the differences are insignificant market supply from one institution to another, so that often choose depending on how you believe they have been treated within

the bank. It shows, such a relationship of cause - effect (positive) between the quality and professionalism of employees in the banking system -> increase customer satisfaction -> loyalty -> increasing the market share.

The second reason concerns the preoccupation of banks to open new territorial units, although the market is visibly affected by the negative consequences of financial crisis that shook the world. It is true that expansion is not as great as the glory years in the field and that all banks have resorted to closing agencies, but it can be seen, however, that are interested to come closer to their customers every neighborhood of large cities.

Third, customer satisfaction is even greater as more directly interact with the bank due to culture and history of our people; the communist regime, which marked Romania was characterized by the fact that freedom of expression and socialization have been oppressed, so currently Romanians want to interact a lot with each other, especially with those are managing their money, because they feel so safe, unlike other peoples, who are more individualistic.

It is the duty of those who are part of the management to consider all these requirements and to handle continuously the improvement of employees who will establish a relationship with customers based on trust, which will reduce their uncertainty and enhancing their satisfaction felt. Quality that the service consumer appreciates comes ultimately from the trust that he receives reliable information from the services provider that is useful banking and, whenever there is a confusion or is not handle in a certain respect, finds support promptly.

Service quality is an important tool to measure customer satisfaction (Hazlina, 2011). Empirical studies show that the quality of service offered is related to overall satisfaction of the customer.

For these reasons, the premise from which we start in making the case study was that perhaps Romanians satisfaction regarding banking services that benefit is mainly influenced by the relationship they establish with the bank, innovation than the physical elements, tangible or processes in general.

As shown, the concept of customer satisfaction is defined in the literature as a variant form of statements and definitions. In this sense, some authors (Zeithmal, 1991) shows that the definitions set forth on customer satisfaction varies depending on the level of specificity. Thus, according to this level of specificity, the definition of customer satisfaction may refer to:

- 1.Satisfaction about the product
- 2.Satisfaction on the decision to acquire experience
- 3.Satisfaction on performance attributes
- 4.Satisfaction on the experience of consumption
- 5.Satisfaction on the institutions and shops
6. Satisfaction related to pre-purchase experience

Another interesting interpretation of the concept of customer satisfaction is that grouping definitions into two categories(Yi,Y., 1991):

- 1.The definitions that address satisfaction as a final state of the consumer and which do not focus on the process that lead to it.
- 2.The definitions which concern the entire process of constructing and training of customer satisfaction definitions that are more precise and analytical, stressing at the same time, the nature and importance of different elements (dimensions) construction of this concept, and the links between them.

Therefore, some experts feel that the concept of customer satisfaction is related to the after-purchase products or services, it is impossible to judge satisfaction as long as the product or service was not consumed. In their view, customer satisfaction is a global judgment relating to the consumption experience specific product or service itself influenced by personal characteristics and consumer. Other authors consider the concept of satisfaction as an overall assessment of the utility of a consumer product or service based on the perception of "what" and "how" was provided.

Also, the concept of customer satisfaction can be explained and operationalized in terms of the quality concept. Thus, most experts agree that customer satisfaction can be defined as an assessment of the various dimensions of quality products and services.

The border between customer satisfaction and service quality is difficult to delimit, terms are often confused. If a quality service refers to the way in which it is supplied, then we can say that the general feeling of satisfaction are using it. Satisfaction comes from experience, from customer contact with the service. Some authors consider quality as an intrinsic attribute of service and customer satisfaction is only if they perceive that quality. Therefore an unwritten rule in banking is not to sell to the customer a "product" but "qualities" of that product. A good sales person will sell a loan, but the ability to purchase a house, a car, etc. with money from funding provided by the bank, but will not sell Internet Banking will allow you to shorten the time spent in line at the counter, quick and convenient access to personal accounts, reducing travel expenses to bank office, also will not sell a warehouse officer, but will give customers an alternative to their economies safety. Otherwise, it's very possible for a customer to purchase the product or service banking advisor, but if you find that it serves to cover its needs, the more likely that the sale process will stop. The seller ability consists in discover or, going forward, to anticipate consumer needs. Is no exaggeration when we say that some needs were created by economic agents centuries ago, no one felt the need to have bank cards to make payments at merchants - cashing cash wages and all transactions are made in cash.

Being considered as a prerequisite for establishing enduring relationships, profitable between a bank and its customers, relationships that are beneficial to both parties, service quality is a complex coordinated, though not necessarily complicated, if examined closely. Therefore a series of investigations are needed to better understand the meanings of 'quality' and how it differs in meaning to customers, unlike the other customers. Depending on the results, the management of institutions should try to adapt the offer so that it is accessible and to thank the group of clients are addressed. This is even more difficult as quality is a subjective dimension, which every man can appreciate different filters whereas the own value system through their own experience, for example, a customer who is always busy and has time to reach the bank within the appropriate time, we believe that the Internet Banking service is exactly what you need, while a person who does not have easy access to the Internet will not see in it a quality service that they bring great satisfaction.

3. Assessing the quality of bank services

Management has provided numerous methods to investigate where is positioned against the competition, researchers have outlined several methods for the analysis of quality services in various fields, in order to measure subsequent satisfaction of individuals in relation to the services provided by those institutions. These include SERVQUAL method, patented by Zeithmal and Parasuraman (2004), based on identifying GAPS between customer expectations and their perceptions, ie what is expected to meet having contact with various services, compared with as they met. SERVQUAL is probably the most common model for measuring customer satisfaction felt (Bahia, K., & Nantel, J., 2000), model that analyzes five dimensions: safety, empathy, reliability, responsiveness, visual impression. Based on the discussions and analyzes the links between customer satisfaction and perceived quality of service expectations, SERVQUAL model trying for the first time operationalize the concept of satisfaction in a theoretical and academic background (Derek, A. & Rao, Tanniru, R., 2000).

Another model that has proved useful is quality technical / functional qualities developed by Gronroos, technical quality refers to the result itself, while functional quality describes how customer service is provided and is considered to be coordinated main, more important than technique. Gronroos model built based on 6 dimensions similar to those proposed by SERVQUAL model namely professionalism, attitude, flexibility, trust, reputation, credibility.

A third model pretty used is SERVPERF defined by Cronin and Taylor (1992), whose scale of measurement is quite similar to that provided by SERVQUAL model, the only difference being that this model analyzing customer opinions only in how they perceive the quality of services offered by different companies, which were not their expectations about those services. So SERVPERF does not realize a comparison between expectations and perceptions, as the authors model considers that the comparison is not necessarily conclusive for relationship satisfaction, quality, they believe that if customers overall impression of a certain institution is positive, then that the institution provides quality services.

4. Applying the SERVQUAL method. Case study: Volksbank Oradea

SERVQUAL method was applied to Volksbank –Oradea, among bank customers in order to delineate and confirm the extent to which services offer the bank meets quality standards or customer expectations and points where improvements can be made for a more favorable perception of services.

The sample was applied in 200 people, the results confirming its position in the market but the main guidelines that the bank has to its customers.

The questions from the questionnaires used by reviewers are grouped by service quality dimensions in total SERVQUAL contains 22 questions that are adjusted according to the type of service evaluated. When completing the questionnaire client should consider the extent to which the service should meet specified quality attributes, respectively, to appreciate what it means for that service quality based on its own experience as a user of the service. The answers reflect customer expectations and perceptions of Volksbank –Oradea service quality.

Customer responses consisted in of two marks each attribute grant, on a Likert scale with 7 degrees of intensity. If the respondent believes that the service meets attribute when given high note 7 ("total agreement"), or on the contrary minimum grade 1 ("strongly disagree").

At four questions related to tangibility dimension of banking services quality, the results of the perception indicate a slight increase in the level perceived by customers to their expectations. In all discussions, registered gaps are positive, the highest level in terms of land bank in a recipient. Thus the values recorded visual impression given by bank customers around the level of agreement 6 of 7 (Table 1).

Table 1. Gap score for Tangibles Dimension

Statement	Expectation Score	Perception Score	GAP Score
Tangibles	Average for Dimension		0,19
1. Excellent banking companies will have modern looking equipment.			
2. The physical facilities at excellent banks will be visually appealing.			
3. Employees at excellent banks will be neat appearing.	5,72	5,88	0,16
4. Materials associated with the service (such as pamphlets or statements) will be visually appealing at an excellent bank.	5,64	5,88	0,24
	5,60	5,74	0,14
	5,52	5,74	0,22

Source: Made by author

Regarding the size of reliability, on keeping promises and characteristics of services offered, bank records analyzed results somewhat lower than tangibility dimension, the gaps he recorded was the lowest. But what is important is the bank register positive gaps again customer expectations are exceeded by their perception of service delivery by the bank. The lowest gap level is 0.06, in terms of readiness to perform the services required (Table 2).

Table 2. Gap score for Reliability Dimension

Reliability	Average for Dimension		0,14
5. When excellent banks promise to do something by a certain time, they do.	5,36	5,56	0,20
6. When a customer has a problem, excellent banks will show a sincere interest in solving it.	5,34	5,50	0,16
7. Excellent banks will perform the service right the first time.	5,30	5,36	0,06
8. Excellent banks will provide the service at the time they promise to do so.	5,30	5,42	0,12
9. Excellent banks will insist on error free records	5,40	5,58	0,18

Source: Made by author

Analyzing the third dimension, the bank's responsiveness to customer needs, we see the best improvements in the perception of respondents towards their expectations. This is the best record in terms of availability of bank employees to

help customers and to meet their demands. Gaps Media is the best of all 5 sizes (Table 3).

Table 3. Gap score for Responsiveness Dimension

Responsiveness	Average for Dimension		0,26
10. Employees of excellent banks will tell customers exactly when services will be performed.	5,38	5,48	0,10
11. Employees of excellent banks will give prompt service to customers.	5,38	5,58	0,20
12. Employees of excellent banks will always be willing to help customers.	5,38	5,74	0,36
13. Employees of excellent banks will never be too busy to respond to customers' requests.	4,72	5,12	0,40

Source: Made by author

Questions related to service quality dimension security for banks recorded the highest levels of agreement, and a gap close to the maximum of the 5 dimensions. Thus the statement on confidence in the security of bank transactions, the answers of respondents recorded the highest level of agreement of 6.10, while the statement on confidence inspired by the behavior of employees, the level of agreement is high, even and the gap between perceptions tunes and one high, at 0.38 (Table 4).

Table 4. Gap score for Assurance Dimension

Assurance	Average for Dimension		0,24
14. The behavior of employees in excellent banks will instill confidence in customers.	5,60	5,98	0,38
15. Customers of excellent banks will feel safe in transactions.	5,92	6,10	0,18
16. Employees of excellent banks will be consistently courteous with customers.	5,50	5,72	0,22
17. Employees of excellent banks will have the knowledge to answer customers' questions.	5,42	5,60	0,18

Source: Made by authors

Regarding the empathy dimension we record low but positive size of gaps. We see that customer perception regarding the special attention provided to each client, there is one that exceeds all expectations. Also the statement "The bank's focus is the client's interests.", recorded the lowest level of perception of whole SERVQUAL

model, but also among the lowest levels of expectations. In addition any banks ability to provide personalized support every customer is exceeding all expectations (Table 5).

Table 5. Gap score for Empathy Dimension

Empathy	Average for Dimension		0,14
18. Excellent banks will give customers individual attention.	5,24	5,30	0,06
19. Excellent banks will have operating hours convenient to all their customers.	5,64	5,76	0,12
20. Excellent banks will have employees who give customers personal attention.	5,26	5,30	0,04
21. Excellent banks will have their customer's best interests at heart.	4,78	5,04	0,26
22. The employees of excellent banks will understand the specific needs of their customers.	5,34	5,58	0,24

Source: Made by author

Gap that's recorded scores for each of the 5 dimensions are positive, it is gratifying reason for the bank as proof exceed customer expectations in terms of services. However, considering the relative importance of the five dimensions, it was preferable that the gap size for confidence, the most important being the higher one, but it is better than the second dimension as important, namely responsiveness register highest level (Table 6).

As regarding the results data bank features you appreciate most respondents, we observe a very high close rates recorded. However of the 5 features that stand out on the bank's ability to perform the promised service certainty and accuracy, while the appearance of utilities, equipment, staff and the bank's promotional materials do not reach a level of 18.20% than the prospect of surveyed. However test results confirm previously recorded in this model, which gave confidence dimension utmost importance, and the lowest tangibility dimension (Table 7).

Table 6. Calculations to obtain unweighted servqual score

1. Average Tangible SERVQUAL score	0,19
2. Average Reliability SERVQUAL score	0,14
3. Average Responsiveness SERVQUAL score	0,26
4. Average Assurance SERVQUAL score	0,24
5. Average Empathy SERVQUAL score	0,14
TOTAL	0,97
AVERAGE (= Total / 5) UNWEIGHTED SERVQUAL SCORE	0,194

Source: Made by authors

Table 7. The importance given to each dimension

Features	Percentage
1. The appearance of the banks physical facilities, equipment, personnel, and communication materials.	18,20%
2. The banks ability to perform the promised service dependably and accurately.	22,38%
3. The bank's willingness to help customers and provide prompt service.	19,16%
4. The knowledge and courtesy of the bank's employees and their ability to convey trust and confidence.	20,40%
5. The caring, individual attention the bank provides its customers	20,06%

Source: Made by authors

5. Conclusion

Although SERVQUAL model was criticized by many writers about either how to design and operationalize of the concepts of quality and satisfaction, or the predictability, reliability and validity of building size instrument, it remains a model for the analysis and measurement quality and customer satisfaction.

With regards to Volksbank – Oradea, the results indicate applying SERVQUAL method exceed customer expectations in all categories of claims and in all 5 sizes, the largest degree of agreement being registered in terms of the safety of the bank. Well as level gaps recorded receptitivatea and safety are two dimensions in which the respondents are exceeding expectations with a level above the average gap in sites with a level around 0.25.

We recommend to the bank to take action on correction negative gap made by a stronger emphasis on appearance of employees, improve timeliness of services and increasing the availability of employees to help customers in a short time and useful.

Another improvement could be to extend opening hours, although there appear other variables such as increased staff costs due to extending working hours and their production of a certain discomfort. Bank should focus on training of its employees in understanding specific customer needs by providing individualized advice and banking products, attracting and maintaining customers in a permanent state of comfort.

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A TALE OF TWO CYCLES IN DEVELOPING AND ADVANCED ECONOMIES: A COUNTRY CASE STUDY COMPARISON

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Abstract: *This research aims at performing an econometric analysis on the credit cycle and business cycle from a comparative perspective, with a focus on ten developing and advanced economies from the area of Central, Eastern and South-Eastern Europe, in order to better understand their behaviour and the impact of the interactions between them. To achieve this aim, the study focuses on two strategic objectives: a) on the one hand, it analyzes the short-term dynamics (from one quarter to the other) of the relationships between credit expansion and economic growth in order to better grasp which variable influences the other; and b) on the other hand, the research investigates the cyclical components of the data sets (after extracting them from the real GDP and the total volume of credits given by the banking system to the non-governmental sector), i.e. it performs statistical analysis on the medium-term relationships between the business cycle and the credit cycle for each of the ten European economies. The findings revealed in the first phase of the investigation that we cannot speak of a relation of unidirectional causality between credit expansion and economic growth across countries (not even across geographical regions). In Bulgaria, Latvia, Lithuania and Slovenia, economic growth had an important influence over the crediting activity, thus “guiding” it, whereas in the case of Poland, Romania and Slovakia, Granger-type causality relations were registered from the crediting expansion process towards economic growth. The second part of the investigation revealed that sometimes the credit cycle seems to be independent from the business cycle, manifesting an amplitude, a synchronicity and a volatility that is different from and superior to that of business cycle in all the analyzed countries (“having a mind of its own”). Moreover, there is evidence of important spill-over effects of the credit activity across banking systems at national and regional level thus confirming the international feature of the credit cycle.*

Key words: credit cycle, business cycle, unidirectional causality, amplitude, synchronicity

JEL classification: C01, C19, C29, E30, E32, E51

1. Introduction

The occurrence of the most critical international financial crisis of the 21st century questioned the validity of the mainstream economic theories and, more specifically, brought back to the centre of academic circles many variables such as monetary aggregates or credit fluctuations and their macroeconomic importance in the amplification, propagation and even generation of severe financial shocks during calm periods, as well as during times of financial turmoil. Hence, the analysis and understanding of the credit cycle (also known as the leverage cycle) and its connections with the business cycles (or economic cycle) is more than interesting, especially during these times of distress, for academic circles, as well as for decision makers who are still striving to find a pertinent answer to the current financial turbulences.

In this context, the study aims at performing an econometric analysis on the credit cycle and business cycle (offering not only an individual approach but also a comparative perspective), with a focus on ten economies from the area of Central, Eastern and South-Eastern Europe, with the purpose of understanding their behaviour and the impact of the interactions between them. In order to achieve this bold aim, this study is structured into two main parts, thus delineating the two strategic objectives: a) on the one hand, we plan to analyze the short-term (from one trimester to the other) causality relations between the credit cycle and the business cycle in order to understand which cycle influences the other; b) on the other hand, we intend to investigate the nature of the interferences which appear between the frequency at the level of the business and credit cycles within a bigger time span.

The structure of the study is as follows: chapter 2 captures a brief overview of the economic literature on the main findings on the business and credit cycle, chapter 3 presents the data and methodology used, chapter 4 and 5 presents the results of the empirical study and chapter 6 resumes the main findings.

2. A brief Literature Review

When speaking about a cyclic phenomenon, we usually refer to a sequence of events that repeat in time. As far as *business cycles* are concerned, they refer to sequences of economic booms and recessions that are specific to the market economy. The first written mention of a business cycle appears in the Bible, the Old Testament, Genesis 41, 2-7, where Joseph refers to those 7 years business cycles.

The last two decades can be described as a period of rapid development in the *theoretical literature* on the macroeconomic implications of financial variables. When investigating the financial frictions, the researchers found that these market imperfections arise from several sources: the *informational asymmetry between creditors and borrowers* (Bernanke and Gertler, 1995; Bernanke, Gertler, and Gilchrist, 1999; and Gilchrist, 2004), the *lending collateral constraints faced by borrowers* (Kiyotaki and Moore, 1997; Gertler and Kiyotaki, 2010) and the *raise of loanable funds by the banks* (Chen, 2001; Meh and Moran, 2004). Yet again, financial factors play an important role in the modern business cycle. As mentioned in the papers of Fisher (1933) and Minsky (1986), works which have recently re-entered into the spotlight of many researchers (e.g., Jorda, Schularick and Taylor, 2012; Bhattacharya *et al.*, 2011), the potential explanations for this „financial phenomenon” should be considered the financial accelerator effects, more acute debt-overhang pressures after credit-intensive booms and effects of the risen credit intensity in a more extreme fashion.

Several researchers go even further by applying *models of financial frictions to an open economy* in order to investigate the role of financial variables in the international transmission mechanism and thus in the modelling and propagation of business cycles. Gilchrist (2004), focusing on the asymmetries between lending conditions across different economies, demonstrated that *highly leverage countries are more vulnerable to external shocks*. Devereux and Yetman (2010), using a model based on two countries, concluded that, in condition of binding leverage constraints, a fall in asset values in one country forces the *balance sheet to contract* for both domestic and foreign investor.

Regarding to the *empirical literature* on the subjects of interest, many researchers have studied the linkages between financial components and economic development. Levine and Zervos (1998), using cross-country studies, found a positive and significant *correlation between the initial level of banking development and future rates of economic and productivity growth* over a period of eighteen years. Focusing on the same type of instrumental variables, Levine, Loayza and Beck (2000) emphasized a *strong connection between the exogenous component of financial intermediary development and long-run economic growth*. Jorda, Schularick and Taylor (2012), studying fourteen developed economies during the period 1870-2008, concluded that *financial factors play an important cyclical role*.

The present study builds upon the research of Apostoae and Percic (2012), where they analyzed the short-term relation of causality between the credit cycle and the business cycle in ten European states over the period 2002-2012, and concluded that in the economies of five states the real GDP was the variable which “guided” the credit cycle, whereas in the case of four states relations were registered from the crediting activity towards the economic activity. Nevertheless, as they also highlighted in their analysis, the results were distorted by the very reduced time frame of the data set used for some countries. Moreover, the current research intends to complement the study developed by the European Banking Federation (2011) on 11 European states plus the United States in which, it was highlighted that the credit cycles are generally independent from the business cycles, at least in terms of synchronicity and amplitude.

3. Data used and methodological approach

In the present analysis we used sets of data with a quarterly frequency of the real GDP and of the total volume of credits given to the non-banking private sector by the credit institutions from the ten countries from Central Europe (Poland, the Czech Republic, Hungary, Slovakia and Slovenia), Eastern Europe (Estonia, Latvia, Lithuania) and South-Eastern Europe (Bulgaria and Romania). The reference period is 2000 (first quarter) – 2012 (final quarter) or 2000:Q1-2012:Q4. The data set consists of:

- 1) the data for the real GDP and the GDP price deflator, for each country, are from the Eurostat data base (series keys *namq_gdp_c* and *namq_gdp_p*);
- 2) the data series for bank loans come mainly from the ECB, Statistical Data Warehouse as follows: Poland (2004Q1-2012Q4), Czech Republic (2002Q1-2012Q4), Hungary (2003Q1-2012Q4), Slovakia (2006Q1-2012Q4), Slovenia (2004Q1-2012Q4), Estonia (2008Q1-2012Q4), Latvia (2003Q1-2012Q4), Lithuania (2004Q1-2012Q4), Bulgaria (2004Q1-2012Q4) and Romania (2004Q1-2012Q4);

3) the remaining data for bank loans are proxies generated either from data coming from the Eurostat data base (Poland, Hungary, Slovakia, Slovenia, Latvia, Lithuania, Bulgaria) or from the Central Banks data reports (Czech Republic, Estonia, Romania). Regarding the total volume of credits in each state, the data series was updated in order to take into consideration the level of inflation by using the GDP deflator. After examining the seasonal nature of the real GDP, the graphical representation showed that seasonality occurs in all states that are the object of this study. When analyzing the evolution of the GDP for each quarter and the average of the observations, also for each quarter, significant differences between the quarterly averages were noticed especially in Bulgaria, Hungary, Latvia, Poland, Romania and Slovenia. In these states, the time set corresponding to the real GDP presents an accentuated seasonality. In the other states (the Czech Republic, Estonia, Lithuania and Slovakia), the quarterly averages corresponding to the real GDP are in the immediate proximity. Given the fact that the data set corresponding to the real GDP presented a strong seasonal nature, the authors have seasonally adjusted, in EViews, the time sets by using a methodology also employed by Eurostat (Statistical Office of the European Commission) in its analyses (the *Tramo/Seats* methodology).

4. Results of the analysis on the short-term dynamics of the relationships between credit expansion and economic growth

In this part of our analysis we will verify whether there is any kind of relationships between the two variables (credit and real GDP) in the ten states (either contemporaneous correlation or Granger type causality). In other words, the research paper examines: firstly, if there is any kind of correlation between the two variables and secondly, whether the short-term turbulences that may occur in the credit expansion process and economic growth are related, without taking into consideration the medium-term trend of the two variables (which will be analyzed later).

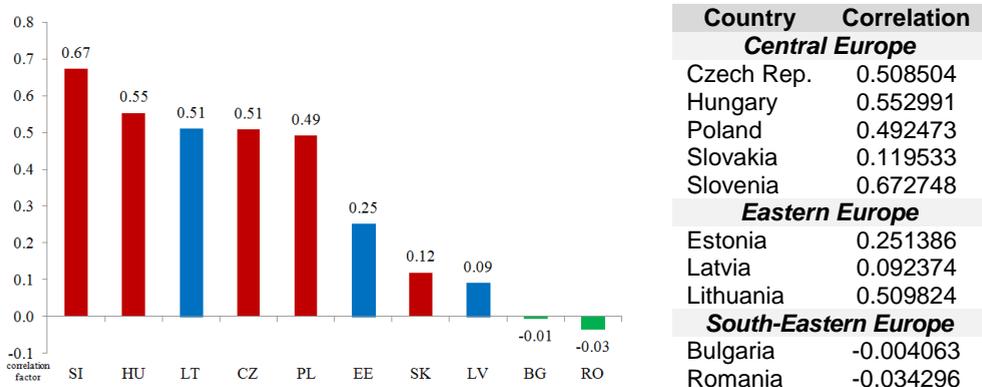


Figure 1: Short-term correlation between the real GDP growth and credit volatility (in logarithmic values) over the 2000-2012 time span

Source: author's elaboration

When analyzing the co-movement between the *credit volatility* (upwards or downwards changes of the logarithmic values of the total volume of credit adjusted with the GDP deflator) and *real GDP growth* (dynamics of the logarithmic values of

the real GDP) using simple correlation analysis (see Figure 1), one can see that it is particularly strong, in many cases the values exceeding the threshold of 0.50 (in Slovenia, Hungary, Lithuania, Czech Republic and close to Poland). Therefore, in these particular cases, we can speak of a dynamics that is almost coordinated (the degree of interdependence between the two variables is high). The results are uniform at region level for South-Eastern Europe (where, both in the case of Bulgaria and Romania, the correlation is weak, with factors ranging from -0.004 to -0.034) and Central Europe (where, with the exception of Slovakia, all the countries have high correlation values). In Eastern Europe we encounter heterogeneous results: in Lithuania there is a strong correlation between the two variables, in Estonia there is a medium-strength correlation and in Latvia a very weak correlation. The cross-correlation analysis with the two variables for each of the ten economies revealed thus big and positive values of the coefficients for *lag/lead* 0 (first row) for all the countries in the panel data set. Therefore, this is evidence of a *pro-cyclic* movement between the two analyzed variables in these economies.

Although there is strong evidence of co-movement between the *credit expansion* and *real GDP growth*, this does not imply that one variable influences the other (the Cross Correlogram also does not confirm the causality but rather determines the time lag between two variables). In such a scenario, further analysis should be employed to establish the causality between the two variables.

An important analysis that can show if the causality relations between two variables are unidirectional or bidirectional is the *Granger* analysis of causality. At the same time, we will be able to test whether a certain variable (either economic growth or credit volume) can be treated as endogenous or exogenous. A very important aspect with regard to the *Granger* test of causality consists in the fact that, if it is applied on non-stationary data sets, the results can be inconclusive (a stochastic process is *stationary* if its average and covariance are constant in time, which means that they oscillate around a certain value). For these reasons, we determined the level of stationarity by using the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests for the variables used (and that were previously adjusted to take into consideration seasonally fluctuations). The results (which for reason of space constraints were not attached at this paper but can be delivered upon request) showed that, at a level of relevance of five per cent, the order of integration is at least 1 or the set is $I(1)$ (therefore, are non-stationary). Given the fact that we are dealing with non-stationary data sets in determining the Granger-type causality, the Toda and Yamamoto approach (see Apostoae and Percic, 2012). According to the results in Table 2, the credit expansion process can be a “leader”, as well as a “follower” in its relation with economic growth, outlining thus the complexity of the mechanics of economic development. According to the results of the Granger tests (using the Toda-Yamamoto approach), we may notice that these are not uniform, i.e. there is no relation of *unidirectional causality* (of the Granger type) from the crediting activity towards the economic activity or the other way around in the analyzed economies. Nevertheless, at regional level, there is a common ground, e.g. in the case of Eastern Europe, there is a unidirectional relationship from the real GDP to the crediting activity. In another study (EBF, 2011) it was noticed a complete lack of any relation of the type lag-lead between the economic activity and the crediting activity in states such as Italy, Portugal or the Netherlands (for the period 1980-2010).

One can notice that in the economies of four states (Bulgaria, Latvia, Lithuania and Slovenia), the real GDP was the variable which influenced in a decisive manner the crediting activity of the banking system, in the sense that a growth of economic activity was followed (in an interval period from two to four quarters) by an increase in the volume of credits granted (credit expansion). In some countries, like the cases of the Czech Republic, Hungary or Estonia, there is no apparent causal relationship (a lead-lag type one) between the GDP growth and the credit expansion. Therefore, upwards or downwards alternations in the crediting activity do not appear to be caused by modifications in the real economy (through the real GDP) or vice versa. The case of Hungary is an exception, because if we were to determine the causality using the simple Granger causality test (without using the T-Y procedure given the presence of stationarity within the data series), we would find out that there is a unidirectional influence from the credit to the real GDP (i.e., credit expansion causes GDP growth with a delay of 2 and a half years (10 quarters)).

Table 1: Test of the Granger-type causality between the economic and crediting activity

	Country	Type of causal relationship	VAR order	Additional lags	Chi-sq
Central Europe	Czech Rep.	NO	2	1	-
	Hungary	NO	3	0	-
	Poland	Credit \Rightarrow PIB PIB \Rightarrow Credit	2	1	12.387*** 5.359*
	Slovakia	Credit \Rightarrow PIB PIB \Rightarrow Credit	3	1	7.253* 17.459***
	Slovenia	PIB \Rightarrow Credit	2	2	8.428**
Eastern Europe	Estonia	NO	5	2	-
	Latvia	PIB \Rightarrow Credit	4	2	11.021**
	Lithuania	PIB \Rightarrow Credit	4	2	7.639*
S-E Europe	Bulgaria	PIB \Rightarrow Credit	2	1	6.281**
	Romania	PIB \Rightarrow Credit Credit \Rightarrow PIB	4	1	10.477** 13.297***

Note: *, ** and *** denote the significance at the levels 10%, 5% or 1%; Credit \Rightarrow GDP supposes that the historical values (or lags) of the crediting activity contribute to the estimate of the future values of economic activity; The VAR order has been selected by using the informational criteria Akaike, Schwarz and Hannan-Quinn, the Schwarz criterion having priority; The additional lags represent the number of additional lags taken into consideration for testing the Granger-type causality.

Source: author's elaboration

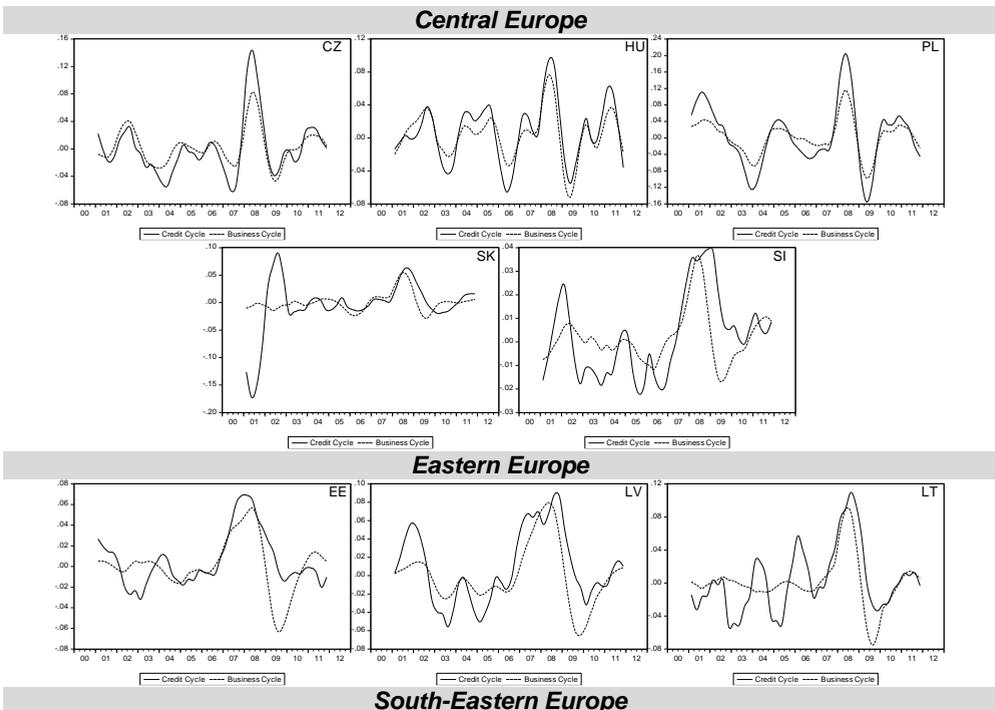
Relations of causality of Granger-type from the crediting activity towards the economic activity were registered in the economies of three states (Poland, Romania and Slovakia). Unlike the first relation, where the effect of an increase in the real GDP was felt in the volume of credits during the following two to four quarters, this time credit expansion transfers to the real GDP, with lags ranging from two to three quarters (the effect is more rapidly). In these states, the higher level of indebtedness of the banking system boosted the economic activity. Furthermore, in the above mentioned countries, there seems to be even a feedback from the real economy for the crediting process. Therefore, for these countries, the credit expansion registered at a certain point leads in the next quarter to a growth of the real GDP which, in its turn, determines a bigger expansion of the crediting activity in the near

future. Unlike the cases of Bulgaria, Latvia, Lithuania and Slovenia (where there was a unidirectional causality from the real GDP to the credit area), in Poland, Romania and Slovakia the relation of causality is bidirectional.

5. Results of the analysis of the medium-term relations between the business cycle and the credit cycle

This part of the research aims at performing statistical analysis on the cyclical components of the data sets (after extracting them from the real GDP and the total volume of credits given by the banking system to the non-governmental sector), i.e. it analyzes the medium-term relationship between the business cycle and the credit cycle for each of the ten economies from Central, Eastern and South-Eastern Europe. The cyclical component of a data set captures oscillations for periods longer than one year at a macroeconomic level.

The most frequently used filters for obtaining the cyclic component from a data set are the Baxter-King filter and the Hodrick-Prescott filter. In our case, we will use, during a first phase, the Baxter-King filter (Baxter and King, 1999) with the frequency set at 1 year. The accuracy of the data was subsequently verified by using the Hodrick-Prescott filter (Hodrick and Prescott, 1997).



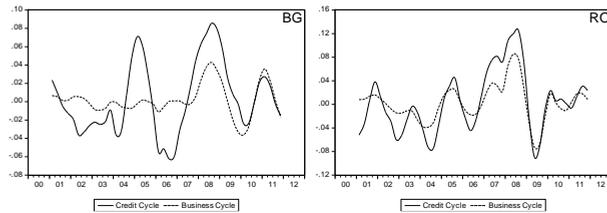


Figure 2: Dynamics of the business cycle and of the credit cycle in the panel of ten economies, using the B-K filter with a frequency of 4 quarters
Source: author's elaboration

The business cycle from each country is actually the deviation of the real GDP from its long-term trend. The *credit gap* is quantified in per cents from the total volume of credits given by the banking system. After the extraction of the cyclic component from the economic and crediting activity for each of the ten states by using the Baxter-King (BK) filter with a frequency of 4 quarters, the data were centralized and their graphical representation is presented in Figure 2. One can notice the dynamics of the cyclical components from the two analyzed variables. Consequently, we may identify the two cycles: *the business cycle* and *the credit cycle*.

The positioning of the business cycle above the line representing the null value (which means that the *output gap* takes positive values) suggests that the economic activity had a period of sustained growth and exceeded the long-term trend a while ago. Consequently, the economic activity is in a stage of expansion. On the other hand, the positive values of the *credit gap* suggest that the crediting activity went through an expansion stage which exceeded its long-term trend; this means that there was an increased availability of credits in the economy. Unlike the business cycle, the credit cycle has a higher volatility in time in most analyzed cases.

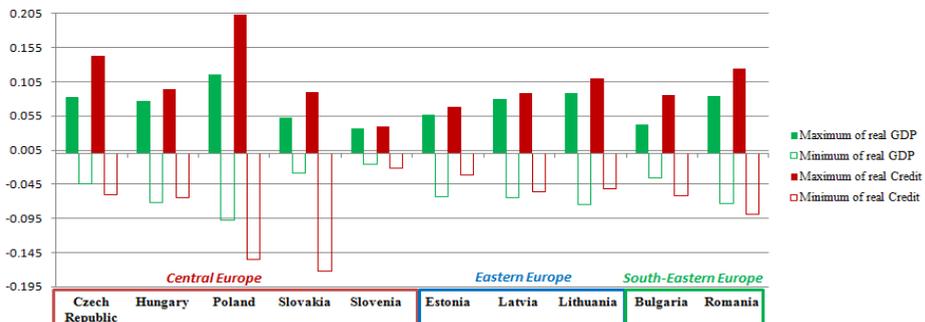


Figure 3: Extreme values in the amplitude of the business cycle and of the credit cycle in the ten analyzed states from Central, Eastern and South-Eastern Europe
Source: author's elaboration

According to Figure 3, the credit cycle has a bigger amplitude rate in comparison with the business cycle in all the analyzed countries. Moreover, in Central Europe there seems to be the biggest amplitude of the analyzed cycles.

Table 2: Spill-over effects of credit expansion in the panel of ten economies

in Central Europe		in Eastern Europe		in South-Eastern Europe	
from country	to country	from country	to country	from country	to country
HU, LT, LV, SI, SK	Czech Rep. (CZ)	HU, LT, PL, RO, SI, SK	Estonia (EE)	EE, RO, SI, SK	Bulgaria (BG)
CZ, LT, LV	Hungary (HU)	EE, PL, RO, SK	Latvia (LV)	EE	Romania (RO)
EE, LV	Poland (PL)	EE, LV, RO, SK	Lithuania (LT)		
BG, LV, RO, SI	Slovakia (SK)				
BG, LV	Slovenia (SI)				

Source: author's elaboration

A more interesting analysis is the one of the spill-over effects regarding the international disturbances in bank credit across the analyzed panel of countries. This study was conducted using the VAR (p) analysis (where the number of lags considered was $p=2$) including in the equation the quarterly changes occurred in the logarithmic values of the real credit for each economy. Within each VAR, we then looked at the statistical significance of each estimated parameter (corresponding to the influence of a lagged credit change ($t-1$ or $t-2$) of country α passed into the volatility in credit growth of country β) and considered only those for which the value exceeded the threshold of 10%. An important aspect to be considered is that the credit shocks from countries α_1 to α_2 towards country β are not exhaustive, i.e. there are of course other important factors that affect the credit cycle of a country but are not considered in this study (in the panel of economies analyzed).

According to the results (see Table 2), there seems to exist significant spill-over effects regarding the credit expansion, moreover in Estonia (where credit spill-over effects come from 6 countries) and in Czech Republic, Slovakia, Latvia, Lithuania and Bulgaria (with credit spill-over effects from 4 to 5 countries) confirming thus the statement made in EBF (2001) according to which "the credit cycle is an increasingly international phenomenon". Less influenced appears to be the case of Romania, whose credit cycle seems to be disturbed only by crediting activities in Estonia (but provides, along with the Estonian and Slovakian cases, important credit disturbances for all the banking systems in Eastern and South-Eastern Europe). Within the banking systems in Central Europe, Latvian banks play a dominant role in the transmission process of credit disturbances.

6. Conclusions

The first part of the analysis focused on the short-term relation of correlation and causality between the crediting activity of the banking system and economic growth in ten economies from Central Europe, Eastern Europe and South-Eastern Europe over a twelve years period span (2000-2012). The findings revealed that we cannot speak of a relation of *unidirectional* causality between the two variables across countries (not even across geographical regions). In four economies (of Bulgaria, Latvia, Lithuania and Slovenia), economic growth had an important influence over the crediting activity, thus "guiding" it, whereas in the case of three other economies (Poland, Romania and Slovakia), Granger-type causality relations were registered from the crediting expansion process towards economic growth. Moreover, in the above three mentioned countries, there seems to be even a feedback from the real economy towards the crediting activity. In some countries, like the cases of the Czech Republic, Hungary or Estonia, there is no apparent causal relationship (a lead-lag type one) between the GDP growth and the

credit expansion. The results so far are in line with the findings mentioned in the study conducted by EBF (2011) on 11 European states plus the United States. This report showed that, in the case of the economies of Germany, Spain, France, USA, Finland and Ireland, the real GDP is the one which “guides” the credit expansion. The findings are also confirmed by the analysis conducted by Levine and Zervos (1998), although they used a cross-sectional approach with regard to the relation between bank crediting and the real GDP on a panel of states (the economies with a bigger Credit/GDP ratio tend to be characterized by faster economic growth rhythms in the long run). Obviously, there are also other factors which affect the credit cycle or the business cycle, but studying them is not the key focus of this scientific work.

The second part of the research investigated the relations which appear between the cyclical components of the data sets (after extracting them from the real GDP and the total volume of credits given by the banking system to the non-governmental sector) for each of the ten economies from Central, Eastern and South-Eastern Europe. The results revealed that sometimes the credit cycle seems to be independent from the business cycle, manifesting an amplitude, a synchronicity and a volatility that is different from and superior to that of business cycle in all the analyzed countries (“having a mind of its own”). In cases such as the Czech Republic, Hungary Poland or Romania, one can notice a movement in the same rhythm of the two cycles, which may involve an alignment of credit expansion to the needs of the real economy (statement confirmed by the high values of the correlation coefficients from the above mentioned countries). Moreover, there seems to be important spill-over effects of the credit activity across banking systems at national and regional level thus confirming the international feature of the credit cycle.

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THE COMPARATIVE RISK AND PERFORMANCE ANALYSIS OF HUNGARIAN AND ROMANIAN EXCHANGE INDICES

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Abstract: *Nowadays, the most dominant characteristics of the financial environment are instability, variability, riskiness and uncertainty. It is difficult to find a field where the decision making process is risk-free. This statement is especially true in case of financial investments according to which risk taking is rewarded. But it is also true that the financial market participants cannot be completely avoided risks, but there are many options for managing and minimizing them. One of the most well-known theories of financial instruments' risk minimization is the modern portfolio theory, which is the collection of tools and techniques by which a risk-averse investor may construct an optimal portfolio. In portfolio theory it is also known the possibility of risky assets diversification to obtain the optimal return/risk ratio. Consequently, this paper aims to examine the efficient portfolio alternatives by determination of performance ratios based on CAPM model and modern portfolio theory, such as Sharpe ratio, Jensen's alpha and Treynor ratio and risk measuring methods, such as Value at Risk, or Expected Shortfall. In present research we concentrate to a comparative analysis of portfolios consist in main stock indices shares of two neighboring countries from Central and Eastern Europe: Hungary and Romania. The analysis was performed on the Romanian BET and Hungarian BUX stock market indices using the six-month daily closing prices. Data of the analysis were downloaded from the official websites of Romanian and Hungarian stock exchanges. The statistical analysis was made in R statistical system. Using such tools to uncover information and ask better questions will support the investors to make better and better investment decisions. The results of present research show a greater performance level for Romanian portfolio, but also a higher level of risk, with lower volatility toward market changes and major specific risk. For the Hungarian portfolio, the performance is more temperate, the level of risk is also smaller and the volatility to market factors is more relevant, so the specific risk is moderate in this case.*

Keywords: *diversification, portfolio theory, risk, efficient portfolio, return, performance analysis*

JEL classification: G10, G11, G12, G19

1. Introduction

In our days, economic environment is characterized by risk, volatility and uncertainty. The most of economic entities are profit oriented, therefore during their activity developing the risk taking is inevitable. In the case of company which carries out financial investments, the risk taking has a special role. According to well-known principle "who doesn't risk, doesn't win", in order to achieve higher returns, investors need to take higher risk on capital market. The risk level of financial assets is different, while the treasury bills could be considered the low risk or risk-free assets, the shares return and also risk level is higher. In accordance with modern portfolio theory, the rational investor doesn't invest its capital exclusively in one type of financial asset. He establishes its investment decision on the base of relationship between return and risk, so as to achieve maximum return with minimum risk possible. Measuring portfolio performance is one of the most important tools for portfolio optimization. Therefore, this article aims to examine two neighboring Central and Eastern Europe situated countries', major indices shares using three performance-based indicators and risk measuring methods.

2. Review of literature

In Hungarian, Romanian and international literature can be found various theories about general risk concept. We want to underline the most relevant of them. The one of the most known definition of general, overall risk is the likelihood of an adverse event occurs. Alastair in his *Mastering Risk Modelling* book gives more definition to risk. The most frequently mentioned are the follows: the probability of occurring different outcomes; deviations from the expected results; the chance of symmetric occurrence of profit or loss (Alastair, 2009: 59). Reto Gallati in his work, which is called *Risk management and capital adequacy*, defines risk like a "situation in which there is a possibility that the received results deviate from the expected results" (Gallati, 2003: 8). According to Gallati, the deviance from the expected results must be understood in positive and also in negative way. We consider that in the case of financial assets, the second definition is most characteristic, because the frequency and the amplitude of deviance from expected outcomes are larger. It is clear that in the case of risky assets the time factor plays a very important role, too.

One of the most well-known theories about risk is the Knight's theory, according to which there is a significant difference between the concept of risk and uncertainty. Knight's work (1921) especially is oriented by distinction between risk and uncertainty. According to him, the main difference between risk and uncertainty lies in the possibility of measurement, so while the risk can be measured, the uncertainty could not be. He also says, that if the risk could be quantified it also could be managed while in the case of uncertainty this is not specific, because it couldn't be measured and managed. Knight's risk quantification theory most strongest criticism comes from Keynes (1937), who said "the economic uncertainty of future cannot be solved by looking at statistical patterns of the past" and "the future human decisions (...) does not depend on strictly mathematical expectations, because these types of calculations have no basis." According to Keynes and his followers, the developments of future decisions will not be affected by "strictly mathematical expectations" (Bélyácz, 2011: 380).

Nowadays economic environment's essential feature is riskiness. The distinction between risk and uncertainty is especially important in decision making process, so in his point of view, the risk refers to a situation in which the decision-maker could assign probabilities to random events, while in the case of uncertainty this is not possible. In the case of uncertainty, can't attach probability to a random event, because chance and odds characterize it better (Szász, 2011). While some authors deals with the dilemma between risk and uncertainty, another try to define the components of the risk, namely the uncertainty and variability (Molak, 1997; Cullen-Frey, 1999). Wilson and Shlyakhter (Molak, 1997) consider that the variability means the temporal and spatial heterogeneity of values. Because uncertainty is related with the lack of information, knowledge means that with information and knowledge acquisition it could be reduced. However, the variability couldn't be reduced with further information and knowledge. At financial assets, information and knowledge plays an essential role, because certain economic news and information records sudden, unpredictable changes. In our opinion, in the case of financial assets, the information serves not only the risk minimization, but sometimes they even increase the risk level. It is clear, the riskiness and the return of financial assets, highly depends on kind, quantity and quality of information. Vose (2008) also considers risk consists of two parts, but he regards that variability is the special case of uncertainty. This kind of uncertainty and variability together is called by Vose total uncertainty. We can see therefore, in the foreign literature becomes more and more involved setting the components of risk, rather than the distinction between risk and uncertainty in the foundation of economic decisions (Tarnóczy-Fenyves, 2010). According to Tapiero (2004), the global financial crisis is not the consequence of lack of information, knowledge, but the investors and decision-makers' "mental deficiency", because they overestimated certain information and in the context of economic crisis, they overreacted it (Bélyácz, 2011). For investors who invest in risky assets, the risk is unavoidable, and the more they want to gain, the more they have to risk. About the financial investments' risk, we consider the Molak and Cullen-Frey approach is more closely, because in the case of share prices, returns, risk displays in forms of variability and volatility. The risk, variability can't be completely eliminated, but there are various risk minimization techniques, among which the best known is the diversification which is presented in famous work of Harry Markowitz "Portfolio

Selection" (Illés, 2007). In accordance with modern portfolio theory, a rational investor would not invest his money into a single financial assets, he shares it between various risk levels assets. In fact, this is the central role of portfolio theory. The investor can decide in accordance to relationship between risk-return, on how much is profitable to him to buy from some risky assets. The modern portfolio theory has a major impact on Capital Assets Pricing Model (CAPM) developing. The CAPM model developed a new guidance to relationship between risk and return. Based on Markowitz modern portfolio theory, Sharpe, Lintner and Treynor through their research leads to the conclusion that there is a strong correlation between market risk and assets' expected returns. In this context, it is essential mapping and assessment of general and market risk. The one of the best known risk measurement method is the variance and standard deviation, which could be also, calculated function of probability. The variance, or squared deviation, could be defined like weighted average of the squared deviations between possible values, which in finance could be returns, losses and expected value. But neither the variance, neither the standard deviation are not a direct method of risk measurement, because express risk with deviation of return. Is cannot put equality between risk and deviation of return, so we can interpret the deviation of return like a proxy for risk (Holton, 2004). Both the high result of variance and standard deviations shows a high risk level, while low value shows the contrary. The standard deviation and variance it is also used for determining the risk of financial assets, but these methods express risk in absolute value, which is suitable only for comparing the identical returns' assets (Illés, 2002). The relative standard deviation or coefficient of variance is one of the quantifying methods, which is more recommended by experts in risk measurement. The coefficient of variance is the ratio between assets standard deviation and assets return. A key role in financial instruments' risk quantification plays a beta coefficient (β). Beta has an especially important significance in application of Capital Assets Pricing Model (CAPM), because measures the systematic, non-diversifiable, market risk level, using only one number. In fact, by knowing the systematic risk, the return of portfolio and the risk-free asset return, we could calculate the expected return of portfolio or asset. So, the beta coefficient is an expression of market risk level and also shows the sensitivity of financial asset to movements of market benchmark portfolio. A higher value of beta relates a higher level of risk and return (Mun, 2006). Mathematically, the value of beta is calculated like "ratio of covariance between an asset and market portfolio and market portfolio variance" (Illés, 2002: 141). When beta is equal with 1, it means that the asset return is near to market return. If beta value is less than 1 indicates a low sensitivity, otherwise the change of market factors has a little effect on asset return. If beta is greater than 1, it means that the asset is very sensitive to market changes, so changes of market risk factors cause more significant variation in return evolution (Aven, 2010: 45). The application of CAPM model was widely criticized, because according to some experts it's impossible to characterize the systematic, macroeconomic risk factors through one number. During the CAPM model application, the model developer assumed that the financial markets are perfectly balanced, the investors have homogeneous expectations, but the current economic environment and recently developed financial turbulences has strongly refuted these assumes. A very serious weakness

of model is that market and inherent macroeconomic risk factors are completely static (Altăr, 2002: 70-71).

A key component of financial decisions foundation is the portfolio performance measurement. The performance measurement has an essential role to investment decisions foundation and contributes to the adding value of successfulness of investment and risk minimization. Portfolio performance ratios answers for three very important questions: what is the return on asset, why has the portfolio performed that way, how can be performance improved (Bacon, 2008: 1).

3. Research methodology

In the comparative analysis of two neighboring countries shares portfolio we used the shares basket of Romanian (BET) and Hungarian (BUX) main stock exchange indices. The data included in present study are these two countries main stock indices shares daily closing prices, for 6 months back. The data used were collected from the official databases of Hungary, Budapest Stock Exchange website: www.bet.hu and Romania, Bucharest Stock Exchange website: www.bvb.ro. The statistical analysis was built on the R statistical software system. 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 permits the usage of different databases. In this study, we used the 'PerformanceAnalytics' module, because this package aims to aid us in using the latest research for analysis of return streams, such as stock returns and portfolio performance ratios. In portfolio's financial assets selection, managing and establishing of efficient financial decisions, the risk, return and the relationship between risk-return determinations has an important function. In addition, in decision-making and risk minimization, the portfolio performance has an important role. Based on CAPM model, these two closely related concepts are used in portfolio performance ratios calculation. Foreign literature presents more performance based indicators, of which the well-known are Sharpe ratio, Treynor ratio and Jensen's alpha. William Sharpe's (1966) indicator is based on modern portfolio theory and the essence of ratio consist in showing how much is the reward for variability, so this is why in foreign literature this ratio is also called as "reward-to-variability ratio". The Sharpe performance ratio is calculated according to (1) formula:

$$S_p = \frac{E(R_p) - R_f}{\sigma(R_p)} \quad (1)$$

where, $E(R_p)$ – the expected return of the portfolio; R_f – the return on the risk-free asset; $\sigma(R_p)$ – standard deviation of the portfolio returns.

As it can be seen from the formula, the Sharpe ratio compares excess return above risk-free asset with total risk of portfolio (Amenc - Le Sourd, 2003: 109). The indicator can also be understood as the return per unit of variability. According to this, the higher value of Sharpe ratio indicates a more favorable risk-return combination (Bacon, 2008: 67).

While Sharpe ratio is based on modern portfolio theory, the Jensen's ratio or alpha (1968) is based on Capital Assets Pricing Model (CAPM) and can be described by

the following (2) correlation:

$$\alpha_P = E(R_P) - R_F - \beta_P(E(R_M) - R_F) \quad (2)$$

where, $E(R_P)$ – the expected return of the portfolio; R_F – the return on the risk-free asset; β_P – the systematic risk of portfolio; $E(R_M)$ – the expected return of market portfolio.

Jensen assumed that the portfolios are not perfectly diversified and therefore there is part of portfolio return which is missed from CAPM model, which in fact will be explained by Jensen, through Jensen's alpha. Essentially, the Jensen's performance ratio compares the portfolio excess return above risk-free rate with return received by application of market model. If Jensen's alpha has a positive result, means that the portfolio return is higher than the return received by using the CAPM model. The major weakness of this ratio consists in the fact that permits only the comparison of portfolios with similar risk levels.

The Treynor's performance ratio (1965), or otherwise "reward-to-volatility ratio" is also closely related with CAPM model. The indicator is very similar with Sharpe's ratio, with the difference that Treynor compares the excess return above risk-free rate with the systematic risk, and not with the total risk of portfolio, how it is presented in the (3) formula:

$$T_P = \frac{E(R_P) - R_F}{\beta_P} \quad (3)$$

where, $E(R_P)$ – the expected return of the portfolio; R_F – the return on the risk-free asset; β_P – the systematic risk of portfolio;

The indicator can be also explained as the return per unit of volatility. In case of this ratio, the portfolio with higher value will be preferable (Amenc - Le Sourd, 2003: 108). The Treynor ratio is a well-known indicator, but in practice it is rarely used, because not take into account the specific risk. If the portfolio is well diversified the Sharpe ratio and the Treynor ratio shows similar results.

In this study, at computation of last two ratios we have used as benchmark portfolio the returns of Hungarian stock indices (BUX) return, for analyzed period.

4. Results of the research

In analyzing of Hungarian and Romanian main indices shares basket returns, we start with presentation of portfolios returns distribution for studied period, which is illustrated in the Figure 1.

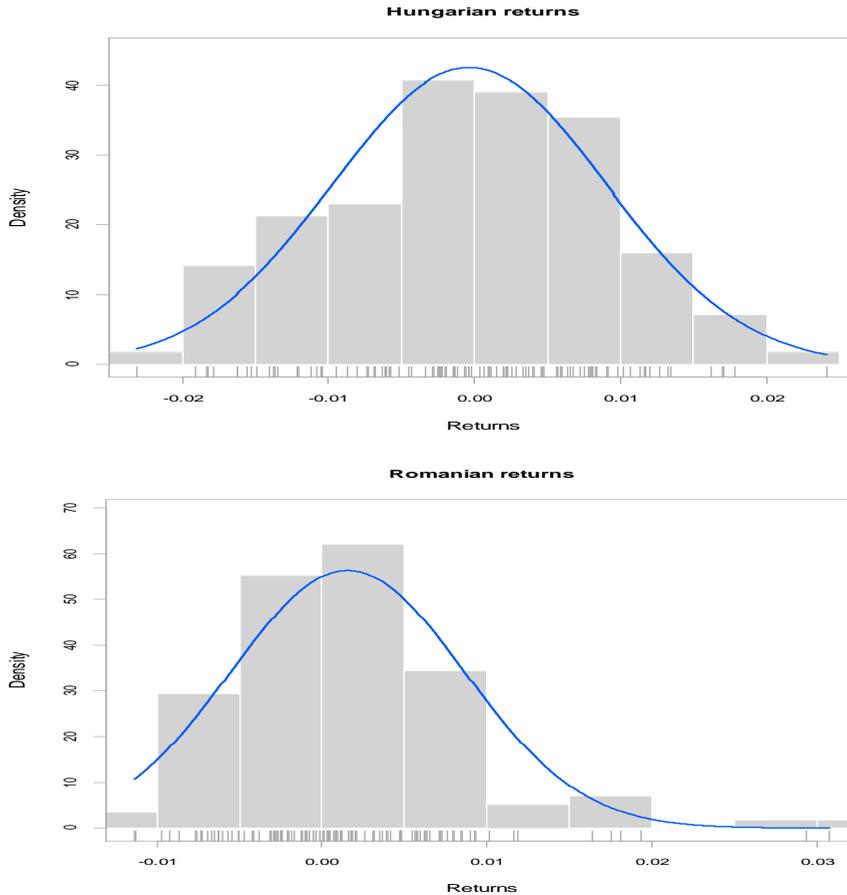


Figure 1: The distribution of Romanian and Hungarian portfolios returns
Source: Own computation

At first we can see, that the Hungarian portfolio returns is much closer to normal distribution then the Romanian. 50% of Hungarian portfolio returns are situated between -0.00630 and 0.00640, while 50% of Romania portfolio returns are situated between -0.0027 and 0.0050. We can also observe in the case of Romania, that the distribution of portfolio returns is much more right skewed, because there are some outliers returns near to 0.003, which is indicated by the value of skewness too, upper than 0. In the case of Hungarian portfolio this is not specific; here the value of skewness is closer to 0, and the histogram is moderate tailed. In terms of kurtosis, neither in two cases is not specific the normal distribution value at 3. At Romanian returns distribution, this is upper than 3, which illustrates a slightly leptokurtic distribution, closer to normal distribution, while at Hungarian data kurtosis we can observe a kurtosis value lower than 3 and upper than -3, which is also further by recommended value.

Table 1: Hungarian and Romanian returns statistics

	Hungarian portfolio returns	Romanian portfolio returns
Minimum	-0.0231	-0.0114
Quartile 1	-0.0063	-0.0027
Median	-0.0002	0.0004
Arithmetic Mean	-0.0004	0.0015
Quartile 3	0.0064	0.0050
Maximum	0.0242	0.0307
LCL Mean (0.95)	-0.0021	0.0002
UCL Mean (0.95)	0.0014	0.0029
StdDev	0.0094	0.0071
Skewness	-0.1390	1.3089
Kurtosis	-0.3682	3.3447

Source: Own computation

In terms of data deviation between maximum and minimum value of returns, we can see the greater deviation in the case of Hungarian portfolio. Standard deviation illustrates the same fact, which means more significant variability, uncertainty in case of Hungarian portfolio returns. The LCL (Lower Confidence Level) and the UCL (Upper Confidence Level) Mean compute a confidence interval mean based on the StdDev (standard deviation) of analyzed data and the z value of 95% confidence interval. The lower and upper confidence level estimation gives an indication of how much is the uncertainty in true mean computation. The LCL Mean and the UCL Mean is more significant at Romanian portfolio in comparison with Hungarian portfolio. The results show that at Romanian shares returns, the uncertainty is greater than in the Hungarian case, on this aspect.

For analyzing the portfolio performance and risk, it is important to interpret the indicators from Table 2. First three indicators illustrate the Sharpe ratios which measure the return per unit of risk by using different risk measure indicators as denominator: StdDev (standard deviation), VaR (value at risk) and ES (expected shortfall). By analyzing these three indicators, we can see that “the reward to variability” has greater values in the case of Romanian portfolio, what means a better combination of risk and return. The negative results for Hungarian Sharpe ratios are caused primarily by the negative values of returns. Analyzing Jensen’s alpha, we have see positive value in both of situations, which means that there is a part of return which isn’t it explained by using of CAPM model.

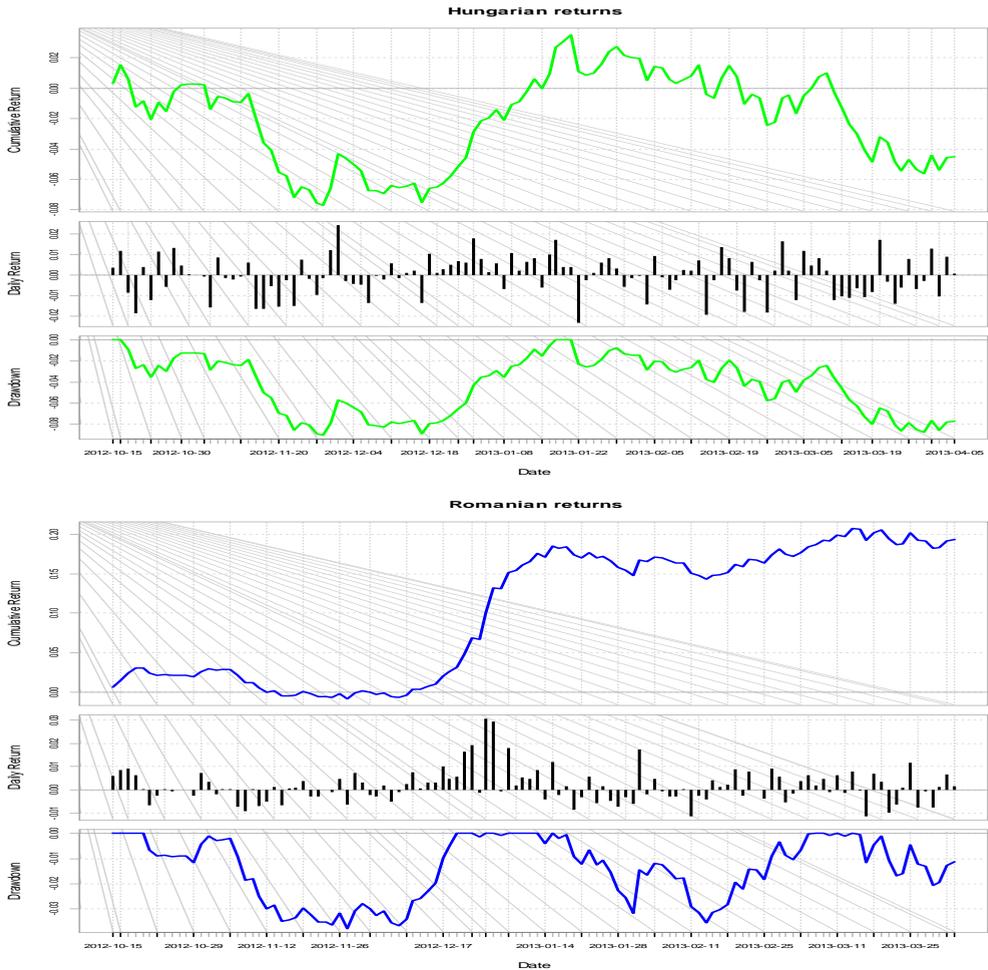
Table 2: Performance and risk ratios of Hungarian and Romanian returns

	Hungarian portfolio returns	Romanian portfolio returns
StdDev Sharpe	-0.03865	0.21857
VaR Sharpe	-0.02244	0.23021
ES Sharpe	-0.01842	0.15353
Jensen Alpha	0.02512	0.48000
Treynor Ratio	-0.09639	3.75783
Semivariance	0.00965	0.00559

ES	-0.01966	-0.01009
VaR	-0.01614	-0.00673
Skewness/ Kurtosis Ratio	-0.05281	0.20630
Total risk	0.14875	0.11207
Systematic risk	0.14850	0.01828
CAPM beta bull+	1.01577	0.01828
CAPM beta bear-	1.00111	0.07861

Source: Own computation

Treynor ratio, or return per unit of systematic risk shows a greater result for Romanian portfolio, which can be interpreted as more favorable than in the case of Hungary. The Semivariance, as a measure of risk, shows the deviation between values situated below mean and target value (mean). At Hungarian portfolio, the Semivariance shows a greater result, which means that this portfolio has a higher risk than the Romanian portfolio. VaR (value at risk) as main measure of risk reveals the value of worst expected possible loss, at a given confidence level, while the ES (expected shortfall) or CVaR (conditional value at risk), as an alternative for VaR reveals the shape of loss distribution, because it is known like a more precise risk measure alternative. These two risk measure indicators shows related results, which point out the higher possible loss and also risk in case of Romanian portfolio. Skewness-Kurtosis ratio is used as Sharpe ratio's additional indicator, which is computed as ratio between skewness and kurtosis values. The higher then lower result is preferred. As a complementary of Sharpe ratio, shows the same, the Romanian portfolio is more favorable on this aspect. Although, the performance and the risk calculated reveals higher values in the case of Romanian portfolio, the Total risk shows the contrary, a higher value for Hungarian portfolio. While for the Hungarian portfolio the total risk is composed largely from systematic risk, for the Romanian portfolio it isn't specifically, because here the systematic risk has fewer proportion in total risk, probably the major part of total risk represent the specific risk. The beta reflects the sensitivity of return to market factors volatility. In this study, because the returns have also positive and negative values, it is recommended to compute the CAPM beta bull for the positive returns and CAPM beta bear for the negative values. In this analysis, the both two beta results show a higher sensitivity of returns for Hungarian portfolio.



2. Figure: The cumulative, daily, drawdown of Hungarian and Romanian returns
 Source: Own computation

The Figure 2 presents first the cumulative returns, which shows the aggregate amount of gains or loss in certain period. By analyzing this figure, we can observe a more abrupt line in the case of Hungarian returns, with significant decreases at the end of year 2012, and increases in next period, the begin of 2013. Approximately, the same trend can be observed in the case of Romania, with difference that in the first period, the amplitude of decreases it isn't very important, and in the last period, at Romania, we assist to a slowly increase, while in Hungary the contrary can be observed. The drawdown represents a very good measure of portfolio risk, because shows the decline between peak of return to trough in certain period. At Hungarian portfolio, the trend of drawdown follows nearly the evolution of cumulative return, while at Romanian portfolio the evolution is sharper. The Romanian returns drawdown's also follows the line of cumulative returns, with more accented evolution in some places.

Conclusion

At first seeing we can observe that for analyzed period, the evolution of Hungarian exchange index returns, follows a distribution which is much closer to the normal distribution. We also can observe on aspect of risk, the StdDev and semivariance shows a higher risk for Hungarian portfolio, while VaR, ES reveals the contrary. The performance ratios illustrate a higher performance for Romanian portfolio. On aspect of the most relevant risk measure methods, VaR and ES, the results of present research sustain the relationship between performance and risk. We can summarize, that Romanian portfolio seems to be more performance, but also riskier, with lower volatility toward market changes and greater specific risk. For the Hungarian portfolio, the performance is more temperate, the risk is also smaller and the volatility to market factors is more relevant, so the specific risk is moderate. These facts are very important, because means that Hungarian exchange index returns are more vulnerable to the changes of market conditions, in comparison with Romanian exchange index returns. Despite the fact, that Hungarian portfolio risk level is smaller, nowadays, when the changes of economic environment are more frequently, a very important aspect to take into account is the vulnerability to these changes. So in aspects of portfolio investment alternatives choosing and ranking, we can say the Romanian portfolio is for risk-averse investors, while the Hungarian alternative is specific for less risk-averse investors.

In conclusion we can affirm that in studied cases, there is direct relationship between portfolio's performance and risk level, so this is why in context of these day's financial environment, performance and risk analyzing can be considered necessary tools in decision making process for managing and optimize portfolios.

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BASEL I, II, III: CHALLENGES TO THE BANK'S CAPITAL ADEQUACY

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Abstract: *The present article has as a research field the theoretical, methodological aspects of the bank's capital adequacy mechanism, according to Basel Agreement. The purpose of this paper is to underline the main challenges of the bank's capital adequacy. The study reflects that the current global financial turmoil continues to pose a threat to the effectiveness of the Basel rules which are aimed at achieving global financial stability. Also, the present paper aims to reflect that in light of the Basel Accord, new and potentially better financial ratios are being developed to prevent future banking crises from happening. The objectives of the research theme, presented in this paper, are oriented mainly towards: understand the role and importance of capital in a bank's balance sheet and identify the composition and relative importance of the different measures of capital from a regulatory perspective (Core Capital, Tier 1 Capital and Tier 2 Capital); know the structure of the Basel Accord (minimum capital requirement, supervisory review process and market discipline) and the key principles of each; be aware of the enhancements to the Basel Accord from Basel III and interim amendments. The Basel III introduces paradigm shift in capital and liquidity standards. Firms should ensure they are engaging with Basel III as soon as possible to position themselves competitively in a new post-crisis financial risk and regulatory landscape. The National Bank of Romania offers to its users, information's regarding the challenges to the bank's capital adequacy through the Reports of Financial Stability and the Annual Reports. 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. A result of this research tries to highlight the extent to which the final structure of capital bank, the requirements of capital banks. If we compare the analyses challenges of the three Accord Basel, we can see that the relationship: Capital requirement under Basel I < capital requirement under Basel II < capital requirement under Basel III.*

Keywords: *Bank's Capital Adequacy; Basel Accord I; Basel Accord II; Basel Accord III; Tier 1; Tier 2.*

JEL Classifications: G21

1. Generally Introduction

The global economic crisis has provided an opportunity for a fundamental restructuring of the approach to risk and regulation in the financial sector. The Basel Committee on Banking Supervision (BCBS) has collectively reached an agreement on reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector, which is being referred to as Basel Accord. The present article has as a research field the theoretical, methodological aspects of challenges to the bank's capital adequacy. 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. Compared with the implementation of the previous agreement (Basel II), this enhanced level of dynamism, complexity, and interdependency within the global regulatory landscape will likely add significant challenge to the implementation of Basel III. The objectives of this study are characterization of the adequacy capital of the Romanian banking sector, evolution of this in the Romanian banking sector bet wand interpretation of this evolution in the banking system.

2. 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 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 proposed challenge according agreement Basel I, Basel II, Basel III. 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). The BIS carries out research and analysis to contribute to the understanding of issues of core interest to the central bank community, to assist the organisation of meetings of Governors and other central bank officials and to provide analytical support to the activities of the [various Basel-based committees](#). The BIS also comments on global economic and financial developments and identifies issues that are of common interest to central banks. The research agenda of the BIS is focused on key areas of interest to central banks, such as monetary and financial stability, monetary policy and exchange rates, financial institutions and infrastructure, financial markets, central bank governance, and legal issues. 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. This paper contributes to the literature by providing a comparative assessment of key framework elements of the two regulatory schemes for banking and insurance: Basel II/III and Solvency II.

3. 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. 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.

4. Results and discussions

4.1. Basel Accord I

Accord of Basel I in 1988 established the criteria to be considered for determining the optimal size of a bank's capital and established the minimum level of capital that you need to have a bank. Formula set by Basel I capital adequacy provide precise criteria. Under Basel I rules, banks must have capital rank relative to risk weighted assets of 4%, while the second rank of 8%. Currently, most banks in developed countries have capital adequacy index of at least 10%. After application of Basel I, revealed the need to improve its provisions, because of the complexity of risk in financial markets. Given the conclusion derived by the practical application of Basel I system, central bank governors and heads of bank supervisory authorities of the European Union, approved on 26 June 2004, the final version of Basel II. The new agreement maintains the definition of capital and minimum requirement of 8% of risk exposure, but improving risk assessment methods. Important contribution of the Basel I minimum capital is defined in terms of risk, in terms of solvability. Under this agreement, capital consists of:

- a) The basic equity (Tier I) - comprising capital and reserves, net of Loss of current year, future refunds of taxes and intangible assets;
- b) Supplementary capital (Tier II) - contains provisions and revaluation reserves and subordinated debt in Tier II lower.

4.2. Basel Accord II

Basel II is the second of the Basel Accords, (now extended and effectively superseded by Basel III), which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. Basel II, initially published in June 2004, was intended to create an international standard for banking regulators to control how much capital banks need to put aside to guard against the types of financial and operational risks banks (and the whole economy) face. Since the end of 2006 began to be applied Basel II and comprises three main points:

- a) minimum requirements to be met by banks in terms of balance - is thus deals with them better first Basel agreement, taking into account operational risk (fraud,

systemic crisis) and market risk. Second, credit must be evaluated by the banks using different calculation methods according to their requirements (internal rating systems);

b) strengthening controls that central banks may have on commercial banks, taking into account current and excessive risk-taking strategies which can take companies, central banks will have discretion in determining whether a bank has sufficient resources to banking intermediation and can establish requirements greater than the agreed minimum ratio larger or smaller reserves based on risk profile of banking institution);

c) Market discipline and transparency - transparency regulations will require the provision of information to the public regarding the level of reserves, risks and management.

However in our opinion may appear negative consequences for the domestic banking system, among them:

a) induction of discrimination between banks (especially between small banks and large), because small banks will not, human and financial reasons, to use the most advanced methods of risk assessment have the adequate internal control procedures, audit and risk management are thus required to increase solvency indicators, particularly by increasing capital, to fit an appropriate risk profile;

b) Emphasis on mergers and acquisitions transactions between banks in the system, the small banks are expected to leave the market;

c) Penalty SMEs through internal rating systems. It is known that SMEs are considered more risky and have lower quality for some specific classifications. This will lead to the collapse of credit for SMEs and simultaneously increase interest rates. It is expected that the Romanian Banking Association, National Bank and credit institutions to find the most appropriate ways to not disadvantage lending to SMEs

d) Changes in credit lending and credit products, depending on the quality of the borrower, for the most risky interest rates will be higher including a higher risk premium.

Proposals Basel 2 is based on three pillars:

- A capital adequacy requirement;
- Supervisory review process;
- A requirement for market discipline.

The Basel Accord I dealt with only parts of each of these pillars. For example: with respect to the first Basel II pillar, only one risk, credit risk, was dealt with in a simple manner while market risk was an afterthought; operational risk was not dealt with at all. The role of Basel II, both before and after the global financial crisis, has been discussed widely. While some argue that the crisis demonstrated weaknesses in the framework, others have criticized it for actually increasing the effect of the crisis. In response to the financial crisis, the Basel Committee on Banking Supervision published revised global standards, popularly known as Basel III.

4.3. Calculation of capital proposed by the Basel Accord II risk management

A key part of bank regulation is to make sure that firms operating in the industry are prudently managed. The aim is to protect the firms themselves, their customers and the economy, by establishing rules to make sure that these institutions hold enough capital to ensure continuation of a safe and efficient market and able to withstand any foreseeable problems. The main international effort to establish rules around capital requirements has been the Basel Accords, published by the Basel Committee on Banking Supervision housed at the Bank for International Settlements. This sets a framework on how banks and depository institutions must calculate their capital. In 1988, the Committee decided to introduce a capital measurement system commonly referred to as Basel I. This framework has been replaced by a significantly more complex capital adequacy framework commonly known as Basel II. After 2012 it was replaced by Basel III. The capital ratio is the percentage of a bank's capital to its risk-weighted assets. Weights are defined by risk-sensitivity ratios whose calculation is dictated under the relevant Accord. Basel II requires that the total capital ratio must be no lower than 8%. The first pillar deals with maintenance of regulatory capital calculated for three major components of risk that a bank faces: credit risk, operational risk, and market risk. Other risks are not considered fully quantifiable at this stage. The credit risk component can be calculated in three different ways of varying degree of sophistication, namely standardized approach, Foundation IRB, Advanced IRB and General IRB Restriction. IRB stands for "Internal Rating-Based Approach". For operational risk, there are three different approaches – basic indicator approach or BIA, standardized approach or STA, and the internal measurement approach (an advanced form of which is the advanced measurement approach or AMA). For market risk the preferred approach is VaR (value at risk).

- a) The standard approach is similar to that proposed by Basel I, but uses more refined weights. Compared to Basel I, this approach allows the use of derivatives to mitigate credit risk and reduce capital requirements. In the standard model approach, weights are given depending on the type of state or institution credited according to their rating. The most important categories of borrowers are states, including central banks, local authorities, banks and multinational corporations.
- b) The approach based on internal ratings based credit allows an institution to use their own rating system, including own calculations using the input probability of default (PD), but losses when the counterparty enters default (LGD) is provided by the institution supervision. On the other hand, the approach advanced internal ratings banks calculate their capital requirements based on their own models, validated by the institution of supervision, including calculations input probability of default (PD) and losses when counterparty enters default (LGD). Capital allocation methods are defined as ratings-based approach (IRD).
- c) The approach based on internal ratings advanced. Credit institutions may have prompted the capital requirement for operational risk by applying this method only request bank approval.

Politically, it was difficult to implement Basel II in the regulatory environment prior to 2008, and progress was generally slow until that year's major banking crisis caused mostly by credit default swaps, mortgage-backed security markets and similar derivatives. As Basel III was negotiated, this was top of mind, and

accordingly much more stringent standards were contemplated, and quickly adopted in some key countries including the USA.

4.4. Basel Accord III

Basel III (or the Third Basel Accord) is a global, voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk. It was agreed upon by the members of the Basel Committee on Banking Supervision in 2010–11, and was scheduled to be introduced from 2013 until 2015; changes from January 7, 2013 extended implementation until 2019 however. The third installment of the Basel Accords was developed in response to the deficiencies in financial regulation revealed by the late-2000s financial crisis. Basel III was supposed to strengthen bank capital requirements by increasing bank liquidity and bank leverage.

Basel Accord III is under development IV CDR package for implementation of Basel III package that will materialize in a directive, whose provisions will be transposed into national law until 01.01.2013. Thus, CRD IV represents a set of measures transposing the European level Basel III which aims to strengthen the regulatory and supervisory framework of the banking sector.

Comparison of proposed changes for determining capital adequacy:

The set of measures aimed at correcting deficiencies manifested during the crisis we are going through, while the existing regulations were insufficient management issues:

- Erosion of the capital base and its ability to cover losses;
- An oversized volume unsustainable assumption of risk-based capital ratio (leverage exaggerated amplification);
- Managing insufficient market liquidity and interaction between credit risk and liquidity risk is reflecting inadequate capital requirement liquidity problems of credit institutions.
- To increase the quality and transparency of the capital base of credit institutions, in addition to increasing the regulated minimum capital CRD IV package own funds structured on two main levels:
 - Level 1 (basic - and additional CET 1 - AT 1) and
 - Level 2 (T 2), introducing stricter eligibility criteria specific to each level.

Baseline therapy introduced CRR is more restrictive than that required by the regulations in force, that the elements currently reduces Tier 1 and those that are deducted in equal proportion from both Tier and of the level 2 will mainly affect CET 1 equity component must ensure the greatest extent covering capital requirements. CRR introduces a number of new deductions also affects directly CET 1 deferred tax assets dependent on future profitability, assets related to defined benefit pension funds, mutual holdings of equity). However, CRR introduces a number of new deductions also affects directly CET 1 deferred tax assets dependent on future profitability, assets related to defined benefit pension funds, mutual holdings of equity). Alternative basic treatment, the transitional arrangements for the period 01.01.2013-31.12.2017 allows Member States to opt for a smooth transition to the new treatment application deductible under CRR elements. Thus, CRR provisions established for each year of the period mentioned above, a range of values (indicating the minimum and maximum) of the competent authorities may choose the percentage that each element deductible provided the

CRR will affect equity categories according to treatment more restrictive base. The amount remaining after applying this percentage will also be deducted, but according to an alternative treatment slower than basic treatment is specified separately for each deductible item.

The Romanian banking sector is necessary to analyze the two options, namely the full implementation of basic treatment since 1/1/2013, which would correspond to the values shown for 2018 in the table below, or transient application using the following schedule, which were considered minimum values of the ranges provided for CRR for basic treatment and alternative which would apply while the transitional period:

Table no. 1: Period and transitional regime for implementation of the Basel Accord

III

Period / Transitional regime	2013	2014	2015	2016	2017	2018 - the first year after the transitional period applies entirely new provisions
The extent deductible under CRR elements will affect basic own funds under treatment (more restrictive)	0%	20%	40%	60%	80%	100%
The extent deductible under CRR elements affect their funds under treatment alternative	100%	80%	60%	40%	20%	0%

(Source: author based on archive of The National Bank of Romania)

Basel Accord III has been developed against the background of the financial crisis and represents an extension of Basel Accord II, which remains in effect. The goals of Basel Accord III is to increase the stability of the international banking sector, mainly by improving the ability of banks to withstand financial and economic stress and by improving the transparency and market discipline by means of detailed disclosure of the capital base. Capital serves as a cushion against sudden financial shocks (such as an unusually high occurrence of loan defaults), which can

otherwise lead to insolvency. The Basel III regulatory reform package revises the definition of regulatory capital and increases capital holding requirements for banking organizations. The quantitative requirements and phase-in schedules for Basel III were approved by the 27-member jurisdictions and 44 central banks and supervisory authorities on September 12, 2010, and endorsed by the G20 leaders on November 12, 2010. Basel III recommends that banks satisfy these enhanced requirements by 2019. The Basel agreements are not treaties; individual countries can make modifications to suit their specific needs and priorities when implementing national bank capital requirement. Implementing Basel III is a significant challenge for any bank. The key issues are deciding how best to implement a solution that allows them to comply, how to streamline their systems and processes for improved operational effectiveness and how to reduce their capital requirements.

5. In conclusion

In conclusion, the comparative assessment of challenge of bank's capital adequacy of Basel I/ II/III allowed the detection of similarities and differences as well as benefits and shortcomings of three regimes, which provides an opportunity to rectify their drawbacks. 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 this research 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 implementation of Basel Agreement 3, which are absolutely necessary in the actual economic and financial context.

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AN INQUIRY INTO CONTAGION TRANSMISSION AND SPILLOVER EFFECTS IN STOCK MARKETS

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Abstract: *This paper represents a theoretical enquiry in contagion and its transmission mechanism. Our main purpose is to present the different views regarding contagion as a mechanism, correlated with interdependence, a state of markets. We present numerous theories about the definition and the transmission of shocks. But As Rigobon (2002) states, the main problem of the theoretical literature of contagion is that the measurable events are more rare than the number of possible hypothesis. So the only aspect on which everybody agrees is that there is no unanimously accepted interpretation of contagion. The channels of contagion, according to our reasoning and based on the directions pointed out by theoretical literature, can be divided into channels which act in interdependent markets, and channels which can be attributed to investors behavior. In this case the cause of propagating the shock becomes the criterion upon which the transmissions of channels are classified. In this paper we present these channels together with their characteristics.*

Keywords: Contagion, Spillover Effects, Interdependence, Transmission mechanism, Stock markets.

JEL classification: G01; G15.

1. Introduction

In this paper we are interested of the conceptual overview of financial contagion alongside with interdependence, and the channels according to which financial distress is spread from one market to another.

Two main views are emerging in the theoretical literature. This first one is related to the rising level of interdependence between markets, toward integration, which can be viewed an extreme state of interdependence. In this case, more frequent and indefatigable shock transmissions make part of the actual equilibrium of markets. The second direction considers contagion outside of the actual general system. Contagion becomes the disease of it, in other words an epidemic of the markets. Thus the channels of transmissions become of crucial importance in studying the linkages between stock markets.

2. Contagion and Spillover effects

What is the difference between the two concepts? Forbes and Rigobon (2002) consider that contagion is only true contagion if there is no dependence between the markets prior to the shock. In this case contagion is a pronounced increase in the dependence of the markets. If two markets share a high degree of correlation during periods of stability, and after the shock the co-movement between them shows no significant increases, even if they are highly linked one to another, this phenomenon can't be regarded as contagion, rather than integration.

Bekaert, Harvey and Ng (2005) consider that contagion can be described as an excess of correlation between markets, more than it can be explained by economic fundamentals. The basic problem here is identifying the normal degree of dependence, together with the fundamentals.

Corsetti, Pericoli and Sbracia (2001) regard contagion as a break in the parameters governing the correlation system. According to them, if a shock occurs, which is caused by global or regional factors, some comovement across markets is normal, and can be regarded as a consequence of interdependence. The rise of volatility of asset prices in one market can be expected to be correlated with the rise of volatility in other markets, due to the international transmission mechanism. But if contagion occurs, the degree of transmission is very high, above what can be predicted with a constant transmission mechanism, and is it propagated by irrational investor behaviour and panic.

Kaminsky, Reinhart and Vegh (2003) define contagion as the instant effect following a shock, that progresses rapidly between the markets. According to this approach, the speed of diffusion of financial distress is crucial. If the propagation is gradual to the other markets, then the episodes can't be regarded as contagion, rather than a spillover episode. In the category of spillovers, the effects of common shocks in all the markets are included, such as changes in oil prices or international interest rate changes. Thus spillover effects are transmissions of financial distress due to interdependence among markets. Opposed to the previous view, Masson (1998), considers pure contagion to be associated with changes in investors' expectations, that are not related to a country's macroeconomic fundamentals, identified as monsoonal effects.

Karolyi and Stulz (1996) don't agree with this view, according to them contagion is only related to investors behaviour, when a shock as a panic is propagated from one market to another. They consider that market contagion can be defined indifferent if it is transmitted through macroeconomic fundamentals or not.

As we can observe there are different viewpoints regarding contagion. These distinctions are made about the prior linkages between stock markets, thus when a shock is propagated through macroeconomic fundamentals, it can be viewed as the result of an optimal response to an external shock. In anticipating the changes in the fundamentals, financial markets respond and adjust to a new equilibrium, but as Moser (2003) points out, they do not cause the change in equilibrium. So when one country is hit by a shock, the other markets will adjust the real and financial variables to the new equilibrium. These shocks are resulting from a normal interdependence between markets, they are not causing the shock, but they are propagating it and speeding up its transmission, so to say stock markets are catalyst towards a new equilibrium.

Another category of studies considers that the transmission of shocks is not related to any linkages between markets, but is solely the result of investors behaviour. As Engle (2009) indicates, the channels of contagion, next to the fundamentals, are found within the behaviour of investors, and can be traced to the portfolios that they trade within multiple markets. We know that assets are held by investors in anticipation of the payment that are to be made in the future, so a value of an asset is fundamentally linked to the forecast of his future price evolution. We also know that the news that are arriving on the market are what make investors change their forecast about the future, as formulated in the model of changing asset prices by Samuelson (1965). According to this rationalization, volatilities and the correlations between asset returns and stock markets depend on the information that is used to update these predictions. So countries with similar economies are correlated because they have the property to be influenced by the same events, the same news processes will force investors to reanalyze their beliefs. According to this approach, contagion can be defined as a sudden shift in investor's market expectations or confidence. But in the way in which information is used, we can distinguish between two types of contagion, a rational approach - forced contagion and irrational contagion.

As we can conclude, in the literature there is a little convergence about the definition of contagion and what its coverage area is. In the next section we are going to assess the different views regarding the transmission of distress between markets.

3. Transmission mechanism

Calvo and Reinhart (1996) recognize among the channels of contagion trade linkages, illiquidity of the stock markets, technological factors and information cost connectedness. Masson (1998,1999) considers as possible determinants of crises a common cause to all markets together with macroeconomic fundamentals and unexpected shifts in investors' expectation, which may trigger a shock without any change of the transmission mechanism. Moser (2003) believes that simultaneous crises are not a sufficient condition for contagion, in his view causal connections are required for this. So if a common shock arises simultaneously in Masson (1998, 1999), as in Summers (2000), Dornbush, Park and Claessens (2000) is regarded as contagion. In the same time Moser (2003) thinks that independent shocks can hit all the countries in the same time, all by coincidence, and this doesn't mean that there are any connections between the markets. Moser (2003) includes in the category of common shocks balance-of-payment difficulties of individual countries, changes in global or US interest rates, commodity prices or recessions is the major industrial countries as exchange rates between major currencies.

Summers (2000) includes among the causes of propagation common shocks like commodity price shocks; trade linkages which may transfer price and demand shocks from one country to another, competitive devaluations, financial linkages, market illiquidity, investors' irrationality like panic, herding and positive feedback trading together with reputation externalities.

Kaminsky and Reinhart (2000) identify a bank lending channel, a liquidity channel and a trade channel in the transmission of contagion. King and Wadhvani (1990) observe that an idiosyncratic shock, which is assumed to be uncorrelated across assets and uncorrelated with the factors, can represent a trigger for contagion. This

is because investors will be inclined to adjust their portfolios in the other markets, if they are uncertain about whether the shock is in fact idiosyncratic or not. In their view investors deduce their information from the price changes on the stock markets, and so 'a mistake' in one market can also be transmitted to other markets. Claessens and Forbes (2004) consider that contagion can occur due to fundamental causes, such as common shocks, trade and financial linkages; or investors' behavior, which includes liquidity problems, incentive problems, informational asymmetries, market coordination problems and investors reassessment.

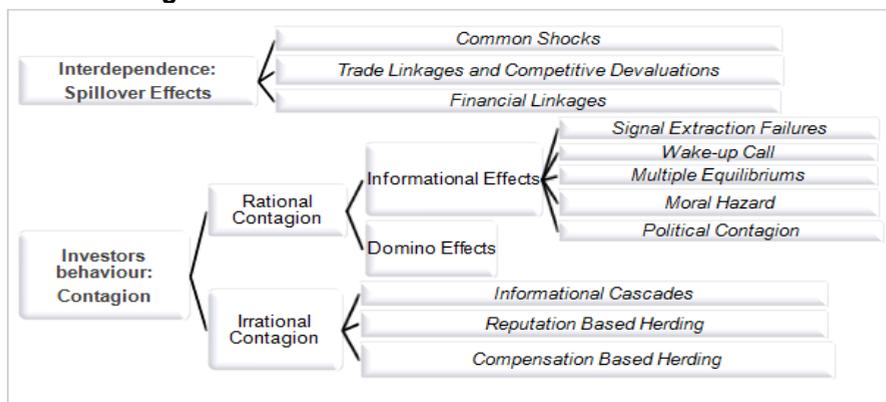
We started to classify the different transmission mechanism, based on the main directions point out by theoretical literature, a compendium can be found in Figure 1. The principal criterion of classification is the cause propagating the shock. Thus transmission mechanism between markets can be divided into channels which act in interdependent markets with spillover effects, are channels where the market are independent, so the linkages are attributed to investors behaviour. In this case, contagion flows through investors and the portfolios they hold. In interdependent markets we can have three possible channels, namely common shocks, trade linkages together with competitive devaluations, and finally financial linkages. These channels are the effect of different connections between markets. In the channel of common shocks Calvo and Reinhart (1996) include major increases in the global or US interest rates, Moser (2003) points out changes in commodity prices, recessions in major industrial countries and exchange rate changes between major currencies, while Chunan, Claessen and Mamingi (1998) consider that slowdowns in the US or global industrial production constitute a global factor also.

Through trade linkages, such as bilateral change between two countries, a crisis can also be exported into other markets. In this case, if the income of a country decreases, it leads to a reduction in demand for imports, and this is equivalent with the reduction of exports of other countries. In a scenario like this, the balance of payments and other fundamental variables are affected. Competitive devaluations, as shown by Corsetti, Pesenti, Roubini and Tille (1999) describe a situation where a crisis has the effect of currency depreciation in one country. So the exports of other countries are altered, by making the exports of the depreciated currency country more attractive. In this case the other countries will be inclined to depreciate their own currency also, for competitive reasons, and so a wave of depreciations is perceptible on the markets. Usually the final amount of total depreciations exceeds the necessary depreciations allowed by the equilibrium, and this constitutes contagion. These linkages are found significant by Eichengreen and Rose (1998a, 1998b); Glick and Rose (1998) together Forbes (2000, 2001); while Masson (1998) together with Baig and Gooldfajn (1999) believe that these are not central in shock transmission. Kaminsky and Reinhart (2000) together with Van Rijckeghem and Weder (1999a, 1999b) consider that trade linkages are subordinated to other factors in the transmission of crises. The last linkage in dependent markets is the financial one, where Claessens and Forbes (2004) suggest that these may be constructed from foreign direct investment, reduction in trade credit, or changes in other capital flows between countries.

Rigobon (2002) considers that financial linkages can be associated with all the institutions which are necessary for the functioning of financial markets. Van

Rijckeghem and Weder (1999a, 1999b) consider the common bank lender effect, where one country is hit by a shock, and if a bank has high exposure on the affected market, probably it will suffer major losses. This has the direct consequence that it will meet margin calls, or will readjust its risk exposures, reduce lending on other markets for the purpose of restoring the capital asset ratios, and so the crisis is transported in the other markets also. Kaminsky and Reinhart (2000) suggests that banking institutions play an extensive role in the transmissions of shocks, while Kaminsky, Lyons and Schmukler (2001) together with Broner, Gelos and Reinhart (2004) emphasize the importance of mutual fund in crisis propagation. Claessens and Forbes (2004) consider that similar employed VAR (Value-at-Risk) model can produce similar behavioural patterns and decision. In the second case of transmission mechanism, there are no dependences between the countries, the catalyst of common collapse is represented by investor's behaviour. As it was pointed out by Devenow and Welch (1996), this can be classified as a rational or irrational reaction to an external event.

Figure 1: Transmission mechanism between stock markets



Source: Own processing

A rational reaction to an event can be also called forced contagion, which, in Moser's (2003) vision can be divided into informational effects and domino effects. Moser (2003) believes that we can speak about informational effects in transmitting a contagion, when a shock in a single market forces investors to update and change their expectations regarding the other markets. On the other hand domino effects are propagated through indirect financial linkages. Bikhchandani and Sharma (2000) see forced contagion as a false herding behaviour, as opposed to pure herding investors take decisions based solely on their own private information. Informational effects can be divided in (i) *Signal Extraction Failures*, as discussed by King and Wadhvani (1990), where the transmission of crisis is attributed to the misinterpretation of the behaviour of other investors from the market. Moser (2003) considers that these effects can appear from the mistaken view of investors about fictional interdependence between markets, or the hypothesis that similar markets will tend to behave similar, in other words the lump together hypothesis. Another informational effects is the so called (ii) *Wake-up call* which is introduced by Goldstein (1998), and refers to the case when a shock in a market forces investors

to update correctly their initial mistaken beliefs. The third element in informational effects is represented by the *(iii) Multiple Equilibriums*, which is referred to as expectations interaction by Moser (2003), multiple equilibrium by Dornbush, Park and Claessens (2000), market coordination problem by Claessens and Forbes (2004) together with Marshall (1998); and political contagion by Drazen (2000). This contagion is similar to a mental contagion, where each investor would choose the best option, only if the others would proceed similar. The best decision would be not to sell, and so asset prices would remain stable. The worst decision, which is pareto optimal, refers to the belief that everybody will sell, and so they all start selling, which causes assets prices to decline. Since we discuss a sequential process, the trigger variable becomes of primordial importance, which determines investors to change their expectations about the likelihood of a crisis. Diamond and Dybvig (1983) propose the model of bank runs, while Obstfeld (1986) discusses self-fulfilling speculative attacks. Marshall (1998) together with Chang and Velasco (2001) apply these models in international context, where liquidity needs are a sufficient condition for crises to be triggered. *(iv) Moral Hazard*, which is addressed by Dooley's (1997) model, discusses the possibility when international investors are convinced that in times of major turbulences central banks will intervene and calm the spirits. *(v) Political Contagion* is another form of informational effect in transmitting contagion, which is discussed by Drazen (2000), or by Moser (2003) with the term membership contagion, by Dornbush, Park and Claessens (2000) as contagion deriving from the changes in the rules of the game.

In the second category of rational contagion we find the so called domino effects, related to which Valdés (1997) discusses a contagion model related to wealth effects. These contain liquidity shocks, but which are pure shocks, so they do not start from stock markets. The effect of a liquidity shock is the reduction of wealth, which in turn forces market participants to reduce their exposure on stock markets. A similar approach is incorporated by Calvo (1999), together with Kyle and Xiong (2001).

The second category of contagion transmission, as an irrational reaction to an event, is also discussed by Keynes (1936), with the well known term '*following the herd*'. Bikhchandani and Sharma (2000) suggest that the main reason for herd behaviour is the presence of imperfect information on markets, together with concern for reputation and unfair market compensation structures. Hirshleifer and Teoh (2003) suggest that payoffs or network externalities, sanctions upon deviants, preferential interactions, direct communication and observational influences are the possible sources of herding. There are different viewpoints, but a classification of herding could be perceived as *(i) informational cascades* as considered by Bikhchandani, Hirshleifer and Welch (1992,1998) together with Bannerjee (1992). These occur when an investor, noticing the actions of other investors, chooses to make the same decision, regardless of his private information and personal opinion. *(ii) Reputation Based Herding* models are discussed by Scharfstein and Stein (1990), Trueman (1994), Prendergast and Stole (1996), Devenow and Welch (1996), Graham (1999), Welch (2000), where portfolio managers choose herding, because they believe that in this case it is less likely to obtain sub optimal results compared to the other participants. *(iii) Compensation Based Herding* is discussed in the models of Dow and Gordon (1995), Maug and Naik (1995) together with Admati and Pfleiderer (1997), where investors are rewarded externally according to

the achieved performances. So investors will be stimulated to copy the herd behaviour, because they want to reach at least the average level of performance. So, instead of encouraging investors to achieve superior performances, outside incentives will only bring investors more closer to herding, because they choose to copy the movements of others, and obtain medium benefits instead of the risk of obtain nothing.

4. Discussion

With these we have exhausted the possible causes for transmission channels between markets, and the difference between contagion and spillover effects. As we have seen, there are different viewpoints regarding contagion. These distinction are made about the prior linkages between stock markets, thus when a shock is propagated through macroeconomic fundamentals, it can be viewed as the result of an optimal response to an external shock. In anticipating the changes in the fundamentals, financial markets respond and adjust to a new equilibrium, but as Moser (2003) points out, they do not cause the change in equilibrium. These shocks are resulting from a normal interdependence between markets, they are not causing the shock, but they speeding up its transmission. So, if markets are interdependent, we speak about spillover effects which run through real and financial linkages. On the other hand, if no connections can be identified between the markets, than the transmission of contagion is solely the result of investor's behaviour. This is true contagion, which is transmitted thought investors and the portfolios they hold on multiple international markets.

Based on the dependence between markets, we classified the different transmission mechanism. In interdependent markets we can have three possible channels, namely common shocks, trade linkages together with competitive devaluations, and finally financial linkages. In markets with no dependence two distinctive contagion types are identified. As pointed out Devenow and Welch (1996), this be classified as investor's rational or irrational reaction to a shock. A rational reaction to an event can be also called forced contagion, which, in Moser's (2003) vision can be divided into informational effects and domino effects. The second category of contagion transmission, as an irrational reaction to an event, is knows as '*following the herd*'. In this category we included informational cascades, reputation based herding and compensation based herding.

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SUB – SECTION: ACCOUNTING

MEASURES INVESTIGATING THE CHARACTERISTICS OF ACCOUNTING IN KNOWLEDGE-BASED ECONOMY. STUDY REGARDING THE EVOLUTION OF THE ROMANIAN ICT INDUSTRY IN 2007-2011

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Abstract: *Our interest in this subject resides in the need to understand the new meanings of accounting and financial reporting considering that the importance of knowledge-based assets is increasing. Therefore, we have been interested in understanding some of the defining and essential aspects of a knowledge-based economy and we have tried to identify one of the Romanian industries, most marked by knowledge and intellectual capital and, in the end, we wanted to point out the main features of an accounting in knowledge-based economy. One of this paper's objectives is to carry out a study at the macroeconomic level regarding the ICT Industry, a valuable element of knowledge-based Romanian economy, in the last half decade as well as of its constituent sectors: Telecommunications, Software and IT services and Hardware and electronics. The information contained in this study is based on the annual analyses of the Institute for Computer Technology, which, in its turn, is mainly based on processing the balance sheet data of the firms in the ICT industry in Romania and, also, information communicated by companies or provided by public institutions like NIS, NRB and NCA. The study is framed within the area of quantitative research, in a preponderantly inductive approach, using interpretative methods in order to understand the effects of economic conjunctures on the ICT industry, a knowledge-based industry, as a constituent element of a knowledge-based economy. We have noticed that the Telecommunication sector is the most unfavourable evolution during the entire length of time valuated, generating a negative influence. Even since 2007-2008, which corresponds to the economic boom, the growth recorded until then was attenuated. The slight increase of several indices (turnover and the production sold – returns form services, more exactly) and the slight reduction of the other indices part of the analysis (added value, export, number of forms and personnel) are the result of telephone market saturation, competition increase and the continuous tax reduction. The following years corresponding to the time of economic contraction negatively affected the evolution of the Telecommunication sector.*

Keywords: *knowledge based economy, accounting, ICT industry, Romania*

JEL classification: M41, D83, O11

1. Introduction

The notion of knowledge-based economy appeared for the first time in the speciality literature in 1969, in Peter Drucker's studies, being subsequently used by other specialists in economics and included by national and international bodies in official documents. Although, there has been for almost five decades a certain preoccupation for defining and the concept of knowledge-based economy, there is not a unanimously accepted definition, the notion being closer to a rhetoric metaphor than a concrete reality which should point out in detail the essential features (Kleith, 2002). According to Peter Drucker (1993), knowledge-based economy is the structure in which the capital, natural resources or labour are not considered fundamental economic resources anymore. The main economic resources, the most important in the new economy, is knowledge and generating and exploiting knowledge represent the predominant part in creating wealth (Department of Trade and Industry, United Kingdom, 1998 in Carayannis, 2006).

The current paper's main objective is to identify the main features of a knowledge-based economy, to present the evolution of the IT industry in Romania in the last years and to outline some of the main characteristics of accounting in such economy.

The paper is structured as follows: after a short introduction presenting the objectives pursued in the present study, there is the theoretical framework and the stage of knowledge regarding knowledge-based economy, then the research methodology is succinctly described; then follow discussions on the analysis of the evolution of the IT sector in Romania and, in the end, the main conclusions of our research are outlined.

2. Theoretical framework. Stage of knowledge

Defining aspects of knowledge-based economy

According to most of the authors, knowledge-based economy is that economy "where production, distribution and use of knowledge and information is the key factor of economic growth" (OECD, 1996; McKeon and Weir, 2001 cited by Forbes, 2006; Chen and Dahlman, 2005; Forbes, 2006; Raj and Seetharaman, 2012); "it has in view, because it is an economy, the money, in the context of knowledge acquisition, production and selling" (Stewart, 1998); "an economy more dominated by the global influences and by the speed, often in real time, of the communications and information, no matter the distance" (Archibugi and Lundval, 2001); "such an economy is built on an efficient informational infrastructure and technological adaptation and the emphasis is on innovation, education and human resource development" (Forbes, 2005); "it is characterised by the transformation of knowledge into raw materials, capital, products, factors of production essential to economy and by economic processes within which generating, selling, buying, storing, sharing and protecting the knowledge become predominant and decisively condition the achievement of profit and ensurance of long-term economic sustainability" (Nicolescu and Nicolescu, 2005); "it is a state of economic being and a process of economic becoming that leverages intensively and extensively knowledge assets and competences as well as economic learning to catalyse and accelerate sustainable and robust economic growth" (Carayannis et al., 2006); "the

economy in which the combination of diversity and ability of the knowledge owner has shaped innovative thinking and technologies which have led to the emergence of intellectual property assets and consumer goods” (Heng et al., 2012).

The current interpretation of knowledge-based economy is concentrated on the importance on knowledge or human capital for the economic growth (Lin, 2006). In modern economy, the performance of an economic system is decisively influenced by the policy of intangible assets and their use. They are the result of the intellectual capital used as a factor of production in order to obtain a new value by accumulating knowledge (Burja and Burja, 2011).

Fuller (1995) argues that knowledge-based societies are not industrial societies, but knowledge –based societies are permeated by industrial values. According to Weber (2011), the fact that international government bodies consider knowledge as the main power factor for the nations, shows that the knowledge economy – specifically ICT, education and innovation – should be taken into consideration in the planning national strategies. Perhaps for this reason, the most penetrating and most frequently utilized definition regarding knowledge-based economy is that of the World Bank (2010), as a directly involved body in the development of knowledge-based economy in the world. The definition contains four pillars: economic and institution management, education and skills, information and communication infrastructure and innovative system.

In contrast to the World Bank’s approach regarding knowledge-based economy, Stewart (2001) states that it stands on three pillars: the first is knowledge – the most important factor of production. In knowledge-based economy value creation results from information; the second column belongs to knowledge-based assets, among which the intellectual capital has become the most important, consisting of talent, skills, know-how, know-what, human relations and other capabilities which create value; the adaptation to knowledge-based economy is the third column and consists in adapting a new business vocabulary, new technologies and strategies, new management techniques, new corporate governance techniques and new accounting models.

Knowledge-based economy points out the organizational and technological complementarities among the extended information encoding, storing and transmitting possibilities, provided by the new technologies, “the human capital” made up of individuals capable of using these technologies and a “receptive” organization of the enterprise (due to the evolution of knowledge management) to use the maximum potential of productivity. It is certain that in the global economy certain “intangible” activities related to research, services and education, receives a higher importance (UNESCO, 2005).

Analysing the totality of definitions and arguments presented in this chapter, without allowing us to express distinctly our own variant to define knowledge-based economy, we agree with the definition made by Nicolescu and Nicolescu. In our opinion, the elements characterising this variant to define knowledge-based economy refers first of all to the economic roles and functions held by knowledge within the economic processes, which emphasizes the multidimensionality and their particular character. Another particularity is given by the transformations that knowledge is subdued to within the economic circuit, which lead to a plus of added value. In comparison with the preceding variants there are other defining elements that can be distinguished such as the relation of conditionality between securing

the economic performance and ensuring the economy' sustainability and the set of processing and use of knowledge capital processes together with the other classical resources. The qualitatively superior character and the specificity of knowledge-based economy are not limited only knowledge, but they incorporate also the contributions of economic sciences, being relevant the importance held by knowledge within economic circuits. Once the importance of the new type of economy is perceived, several countries have adopted policies and strategies to build it. Concretely, at the EU Lisbon Summit it was established that for the countries of this organization that by 2010 they must build the knowledge-based economy.

3. Research methodology

The purpose of this research is to perform a retrospective of the speciality literature at the national level and, especially, at the international level regarding aspects of accounting in knowledge-based economy. The conceptual delimitation regarding knowledge-based economy was the first stage in the research, followed by the outline of some of the characteristics of accounting in the knowledge economy. The international literature materialized in the theoretical contribution of some researchers such as Kleith, Carayannis, Forbes, Drucker, Chen and Dahlman, Stewart, Fuller, Weber, Raj, Seetharaman, Lin etc. At the Romanian level, researchers like Nicolescu, Burja, Feleagă and Malciu, bring an important theoretical and empirical contribution to this field. In order to review the speciality literature, we used the qualitative research with fundamental-type descriptive-conceptual perspective, according to the deductive method, starting from concepts and theories existing at the level of knowledge-based economy and of accounting practised in this new economy.

Due to the active implication of informational technologies and communications in all economic and social sectors, the ICT industry in Romania has become the most dynamic sector of national economy. Although it is a new industry in comparison with the classical branches of economy, it has developed in a pace comparable to that of European countries. The industry contains goods and services in the field of information and communication technology, which have a triple strategic vocation (MECMA, 2011). On one hand, by improving the penetration rate of the IT sector in the Romanian society and economy and, also, by applying IT solutions in different fields, it contributes to the reduction of costs and transactions and facilitates communication. On the other hand, the IT applications contribute to the expansion and/or optimization of national value chains of other industries and, last but not least, it is an important exporting sector by outsourcing or integrated solutions export.

Considering all the reasons presented above, the secondary objective of this paper is to carry out a study at the macroeconomic level regarding the evolution of the ICT Industry, a valuable constituent of knowledge-based Romanian economy, in the last half decade as well as of its constituting sectors: Telecommunications, Software and IT services and Hardware and electronics. The information contained in this study is based on the annual analyses of the Institute for Computer Technology, which, in their turn, was based mainly on the processing of balance sheet data of the firms in the ICT industry in Romania and, also, information

communicated by the companies or provided by public institutions such as NIS, NRB and NCA.

The study is framed within the area of quantitative research, in a preponderantly inductive approach, using interpretative methods in order to understand the effects of economic conjunctures on the ICT industry in Romania, an industry based on knowledge as a constituent element of knowledge-based economy. The data gathering is a simple process in this case, consisting in accessing the webpage of the Institute for Computer Technology through an IT programme installed on a personal computer which allows downloading files in an intelligible format. The data presented in these files are stored and processed by simple arithmetical calculations. Data processing is made by tabular calculation. After collecting and processing primary data, the results thus obtained are analysed from a quantitative point of view, both as absolute and relative values and as evolution in time, by being represented graphically. By comparing values and evolutions, we will conclude the results through a qualitative analysis.

4. Results and discussions

The last five years represented a period in which the ICT industry, a constituent of Romanian economy which tends towards a knowledge-based economy, has been confronted with diametrically antagonistic phenomena. The period of continuous economic growth of the main indices culminated in 2008, the effects of the world crisis being felt only in 2009, when most of the indices analysed (except for export) considerably diminished. The growth was resumed in 2010, yet the ascending line did not experience the same amplitude. Even though, the ICT industry exited the crisis much quicker and easier than other economic sectors.

Analysing each sector's influence on the industry as a whole in 2007-2011, we can see that the *Telecommunications* sector had the most unfavourable evolution during the length of time valued, generating a negative influence. Even since 2007-2008, which corresponds to the economic boom time, the growth so far has been alleviated. The slight increase of several indices (turnover and production sold – here returns from services, more exactly) and the slight decrease of the other indices analysed (added value, export, number of firms and personnel) are the results of the saturation of the telephone market, the increase of competition and the continuous tariff reduction. The following years corresponding to a period of economic contraction, have negatively affected the evolution of the Telecommunications sector. The diminutions recorded are the result to the dependence of the sector on the domestic consumption, the latter, in its turn, being seriously affected by the crisis, yet, by the end of the interval, we can see a slight diminution of contraction.

Considering the overall sector, the turnover considerably reduced every year, beginning with 2008. To the reduction with 18.48% of the turnover in 2011 compared to 2008 the subsector of mobile telecommunication contributed negatively, where Orange, Vodafone and Romtelecom, the first three companies, summed up reductions of 930 million Euros. With a similar evolution of the turnover, the returns from services provided diminished with 5.9% in 2009 compared to 2008, with 8.1% in 2010 and 4.7% in 2011. The same unfavourable phenomenon manifested with the added value which lost in the five years analysed 23.4 percentage points, reaching in 2011 to a value of 2 billion Euros and, thus, the

contribution of the Telecommunications sector to Romania's GDP was reduced with 1.66%. Regarding the exports, they decreased continuously, from 801 in 2007 to half in 2011. The saturation of the mobile telephone market and TV analogical cable services, in the context of economic crisis, generated the stoppage of increases in 2008 and the expansion of broadband Internet services and digital TV managed to compensate only with a slight attenuation of decreases. The hostile economic environment, the ill-fated effects of the world crisis and the rough competition on a decreasing market have generated the bankruptcy of many companies and accelerated the consolidation within the sector. Thus, the Telecommunications sector lost 880 firms in 2011 compared to 2007, in a consecutive decrease every year (see Table 1). The number of employees had a similar situation, the companies, due to re-engineering and cost reduction reasons, made redundancies (10,840 employees in the interval analysed).

Table 1: The ICT Industry on sectors in 2007-2011

Indices \ Length of time	2007	2008	2009	2010	2011
Telecommunications sector					
Turnover, mil euro	5,093	5,136	4,744	4,398	4,189
Production sold, mil euro	4,521	4,728	4,447	4,088	3,895
Added value, mil euro	2,557	2,498	2,252	2,052	1,959
Export, mil euro	801	785	623	422	400
Number of firms	3,930	3,576	3,360	3,185	3,050
Personnel	53,040	49,760	47,280	44,100	42,200
Software and services sector					
Turnover, mil euro	2,084	2,510	2,181	2,404	2,596
Production sold, mil euro	1,467	1,859	1,697	1,873	2,010
Added value, mil euro	872	1,041	985	1,090	1,183
Export, mil euro	505	642	725	840	930
Number of firms	15,170	15,990	15,620	15,330	15,000
Personnel	53,970	54,280	55,120	56,430	58,520
Hardware and electronics sector					
Turnover, mil euro	1,102	1,473	1,629	2,467	2,640
Production sold, mil euro	821	1,243	1,517	2,396	2,584
Added value, mil euro	304	254	238	261	282
Export, mil euro	702	1,581	2,030	3,060	3,390
Number of firms	928	888	769	707	650
Personnel	16,720	19,950	15,840	17,480	18,380

Source: personal processing of annual reports of the Institute for Computer Technology, available online www.itc.ro, accessed on 15.01.2013

Unlike the Telecommunications sector, the situation in the *Software and services* sector is different in the length of time valuated, the interval 2007-2008 corresponds to a period of significant growth (20.4% - turnover, 26.7% - production/services sold, 19.4% - added value, 27.1% - export, 5.4% - number of firms and 0.6% - number of employees operating in the sector), followed by a dark year in the sector's evolution, when most of the indices analysed (less export and

personnel) diminished. 2009 caused the decrease of the turnover with 13.1%, yet it resumed its increase in 2010 and 2011 (+19%). The trajectory of the turnover was immediately taken over by the evolution of returns from production/services sold (-8.6% in 2009, +10.4% in 2010 and +7.3% in 2011) and added value (-5.4% in 2009, +10.7% in 2010 and +8.5% in 2011). The Software and services sector contributed with 0.98% to Gross Domestic Product in 2011.

Analysing the data presented above, we can state that this sector has overcome the economic moment crisis, reaching in 2011 to superior values compared to 2008. This positive phenomenon is the result, first of all, of the (+13% in 2009, +16% in 2010 and +11% in 2011), which managed to diminish the decrease of returns on the domestic market. In 2010 already, European markets resumed the demand for software and the need to reduce costs, some foreign companies transferred their activities towards countries like Romania. The sales of software solutions, the external contracts of local companies and the returns of the software service and development centres of the multinationals have brought important benefits to our country.

Passing to the microeconomic level analysis, we can notice the disappearance of 990 firms in 2011 compared to 2008, with a linear decrease situated around 2% annually (in most of the situations it is about small and very small firms). In spite of all these, the sector holds over 80% of the companies of the entire ICT industry in Romania. Even in the economically difficult conditions, the firms in the system continued hiring people in the period analysed (+0.57%, +1.55%, +2.38% and +3.70%), yet with a more rigorous selection of personnel. The number of employees increased with 4,550 people in 2011 compared to 2007 (little compared to the years preceding the crisis when a number of 7,000 people used to be hired annually), covering in the present only 1/3 of the graduates in the field (Vuici, 2012: 17).

Being in a positive trajectory, the *Hardware and electronics* sector recorded increases during the entire period analysed, no matter the economic conditions, positively influencing the indices of the entire industry. The only of this type in the ICT industry, it managed to maintain an ascending line even in 2009, due to the impulse given by the production at Nokia, the multiplication of foreign companies and the reduction of the activity of domestic producers. The evolution of the turnover recorded continuous growth, yet bouncing. If in 2008, the indices increased with 33.7%, in 2009 the increase was of only 10.6%, the situation repeating in 2010 (+51.4%) and 2011 (+7%). A similar trend recorded the production sold (+51%, +22%, +58% and 8%) and exports (+125%, +28%, +51% and 11%). We cannot say the same thing about added value rate whose maximum was recorded in 2007 (304 million Euros), decreasing with 16.4% in 2008 and with 6.3% in 2009. A timid increase is felt only in 2010 (9.7%) and 2011 (8%). Spectacular for this sector is the continuous growth of export, from 0.7 billion Euros in 2007 to 3.4 billion Euros in 2011, with a positive influence on the same index of the ICT industry, as a whole. Resuming the order from Europe has brought benefits both for the EMS (Electronic Manufacturing Services) contractors as well as for the producers of electronic components and sub-assemblies.

The number of firms in the sector considerably reduced every year (with 30% less in 2007 than 2011). The number of employees varies in a sinusoidal manner, with an increase of 19.3% in 2008 and a sudden decrease in 2009 (-20.6%). In 2010,

employments are resumed in the sector, generating the increase of personnel with 10.3% and 5.1% in 2011. The significant reduction of increases in 2011 of any of the indices was marked by the unfavourable situation of Nokia in the second half of the year. Even though, the figures of this financial year exceed the figures of 2008 (+79% for turnover, +108% for production, +114% for exports and +11% for added value), generating a positive balance sheet for this sector. The causes of this evolution were the revival of the external consumption (the foreign producers were the first beneficiaries), less affected by the effects of the crisis, unlike domestic firms which depend more on the domestic market.

Characteristics of accounting in knowledge-based economy

In knowledge-based economy, knowledge-based firms give much importance to intangible assets. Cozma and Popa (2007) outline a few premises which have led to the prevailing of tangible over intangible in the structure and value of contemporary economic organization. They are:

- the increase of competition as a result of the globalization phenomenon, emphasising the organization's orientation towards the client;
- the increase of the consumers' exigencies, forcing the organization to focus on creating and providing value to the market through: innovation, aesthetics, unique experience;
- the alert technical-scientific profess;
- the development of the informational society, which transformed the information into a strategic resource;
- the diversification of the communication ways and the cancellation of distances;
- the penetration and integration of technology in all the fields of social and economic life, including people's personal life.

The category of intangible assets contains, according to Blaug and Lekhi (2009), the knowledge, human capital, know-how, informational data, reputation and organizational practices. The immaterial character of these assets makes them difficult to quantify, even though the economic advantages generated by them are obvious. The OECD (The Organization for Economic Cooperation and Development) specialists consider that the "notion of intangible investments contains the totality of expenses made by societies for a long period of time, excepting the purchase of tangible assets, in order to improve the results. Thus, together with the investments in land, buildings, technology, the intangible investments contain investments in personnel training, organization of production, purchase and use of programme-products, commercial and technological relations with other companies, the study of the market and others (Feleagă and Malciu, 2004). When we use the term intangible, we are thinking of an accounting notion and the international accounting norm the standard IAS 38 (Greuning, 2009: 237) defines intangible assets as being those assets "non-monetary assets which are without physical substance (immaterial), held in order to be used for the production of goods or services to be rented to third parties or to be used for administrative purposes". Intangible assets can be found in an enterprise under different shapes and according to the possibility to identify, measure and evaluate them are contained in the patrimony of the entity, while others non-identifiable and intangible, although obvious they are not reflected in accounting records. Their

value is given by the existence of earnings present or future of the enterprise, but being difficult to establish it in a credible manner although their contribution to the increase of the efficiency of the entity is obvious, they get not to be reflected either in the annual reporting. It unnatural the shareholders and stakeholders' perception and leads to the empowerment of the entity (Smith and Parr, 2008: 14).

In the last decades, due to the significant increase of diversity of intangible assets, the researchers' attention was reoriented from tangible assets to knowledge-based assets. These are in contrast to tangible assets due to the fact that they can be easily identified, classified, valued and emphasised in financial reports. In order to understand which activity is value surplus generating in a knowledge-based economy is absolutely necessary and it is extremely important to adapt the contemporary financial statements to the economic reality. *The knowledge-based assets* have been in existence for a long time. According to Cohen (2008), when the first inhabitant of caves lit the fire, he had extremely important knowledge. It can be said that he had an intangible assets by his ability. Following the same rationale, Cohen appreciates that the invention of the alphabet, of the numeral systems or the creation of the calendar represented for those times very valuable intangible assets. The inventors of those times never intended to patent their inventions or to ask for copyrights, yet, if they had done this, where would we have been today? It is worth noticing that the terms "intellectual", "intangible" or "knowledge-based" capital have, from the point of view of their use, an interchangeable character. In the accounting, management and law literature, the terms *intangible*, *knowledge-based assets* and *intellectual capital* have in view the same aspect: an intangible potential generating future benefits.

More recently, the sphere of intangible assets has become considerably larger, from consecrated intangible assets like: licence, software and trademark, to more dynamic elements like: human resources, organizational competences and innovation oriented intellectual processes. Based on the studies performed in European universities participating to the EU Meritum Project (Blaug and Lekhi, 2009) there are three categories of intangible assets which detach: the "human capital" generated by the employees' abilities and knowledge; the "relational capital" regarding the suppliers, consumers and research networks; and the "structural capital" targeting both the infrastructure assets and the intellectual property.

Due to the expansion of definitions aiming to contain more dynamic intangible elements, there are difficulties in valuation, according to Blaug and Lekhi (2009). They continue by stating that the synthesis documents do not provide nowadays comprehensive analyses of knowledge-based companies, a fact which raises problems for investors, shareholders, accountants, management. The non-physical nature of the intangible assets makes it difficult to quantify their exact value. Also, different components forming the intangible assets, being deeply interconnected, makes them even more difficult to identify and quantify. For example, in the process of employee training there cannot be assurances that the benefits of these training courses will remain within the firm. Therefore, the dissemination of knowledge makes it difficult to estimate the gains in productivity associated to them. Just like research and development, the rest of intangible assets have a high degree of risk and also a special importance in creating the value surplus. Although they have an

obvious value, it is not measured appropriately and, at the moment, it seems very difficult, even impossible to measure in a credible manner these assets. To underline the essence of the problems regarding what we previously stated, Arthur Levitt's comments are interesting, in 1999, cited by Smith and Parr (2008: 102): The dynamic nature of today's capital markets creates controversial. The new types of services and new technologies spurred are creating new industries and these new industries make up a new economy. The shift from an industrial economy to a more service based one is, actually, a shift from "bricks and mortar to technology and knowledge." The major problem arising from these changes refers to the way in which information is presented in the financial statements and to the "maturation" of the existing models of financial reporting. We know, for example, to calculate the value of the production stock, to value a real estate or even to give value to a firm, yet it is very difficult for us to assess the list of users of an e0commerce site or the amount of research and development invested in a software programme. And because all these intangible assets get a higher and higher amplitude, both in terms of size and area of applicability, the users of accounting information resulted from financial reports can ask themselves whether the real value – and what determines that value – is chronologically reflected in these synthesis documents.

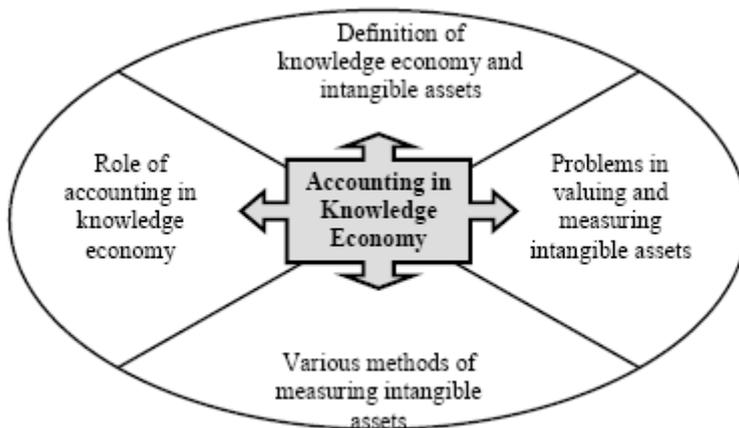


Figure 1: Accounting studies in knowledge-based economy
 Source: Raj and Seetharaman (2012)

The objectives of accounting in knowledge-based economy should have in view the aspects presented earlier and synthesised in what follows, without having, though, the pretention that the list is exhausted: to define the concept of intangible asset in such a manner that it can contain in its structure the entire mass of knowledge-based assets, essential components of the knowledge economy; to identify the recognition criteria of intangible assets, taking into account those which are effectively used to create value, but which skip an appropriate identification or quantification; to appropriately classify the intangible assets; to draw up appropriate accounting policies to accurately appreciate the degree and diversity of intangible assets; to evaluate the intangible assets, to find appropriate quantification models of real value of all the knowledge-based assets; to improve the depreciation model

of intangible assets and their depreciation duration. Let's not forget that they depreciate much quicker from a moral point of view than a physical asset (for example, a soft). How and how much the intangible assets depreciate is many times simply a presupposition rather than an action supported by rigorous proving elements; the emphasis should be on an efficient financial-accounting reporting of the company's intangible assets, in a more coherent and broad manner, transparent, and with an optimal frequency so that the divulging of accounting information satisfy each user's needs.

In practice, it can be seen that more and more firms invest in different intangible assets to bring on the market innovative products. Considering all these, national and international accounting regulatory bodies have in view the expression of the role of intangible assets in economy, by introducing some systematic and comparative reporting, which should reflect as accurately as possible their diversity and accurateness.

5. Conclusions

Our interest in this research subject resides in the need to understand the new meanings of accounting and financial reporting considering the fact that the importance of knowledge-based assets is growing. Thus, we have been interested in finding out some of the defining and essential aspects of a knowledge-based economy and we have tried to identify one of the Romanian industries most marked by knowledge and intellectual capital and, in the end, we have wanted to point out the main characteristic of accounting in a knowledge-based economy. .

As we have presented earlier, we followed the analysis of indices in the length of time 2007-2011 for three sectors of IT industry and they are: telecommunications, software and services and the hardware and electronics sectors. We noticed that the *Telecommunications* sector is the one with the most unfavourable evolution for the entire period analysed, generating a negative influence. Even since 2007-2008, which corresponds to the period of economic boom, the increase recorded so far was alleviated. The slight increase of some of the indices (turnover and production sold – here returns from services, more exactly) and the slight reduction of the other indices analysed (added value, export, number of firms and personnel) are the result of the saturation of telephony market, the increase of competition and the continuous tariff reduction. The following years correspond to a period of economic contraction which negatively affected the evolution of the Telecommunications sector.

One of the limitations of our approach targets the fact that we have not measured the added value in these sectors of IT industry, the result of only knowledge-based assets. This limitation allows us to overcome it in a future study. In this paper we wished to draw the main characteristics of accounting in the knowledge based economy although the link to the dynamic of Romanian IT industry is not so strongly and clearly highlighted.

Regarding the characteristics of a knowledge-based accounting, we must admit that these are still quite poorly underlined in the literature in the field. As we have seen, some categories of assets are very difficult to track in accounting, to measure and quantify their contribution to the creation of added value. Therefore, accounting and financial reporting are now facing new challenges regarding the

recognition, accounting and reporting of these categories of assets, the more vulnerable and difficult to quantify the more valuable.

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ACCOUNTING IN KNOWLEDGE-BASED ECONOMY. THE CASE OF THE ROMANIAN ICT INDUSTRY.

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Abstract: *The first objective of the paper is to carry out a retrospective of the literature written on the topic at the national level, yet especially at the international level regarding the aspects of accounting in knowledge based economy, starting from concepts such as knowledge, typology and the role of knowledge, knowledge based economy and the characteristics of accounting in knowledge economy. In order to review the literature in the field, we used the quality research with a descriptive-conceptual perspective of a fundamental type, according to the deductive method, starting from concepts and theories existing at the level of knowledge based economy and the accounting used in this new economy. The paper has also in view the drafting of a study at the macroeconomic level, regarding the evolution of ICT Industry in Romania in the last half of decade, a period in which the economy and its sectors have been seriously affected by economic imbalances. The study is framed within the area of quantitative research, in a preponderantly inductive approach, using interpretative methods for the understanding of the effects of economic conjunctures on the ICT industry, a knowledge-driven industry, as a component part of a knowledge-based economy. The collection of data has been made by accessing the webpage of the Institute of Computer Technology through an IT programme installed on a personal computer which has allowed the downloading of files in an intelligible format. The data presented in these have been retained and processed simple arithmetic calculus: data processing was made with tabular calculus. After collecting and processing the primary data, the results have been analysed quantitatively, both as absolute and relative sizes and as evolution in time, by graphically representing them. The second objective refers to the analysis of traditional accounting model versus the knowledge based accounting model, emphasising the limits of the traditional model and outlining several orienting directions for the knowledge based model.*

Keywords: *knowledge, knowledge based economy, accounting, ICT industry, Romania*

JEL classification: M41, D83, O11

1. Introduction

We are the witnesses of some major changes. The world economy is experiencing an almost radical transformation. The land, the labour and the capital, the main factors of production of neoclassical period, are now much more inferior to the new factors which contribute to the economic growth. If for the agrarian period, the land used to represent the only source of exploitation, for the industrial period, the scales is moving towards the physical capital which consists in industrial type buildings (plants, combine group of enterprises, industrial halls) and technological equipment (technical installations, machines, equipment). And in what the man is concerned, this one was rather perceived from a quantitative perspective than a qualitative one. Their number being more important than individual qualities.

The 20th century adds two more important factors of production: technology and entrepreneurship according to Joseph Schumpeter (in Carayannis et al., 2006). The phenomenon of globalization and the tremendous development of Industry of Communication and Information Technology has led to important changes in the society's structures overall (Negucioiu, 2009: 2).

The post-modern period shows the tendency to dematerialize and virtualize many of the component elements of the society and of the economic-social relations, introducing modern technology in all of its aspects and the technological development depends on intellectual resources not on material ones. The era of technological changes and of innovation has considerably altered the way we live (at work, home and in our free time) and has intensely changed the way we do business, has redefined the resources and directions of the companies. By the end of the 20th and the beginning of the 21st century, there could be seen a new change of conception. Many scientists and specialists such as Peter Drucker (1993), identified knowledge as being, perhaps, the sixth and the most important input and output key factor of the economic activity. There are more and more proofs that intangible assets such as the knowledge, the know-how and social capital will become the goal, the oil and the diamonds of the 21st century (Carayannis et al., 2006).

The newly created economy is knowledge based. An economy based on production, distribution and use of knowledge and information (OECD, 1996). The interest has shifted rather towards the individual, towards his capacity of innovation, creativity, scientific research, continuous learning and relational capital. From an economic point of view, all these changes have a special resonance when evaluating a company and this represents a real challenge for the economists. *There are many examples of companies such as Facebook, Google or Yahoo, for whose activity the main tool is the Internet and whose market value exceeds the value recorded by accounting. Hence, the questions: can accounting reflect the faithful image of the economic reality and eliminate this discrepancy? Is the accounting system ready for this new economy? Does the accounting practice manage to assess and recognize in financial reports the entire whole of intangible forces which results in value creation?*

Knowing all these, the research subject of this paper is to analyse and provide a quantitative and qualitative system of information regarding the literature in the field at the national level and especially at the international level regarding the aspects of accounting in knowledge-based economy, starting from concepts such as

knowledge, typology and role of knowledge, knowledge-based economy, the characteristics of accounting in the knowledge economy.

Therefore, the first part of the paper makes a review of the literature in the field regarding the knowledge, categories of knowledge and its role, the knowledge-based economy and the characteristics of accounting in the new economy. The second part presents a study at the macroeconomic level, regarding the evolution of the main indicators of the ICT industry in Romania in 2007-2011.

The reasons behind this choice are based on the fact that this research theme is perfectly framed within the times we are living. The drawbacks of the traditional accounting model applied in the new economy, the knowledge-based economy, make the subject more and more exciting.

2. Theoretical framework.

The appearance of the Internet has brought major changes in the economic and social life. The WorldWideWeb type recipes have facilitated the access to an immensity of products and services which has determined a growth in the dynamics of scientific and economic environment. Nowadays, we have access to a large volume of information, yet this is not enough. It is the human force who decides, capable of thinking, creating more and innovating. According to Muntean et al (2001), the information serves us and it comes from outside while knowledge is related to human reasons, it is an internal development, an enrichment of our practical existence, a result of our operative and creative capacity.

2.1. The knowledge - conceptual delimitations

According to most of the authors, (Muntean et al., 2001; Brătianu, 2006; Andone, 2003; Luban, 2005) before defining knowledge, we should have in view the pyramid of knowledge which has on the base data, followed by information, on a superior stage being knowledge, on the top of the pyramid being wisdom. On the other hand, David Rooney (2005) appreciates knowledge as being misleading and its precise nature has been a long-debated thing for three centuries onwards.

Scanning the literature in the field, we find opinions placing the concept of knowledge within the sphere of the individual, as a subject of knowledge (Howitt, 1996 quoted by Sabău, 2010; Davenport and Prusak, 2000; Sabău, 2001; Stan Davis and Jim Botkin quoted by Muntean et al, 2001, Rooney, 2005) referring to the ability of a person to learn, enterprise, organize and train so that by the experience accumulated they get the appreciated surplus from material sources. The authors of more recent studies see knowledge as as the most important factor of production of current economy whose efficient use generates wealth and economic growth (Shapira et al., 2006; Carayannis et al., 2006; Lin, 2006; Burja and Burja, 2011, Heng et al., 2012). According to Shapira et al. (2006), the knowledge represents the sum of all individual and collective human capabilities to learn, disseminate and commonly use knowledge, informational capital and collaboration relations, intellectual property and management values.

Knowledge is nowadays the prominent economic resource – more important than raw materials and, many times, even more important than money (Stewart, 1998), and the economic finality and generating added value is the objective of having knowledge, its complexity and modernity (Nicolescu and Nicolescu, 2005).

2.2. Knowledge typology

The diversity of knowledge with different applicability is different in managerial, economic, technological, educational processes, yet with partially heterogeneous characteristics, has been emphasized in tie by the analysts in the field. For example, Jones (1999) classifies knowledge according to content, in two categories: *know-what*, which help us perceive and understand a phenomenon, a stage of a process or even a process in itself and *knowledge of how to get things done or know-how*, which help us produce and capitalize in a profitable manner goods and services, being the result of applicative research, of the processes of enhancing and modernizing the techniques, systems products. In the opinion of other OCDE – Organisation for Economic Co-operation and Development – (1996) specialists, the two categories are enhanced with *know-why* knowledge, that scientific knowledge based on laws, rules and principles of nature according to which technology is developed and the *know-who* type products, services, systems and knowledge is developed which represent a combination of knowledge about something (*know-what*) with that on how things get (*know-how*) and consist in the development of special relations, involving some experts, being oriented towards organization and its environment (see Figure 1).

Most of the authors (Muntean et al., 2001; Luban, 2005; Nicolescu and Nicolescu, 2005; Brătianu, 2006; McPhail, 2009) are, yet, preoccupied with the distinction between tacit knowledge and explicit knowledge, a differentiation made according to transferability criterion. *Explicit knowledge* is knowledge that can be expressed. It is accessible to any person who can understand the presentation language, being easy to codify and send. *Tacit knowledge* has a personal character, related to the ideals and values specific to each person whose knowledge is clearly based on their own experience and actions. In order to use and capitalize this knowledge to the best, organizations are trying to store the knowledge they consider explicit to be able to give it to their employees while the organizations which appreciate more the tacit knowledge (especially those organizations with an oriental culture) are based on facilitating the meeting places of the employees so that they can establish direct connections among them, in order to voluntarily, unconsciously gain the others' knowledge. Yet, for the organization both categories are equally important and this is conditioned by the way in which the corporate culture combines it.

Regarding the economic *roles* knowledge has in contemporary economy, they are resumed by specialists like Nicolescu and Nicolescu (2005) to four main categories as it can be seen in Figure 1. According to the authors, the knowledge has the role of *raw material* especially regarding the modern products obtained. If we admit that the raw material represents the main substance in the composition of the finished product, being found in it totally or partially, in an initial or transformed form, in order to make a tab, for example, knowledge represents the main "substance" participating to a great extent to getting the finished product. Generally, the high-tech products are based on substantial incorporated knowledge so that we can say that it is the raw material in the ICT industry just like the flour in the panification industry. Let us think to the composition of a tab of almost one thousand euro which weighs less than one kilogram, plastic, metal and other materials are incorporated (whose cost is of only a few tens of euros) and a lot of knowledge

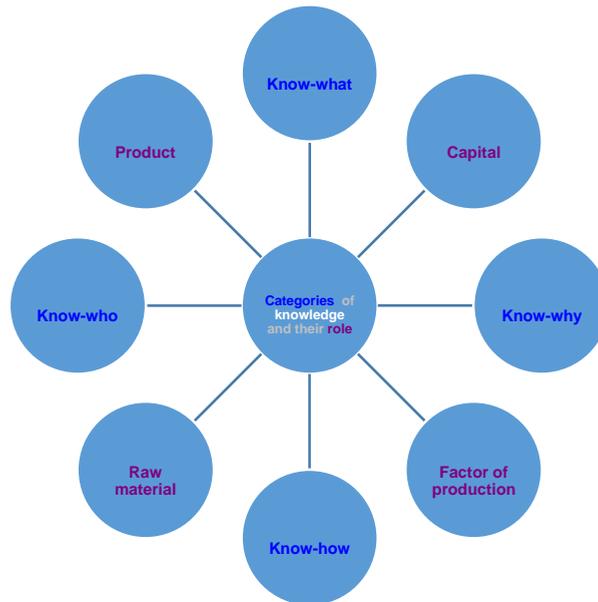


Figure 1: The main types of knowledge and their role in economy

Source: the authors' processing according to Nicolescu, O. and Nicolescu, L. (2005) "Economia, firma și managementul bazate pe cunoștințe", Editura Economică, București, p. 33 and p. 36

As a *factor of production*, knowledge – intellectual factors – participate together with physical factors of production, in all the stages of the production processes, from getting the raw materials to processing and selling the finished product. By the contribution it has as a factor of production, knowledge has brought in economy changes related to the structural-organizational nature by the appearance of new types of organizations such as the network-firms. These forms of organizations are characterised by the fact that they are small firms whose objective is to produce and commercialize a product which is made only with the help of other firms. *Knowledge has the form of the stand-alone finished product*, when it can be found in software programmes, technical projects, patents, quality standards, management analyses and studies, marketing, high-tech products, etc. The diversification of this range of products contributes to the establishment of the role of knowledge as finished products according to its contribution to a firm's turnover and in the GDP in economy.

The knowledge capital owned by a firm contributes to the firm's overall value. Together with the tangible capital of a firm, the intangible capital – technologies, the commercial, managerial, financial know-how have a decisive role in monetary expression. Currently, the importance of the role of personnel in a firm is demonstrated by the stock exchange quotation of the well-known firms in the IT field such as Facebook, Google or Yahoo, where the value of knowledge significantly exceeds the value of physical assets. In the future, the tendency to assess a firm's capital is considered by specialists to be highly influenced by knowledge as a distinct component. All these represent arguments showing the multiple and essential roles knowledge has in contemporary economy. The

knowledge-based economy depends on the value that knowledge can generate, thus being the result of knowledge revolution.

3. Research methodology

The objective of the paper is to make a retrospective of the literature in the field at the national level and especially at the international level regarding aspects of accounting in knowledge-based economy, starting from concepts such as knowledge, typology and roles of knowledge, knowledge-based economy, the characteristics of accounting in knowledge economy. The international literature is effected by the theoretical contribution of researchers like Carayannis, Davenport, Prusak, Drucker, Heng Jones, Lin, McPhail, Rooney, Stewart, Mansour etc. At the Romanian level, researchers like Nicolescu, Burja, Luban, Muntean, Negucioiu, Andone, Brătianu and others bring an important theoretical and empirical contribution to this field.

In order to review the literature in the field, we used the qualitative research of fundamental-type descriptive-conceptual perspective, after the deductive method, starting from concepts and theories existing at the level of knowledge-based economy and accounting used in this new economy. The humankind has been living and experiencing for some time the most *profound* and *extensive scientific-technical, technological, informational and telecommunication revolution* (Negucioiu, 2009: 2). What appeared in the emerging economies in the last years of the 20th century is the knowledge-based economy – an evolutionary framework of the social transition dominating human behaviour of the 21st century. Among the leading forces towards a knowledge-based economy are the informational and communication technologies. Considered validators of change, they release creative potential and open up global markets, increasing competition (Carayannis et al., 2006).

Based on the ideas presented previously, the paper has in view a study at the macroeconomic level regarding the evolution of ICT Industry in Romania in the last half of decade, a period when the economy and its sectors have been affected by serious economic imbalances. The active implication of informational and communication technologies in all economic and social sectors has determined the ICT industry to become the most dynamic sector of the national economy. Although a new industry (approximately 50 years old) compared to the classical branches of economy, it has been growing in a pace comparable to that of other countries.

The ICT Industry is structured into two main components: ICT Services and ICT Processing Industry. In its turn, the ICT Services field contains 2 sectors: Telecommunications and Software and IT services, while the ICT Processing Industry refers to hardware and electronic. The information contained in this study is based on the annual analyses of the Institute of Computer Technology, which, in its turn, was mainly based on processing the balance sheet data of the firms in the ICT Industry in Romania and, also, on information communicated by the companies and provided by other public institutions like NIS, NRB and NCA.

The study is framed within the area of quantitative research, in a preponderantly inductive approach, using interpretative methods in order to understand the effects of economic conjunctures on the ICT Industry, a knowledge-based industry, as a component part of a knowledge-based economy. The collecting of data is a simple process in this case, consisting in accessing the webpage of the Institute of

Computer Technology through an IT programme installed on a personal computer which has allowed the downloading of files in an intelligible format. The data presented in these have been retained and processed through simple arithmetic calculus. Data processing is made with tabular calculus. After collecting and processing the primary data, the results have been analysed quantitatively, both as absolute and relative sizes and as evolution in time, by graphically representing them. By comparing sizes and evolutions, we will conclude the results through a qualitative analysis.

4. Results and discussions

Regarded as a set of the three sectors: Software and services, Telecommunications and Hardware and electronic, the ICT industry experienced extreme times in the last decade, also remarkable moments and moments of constraints. The year of 2008, the year when the global crisis started is the one concluding a period of eight years of continuous growth, expansion which was difficult to repeat in the following years. Even so, the ICT industry has overcome the period of recession more easily than other spheres of economy. The ICT industry experienced in 2010 and 2011 some predominantly positive tendencies. The IT sectors (software and hardware) have evolved ascending with a maximum of growths in 2010 and in telecommunications the contraction was considerably alleviated.

Table 1: The ICT Industry in 2007-2011

Indices	Period				
	2007	2008	2009	2010	2011
Turnover, mil euro	8,279	9,119	8,554	9,269	9,425
Sold production, mil euro	6,809	7,830	7,661	8,357	8,489
Added value, mil euro	3,733	3,793	3,475	3,403	3,424
Export, mil euro	2,008	3,008	3,378	4,322	4,720
Number of firms	20,029	20,449	19,752	19,223	18,700
Personnel	123,733	123,992	118,243	118,008	119,105

Source: the authors' processing in accordance with the annual reports published by the Institute of Computer Technology, available online www.itc.ro, site visited on 15.01.2013

Regarding the total turnover of the ICT industry in the period analysed, it records a maximum level in 2011, reaching 9.4 billion euros, 3.25% more than in 2008 and 12.16% more than the minimum value recorded in this time interval, in 2007 respectively. The increase of the turnover in the IT sectors, which have compensated the decrease in telecommunications, has contributed to this favourable situation.

The volume of revenues and production/services sold by over 18,000 firms of the ICT industry had a track similarly with that of the turnover of the interval of time analysed. For the Telecommunications sector, only 2008 represented a growth of 4% compared to the previous year, the rest of the interval presenting a significant diminishing of revenues in services, with 18% less in 2011 compared to 2008. The increase of the production sold of the Software and services sector in 2008 with 27%, followed by a decrease of 9% in 2009, it reaches a maximum level in 2011,

with 38% over the one recorded at the beginning of the period. Totally in contrast with Telecommunications, the Hardware sector presents a constant increase during the entire period analysed, with a triple level in 2011 compared to 2007. The added value had an unfavourable evolution, recording, starting with 2008, a substantial reduction (8%) for 2009, followed by a slight decrease in 2010 and a slow recovery in 2011, thus remaining below the level of 2008. The GDP contribution to the ICT industry fell below 3% in 2011.

The total export accumulated new increases reaching 4.7 billion euros, with 57% over the value of 2008 and 135% over that of 2007, a much superior level to other sectors of the economy and comparable only to the automobile sector. In this case, too, the advance has been determined by the hardware and electronic sector, where the export grew exponentially, every year, and also, by the software and services sector where the increase in price, even though not as spectacular, showed a plus of 45% compared to 2008. We cannot say the same thing about the Telecommunication sector whose export volume recorded in 2011 half of that of 2007, with a contribution of only 8% to the entire industry.

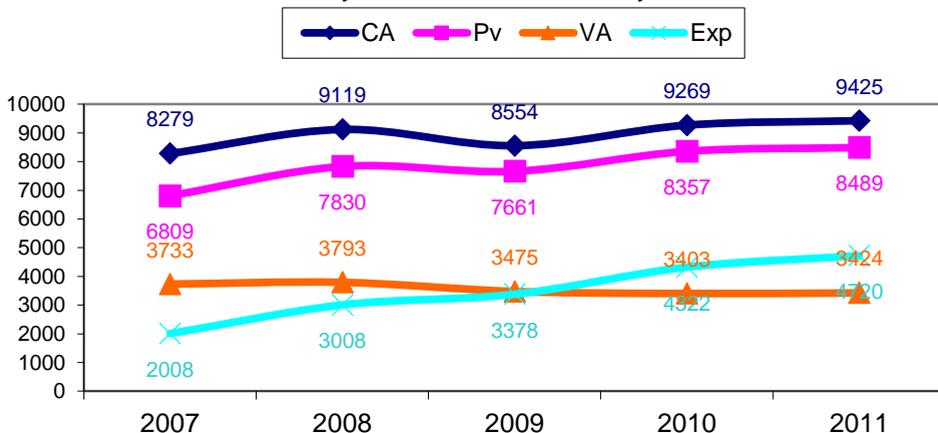


Figure 2: The evolution of the main indices of the ICT industry in 2007-2011 (mil. euro)

Source: the authors' processing in accordance with the annual reports published by the Institute of Computer Technology, available online www.itc.ro, site visited on 15.01.2013

The population of ICT firms was reduced in 2010 and 2011 with 1,000 units, less than 2007, reflecting the condition, still difficult, in companies operate and the accentuation of the tendency to consolidate in industry. The trajectory to reduce is similar to the three sectors of industry. It is worth noticing that the weight of the software and service companies in the total volume of the firms of ICT industry, 80%, while the other two sectors share a percentage of only 20% (16% - Telecommunications and only 4% - Hardware). The contraction of ICT personnel manifested in 2009 and 2010 stopped beginning with 2011, but with different evolutions in the three sectors. In software and hardware sectors, the companies started advertising vacancies and the personnel increased in five years with 4,593,

while in telecommunications the redun continued (-10,898). Despite all these, the two sectors mentioned previously have the significant percentage in the volume of ICT personnel (49% and 35% respectively). Taking the three sectors as a whole, the total number of employees reached 119,105 in 2011, with more than 5,000 lower than in 2008, the percentage decrease (-4%) being significantly inferior to that at the level of entire economy.

Table 2: The ICT sectors' contribution to GDP

Sectors	Period	2008	2009	2010	2011
Telecommunications		2.07%	2.13%	1.90%	1.66%
Software and services		0.87%	0.93%	1.01%	0.98%
Hardware		0.20%	0.23%	0.24%	0.24%
ICT Industry		3.14%	3.29%	3.14%	2.88%

Source: Mircea Vuici, *Industria TI&C 2010-2011 – Sfârșitul crizei?*, available online: www.itc.ro, site visited on 16.01.2013

The ICT sectors contributed to the Gross Domestic Product with 3.14% in 2010 and 2.88% in 2011, a decrease in comparison with 2009 (3.29%). In spite of all these, the GDP contribution increased in 2009 (a difficult year challenged by the economic crisis) compared to the previous year (3.14%), which indicates a less severe contraction in the ICT industry compared to the rest of the economy. The contribution of the Telecommunication sector to GDP continuously decreased during the entire interval analysed. Even during the economy's general expansion period, the evolution of the sector was not a favourable one. In 2008 already, the contribution to GDP decreased to 2.07%, in 2010 to 1.9% and in 2011 to 1.66%, a much more inferior percentage compared to 2008. Yet, the other two ICT sectors have recorded major changes of gross added value and the percentage in GDP has slightly increased, yet without counterbalancing the reduction in telecommunications. The contribution of the hardware and electronic sector increased from 0.2% in 2008 to 0.24% in 2011 while the software and services recorded an increase from 0.87% to 0.98%. The initial shock of the crisis was fast overcome by the ICT industry, whose evolution followed a positive trajectory in 2010 and 2011. In these two years, the activity volume in software and services increased reaching the level before the crisis and the continuous growth in the hardware sector double the production and the exports.

The future evolution is quite unpredictable considering the reduction in the external demand already felt in the second half of 2011 and the first half of current year, materialized in the diminishing of production, export and turnover in the hardware and electronic sector and software and service sector. Until it will be possible to narrow the gap of Nokia, by launching the productions of new firms which have taken its place at Jucu, based on the revival of the internal consumption which proved incapable in 2011 to compensate export, the hopes for a positive evolution in 2012 are replaced by the firm belief that we would be the witnesses of the maintenance at the same level as the one as the previous year.

The traditional accounting model versus accounting in knowledge-based economy

The concept of enterprise has known an evolution determined by the necessity to skilfully memorize, use and connect knowledge. Nowadays, the concept of enterprise cannot be summed up only to the capacity to optimally organize identifiable physical assets in time and space. Considering the progressive increase of intangible inventions and of the importance of their more efficient management, their registration as assets is more and more imminent. The problem is that the current accounting systems cannot manage to optimally identify and measure intangible investments. For example, the identification of the assets given “by a proper quality of communication and social reports” (Feleagă and Malciu, 2004: 35) is not easy to achieve.

Even though in the accounting literature there are more and more debates on knowledge-based economy, the literature has focused only on the inability of traditional accounting concepts and methods to represent the intangible nature of the contemporary capitalism. The result of the studies showed that these drawbacks are perceived as being the results of considerable differences between the values existing on the market and those reflected in the accounting records (Seetharaman et al., 2002; Mouritsen et al., 2001; Power, 2001 quoted by Ken in 2009). Regarding the inconveniences of traditional accounting, Lev, a typical fighter of traditional accounting (mentioned Mansour et al in 2008), criticizes the weak results concerning the presentation of the intangibles internally generated such as Research and Development, the brands, the employees’ talent, propellant components of any knowledge-based business. The conventional accounting model recognizes only the assets purchased from others of a knowledge-based business and not the internal initiatives generated by the knowledge-based management. Considering all these, we appreciate that the current accounting treatments underestimate and misrepresent the financial results of the knowledge-based business. The following table presents the obvious comparison between the industrial business model and the knowledge-based business model.

Table 3: Industrial Business Model vs. Knowledge-Based Business Model

Industrial business model	Knowledge-based business model
Tangible	Intangible
Focus on finances	Balanced set
Released by event	Released by process
Cost	Value
Periodical reporting	Instant access
Past-oriented	Future-oriented
Value in things	Value on flows
Production statistics	Innovation statistics
Standards and standard	Common, yet personalized

Source: adapted after Despres & Chauvel, 2000 in Mansour et al, 2008

With the help of alternative methods regarding the accounting of intangible assets accounting it has been tried to remove the drawbacks, or better said, the rules of traditional accounting. The alternative models come to complete the traditional ones and to allow an improved reflection of intangible assets in accounting.

It is certain that, in a new economy, significantly changed compared to the industrial economy, the methods of traditional accounting are not suitable anymore regarding the intangible assets. The new methods have in view the release of value creation from the constraints imposed by a value reporting system based on industrial economy. The new methods of value creation in knowledge-based economy would be more efficient if they were conceived in terms of innovations. The investments in intangible assets such as development and research, know-how, employees training, relational capital and other similar assets create wholly new services, products, processes, as a result of the innovation process and capable to attract surplus value.

Therefore, it is essential to present relevant information, to exist an overall approach of tangible assets and, especially of intangible assets which contribute in the process of value creation, placing the latter in the suitable place in the financial reporting system, giving them the appropriate importance. In order to fathom the understanding of the role of accounting in knowledge-based economy, we will further try to present the main **characteristics** of accounting in knowledge-based economy:

- The diminishing of the percentage of tangible physical assets in the total of fixed assets;
- The development of internal base of knowledge and the expansion of connections with the clients, suppliers and other external human resources;
- The development of research-development, innovation, creativity activities and the recognition of the synergetic collaboration options in the field of knowledge;
- The financial reporting model is based on the internal organization model of the knowledge-based firm and it is analogue to the human cognitive model;
- The evaluation and reporting of the firm's performance according to the managerial skills to emphasize the knowledge through the options, decisions and actions that it runs;
- The reorientation of the firm's major investments towards training , education, continuous professional training and the development of the main human and communication speciality skills;
- The reconfiguration of the employee motivation system according to the IAS/IFRS standards;
- The development of the aspects regarding the financial reporting and communication by the stakeholders in order to meet their needs to be informed;
- The recognition, capitalization, protection and reporting of the intellectual capital;
- The creation of added value preponderantly from the capitalization of the resources of the knowledge-based firm;
- The reconfiguration of the credibility of financial accounting considering that the economic substance of the events and transactions originates in immaterial aspects and it is generated by the knowledge-based economy;

- The adaptation of the financial communication language and corporate culture to the types of innovative firm networks;
- The reconstruction of the structure and content of financial statements and the adaptation to the risks of a knowledge-based economy and to the vulnerabilities of the contemporary business environment.

5. Conclusions

The reasons behind this research theme resides in our interest in accounting and financial reporting in a knowledge-based economy and the discovery of the main vulnerabilities and raw spots of the classical, traditional accounting and financial reporting system. We live in a dynamic world, permanently adapting to new technologies, yet a world profoundly touched by the turbulences generated by the financial and economic crises which draw a series of changes of our perception of the role and functions of accounting and the financial reporting system. This fact was underlined by describing the ICT industry evolution in the past years. We intended in this work to link this dynamic that we have found in the ICT Romanian industry to the necessity of adjusting accounting and financial reporting of today to this major calls.

One of the challenges referring to the accounting and reporting of knowledge-based assets has in view the extremely delicate, even volatile nature of some of them as well as the fact that it is difficult to identify a direct relation between them and the financial indexes and it is not easy to determine the added value by the contribution of these categories of intangible assets, respectively. Therefore, we agree with Raj and Seetharaman (2012) who call for a review of the accounting standards for the contemporary financial reporting system must provide:

- continuous information instead of periodic reports;
- a future-oriented reporting opposed to the classical one, based on historical information;
- feasible assessments of information in fair values rather than based on historical costs;
- information provided via Internet and through other different modern communication ways instead of statements written on paper in the traditional format.

In agreement to those presented above, our paper intends to provide some considerations and invite to reflection regarding the usefulness of information in a knowledge-based economy and the position that accounting should have considering a considerable dynamics within the sphere of intangible assets and of the necessities to adapt the financial reporting system required. The main limits of our study are in regard to the study case and the discussion of results. This inconvenient will be diminish by future works that will concern financial reporting of knowledge assets in Romanian ICT industry and methods of measuring the value added by these type of assets.

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ECONOMIC VALUE ADDED AND STAKEHOLDERS' INTERESTS

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Abstract. *The value creation is the major objective of companies' functioning. It aims at meeting the general interests of stakeholders. The shareholders are directly interested by value added as they can recover the investments made and obtain the expected profit. Managers and the other employees are motivated through certain salary incentives to act for creating value. The general interest of national economy to increase the value created is due to the fact that this indicator is the main condition for raising the standard of living and quality of life. This is why, the analysis of economic value added created by companies and identification of factors which can influence it, is an important element in the process of substantiating the managerial decisions and investments options. There are different methods that can be used to measure the companies' performance in the process of value creation but sometimes they provide contrary or partially information. The paper presents the indicator Economic Value Added which can be used both to substantiate the strategic and operational decisions and assess the results of their implementation. The case study presented in the paper is a theoretical and practical tool to analyze this indicator and evaluate the influence factors that determined its manifestation. The findings highlight some directions to act for increasing the Economic Value Added according with the stakeholders' interests. The paper contributes in a theoretical and practical way to academic debate through proposing an analysis model which is based on the DuPont equation. Information provided by it, constitutes important arguments to shift the traditional view of appreciating performance with profit, in favour of adopting a value created oriented corporative philosophy, which concerns the cost of all capital sources. The management based on economic value added allows increasing performance through the re-modelling of the internal and external investment portfolio, and optimizing the financial structure by minimizing the weighted average cost of capital. However, it does not exclude traditional policy, based on maximum turning to account of internal reserves that influence economic results (decrease of costs, production increase, increase of inventory rotation speed etc.).*

Key words: economic performance, Economic Value Added (EVA), cost of capital, stakeholders' interests

JEL classification : G11, G12, G31, M21

1. Introduction

The value creation is the main objective of companies which can be achieved by the common actions of operational and decisional structures. The efficient utilisation of resources and the financial performance are revealed and evaluated by economic value added in a period of time and therefore all internal components of companies interact in order to create value. This aspect justifies the major decisions and actions in operational, investments and funding areas of business. An integrated perspective on the mechanism of value creation becomes a condition to increase on long-time the economic growth ending with addition of supplementary value and rewards for stakeholders (Helfert, 2003).

Performance assessment based on the "Economic Value Added" indicator provides the supplementary information to evaluate the grade of accomplishment of the stakeholders' interests. They want to achieve a higher profit than the capital cost used in financing resources. Therefore the decisions to finance investments and operational activities aim at the opportunity cost meaning an alternative way to use capital.

The shareholders are directly interested in value creation as this is the payment they expect in return of the capital invested and the risks taken. The strategic objective to increase company performance and new value creation also satisfies the managers' and the employees' immediate interest. It is a guarantee for safe jobs and wages often include clauses on some payment off the company profit or capital share. For a national economy, value creation means the efficient use of the national economic potential and the increase of the gross domestic product that contributes to the increase of social welfare.

The implication of value creation in achieving the stakeholders' interests led to development of numerous concepts and specific indicators which are used to assess the companies' results and manage their activity based on some strategies and operational programmes which aim at value creation. A value creation-based management system was developed, in which decisions are based on the analysis of indicators of company value, out of which the most relevant are: Economic Value Added (EVA), Market Value Added (MVA) and Cash Value Added (CVA).

The current value creation-based company performance assessment changes the traditional perspective on performance, which was measured by the accounting net profit. In this case, only explicit costs were considered to be expenditure, and equities were not considered to generate expenditure. Although the company registers profit but returns in the economy less than it received as resources, then the company does not create value, does not register economic performance and does not satisfy the interest of shareholders that expect payment on invested capital (Drucker, 1995).

This paper intends to present some indicators for evaluation the value created by companies. Although they are present in the specific literature, they are not yet generalized in practice for analyzing the performance in Romania companies and are not taken into consideration by legislation. The case study presented had operationalized the calculus modality of Indicator "Economic Value Added". Interpretation of the indicator evolution justifies its utilisation in assessment of achieving the stakeholders' interests. Use of the DuPont analysis provides the possibility to identify the factors which have a great impact on EVA trend and

meanwhile it serves to substantiate some decisions for increasing the companies' performance.

2. Literature review

Accomplishment of the stakeholders' interests through an efficient use of resources and maximization of value creation became an axiom accepted in the economic theory and practice. Utilization of capital cost in assessment the real profit obtained from business was proposed even since the beginning of the last century by Marshall (1920).

A noteworthy step in the methodology of company assessment was to establish the importance of financial structure in assessing economic performance (Modigliani and Miller, 1958). Thus, the theoretical and practical background for the development of modern finance systems was created. Later David Solomon (1965) calculated the economic profit "as the difference between two quantities, net earnings and the cost of capital"

Theoretic and practice fundamental principles concerning the calculus of Economic Value Added were evidenced by Stewart (1991), who highlighted the advantages of managing for value in comparison with managing for earnings. This kind of management directs the strategic and operative decisions towards actions that aim to maximization of shareholders' wealth (Arnold, 2003).

After that, the information superiority of value-oriented indicators in comparison with the traditional performance approaches was tested and evidenced in numerous empirical studies. Ghanbari and More (2007) analyzed the relationship between Economic Value Added and Market Value Added in Indian Automobile Industry. Růčková (2008) analyzed the companies on the Prague Stock Exchange according to the way how they embody EVA and whether these companies have a larger ROE than the costs of equity. A comparative analysis of economic value-added with earnings, cash flow and residual income is made by West and Worthington (1999).

Economic Value Added can be used as a metric of performance in macroeconomic analyses. Cachanosky (2009) highlighted the superiority of EVA in comparison with GDP for evaluation the macroeconomic performance. The author considers that EVA utilisation is more adequate than GDP because it takes into consideration the invested capital cost of opportunity.

In Romania there are also many researches who propose utilisation of some indicators to evaluate the amount and mechanisms of value creation. Our previous studies (Burja and Burja, 2010) revealed the relationship between patrimonial resources' management and effects on the Economic Value Added. Circiumaru and Siminică (2009) present a parallel between indicator Refined Economic Value Added (REVA) and EVA and put in evidence the information content of the two indicators. Arguments pros and cons for use of EVA is provided by Vasilescu and Popa (2011) in an ample study. A new approach for financial valuation of business was proposed by Tabără (2010). He showed advantages and limits of EVA and indicated some general directions of actions to increase the companies' performance.

3. Economic Value Added

This indicator has been used on a large scale to assess economic performance 1991. G.B. Stewart reviews the computation of residual income of adjusted accounting data and thus sets the EVA computing methodology.

The most usual method of finding the economic value added is if we calculate it as *economic profit*, as part of net operating profit after tax (NOPAT) determined for a certain period of time, less the cost of capital invested (CKI):

$$EVA = NOPAT - CKI$$

The calculus of the net profit is not problematic in general. However, there are difficulties in determining the cost of invested capital especially as it can be equity or loan capital.

The cost of equity is equal to the rate of earning required by the financiers of the investment projects, be they shareholders or debtors. The minimum return accepted by the shareholders for the equity determines the potential shareholder to buy a share or the existing shareholder to keep it. In financial theory and practice, the accepted rate of return on equity is the interest rate without the risk and a risk premium. The risk that shareholders take can be generated by the variability of macroeconomic indicators (GDP, rate of inflation, interest rate, currency exchange rate), also named systematic risk and/or specific risk due to the enterprise (variability of economic and financial profitability, bankruptcy risk etc.) or the economic sector to which it belongs.

The cost of loan capital equals the loans with the current value of payments on future redemption and interest. A rate, the cost of loan capital generally corresponds to the rate of nominal interest, when redemption takes place once at the end of the period and when taxes are not considered (the calculated cost is pre-taxation) and the expenditure for issuing and operating the loan is not considered.

Weighted cost of capital used is often a weighted average rate based on the structure of capital in the balance sheet liabilities. Weighted average cost of capital (WACC) is the sum of costs for different sources of funding, weighted with a share quota in the total funding:

$$WACC = \frac{KPR}{KI} \times Ceq + \frac{DAT}{KI} \times Cd \quad , \text{ where:}$$

<i>KPR</i>	-	equity;
<i>DAT</i>	-	loan capital;
<i>Ceq</i>	-	cost of equity
<i>Cd</i>	-	cost of debt.

The cost of equity is most often estimated in financial theory and practice based on two models: Gordon&Shapiro and CAPM (Capital Asset Pricing Model). The hypotheses on which these models are built are quite restrictive, but the easy computation makes them frequently used (Stancu, 2002).

The Gordon&Shapiro model implies a constant dividend increase rate. The formula for cost of equity is the following:

$$C_{eq} = \frac{D_1}{P_0} + g, \quad \text{where:}$$

D_1 represents dividends per share for next year;

P_0 - current market value of stock;

g - growth rate of dividends.

According to the CAPM model, a company's cost of equity is influenced by macroeconomic factors: the risk-free interest rate (R_f), return on the market portfolio (R_m), and the risk variation (sensitivity) per share related to the total risk of the stock market (the beta indicator– β , which may be the BET C index for instance). The calculation formula for cost of equity using CAPM is:

$$C_{eq} = R_f + \beta \times (R_m - R_f)$$

Indicator β in this formula has the following meaning: an improper value means that the shares of the company increase or decrease sooner than the market in its whole, they are riskier. On the other hand, a proper value means a lower share risk, as their rate changes slower than the market evolution.

If we determine by g_i the weight of capital categories and by k_i the costs of funding sources, then WACC is determined as follows:

$$WACC = \frac{\sum_{i=1}^n g_i \times k_i}{100}$$

The weighted average cost of capital is seen as an opportunity cost representing the return that capital providers may obtain if the amount is invested in an economic alternative. This opportunity cost should be subjected to significant adjustments according to the future market value of capitals and it should not be considered as alternative option costs discarded at the time when the investment was decided. (Cheremushkin, 2008)

The cost of invested capital is obtained by multiplying the invested capital and the weighted average cost of capital. In this case, economic value added is calculated as follows:

$$EVA = NOPAT - KI \times WACC = \left(\frac{NOPAT}{KI} - WACC \right) \times KI$$

The following relation includes the return on invested capital ($ROIC = NOPAT/KI$). By deducing the cost of invested capitals we obtain a value that shows in relative numbers the profitability increase generated by the operation of the entire capital invested. Economic value added will be obtained if the return on the investment is higher than the weighted average cost of capital. Thus, the company registers a low economic performance and the capitals invested by the shareholders are practically completely used. EVA is calculated as:

$$EVA = (ROIC - WACC) \times KI$$

4. Economic Value Added Analysis. A Case Study

The analysis of indicators characterising a company performance based on the created value must continue with the study of causes determining the evolution of indicators in view of finding solutions that can lead to a constant performance increase. Thus, the shareholders' and the other stakeholders' interests are satisfied. We shall give an example of how the causes influencing value creation can be studied based on EVA.

We have noticed that the created economic value increases along with the increasing difference between the net return on invested capital and the weighted average cost of capital and vice versa. The relative return increase is financial leverage - FL. The outcome of negative investment leverage will be the loss of economic value. A positive value shows that the company is able to produce positive effects for investors. EVA calculated in relation to financial leverage is:

$$EVA = FL \times KI$$

If the influence of sales activities is taken into account, then the created value closely depends on the return ($NOPAT/CA$) and the rotation of invested capital (CA/KI). EVA is calculated as:

$$EVA = \left(\frac{NOPAT}{CA} \times \frac{CA}{KI} - WACC \right) \times KI$$

Understanding how value is created allows managers to base their strategic decisions on the shareholders' interest. The aim is to reshape the investment portfolio and to optimize the financial structure of companies. These decisions are taken under the influence of *factors* determining created economic value and namely:

- the operation profit, which, at its turn, is influenced by operation incomes and related expenditure;
- capital invested in immobilized assets and to cover the need of floating assets;
- the weighted average cost of capital depends at its turn on the size of the loan capital and of the equity, adding the interest rate for loans and the risk-free interest rate and the risk premium required by the investors.

A complex analysis of created economic value starting from the previous relations identifies two major factors influencing created economic value in a decisive manner: financial leverage and invested capital. At its turn, financial leverage is influenced by the weighted average cost of invested capital and the return on invested capital. At a third level of influence, we identify the following factors: structure of the invested capital (w_i), individual costs of invested capitals (k_i), return on sales (ROS) and the rotation speed of invested capital (RSIC).

A methodological approach of value-based management is further discussed. The practical means for determining created economic value of a company and the

analysis of change caused by various influence factors are presented. Causality relations between EVA and influence factors are measured through the model developed from previous relations based on factor analysis.

The case study is based on a company's financial situation, for which EVA was calculated and analysed beginning with the determination of the weighted average cost of capital, which is calculated in Table 1. The cost of equity was estimated based on the CAPM model using data from the financial market related to the analysed period. An decrease by 0,6 %, of WACC can be noticed in the last year of our analysis, both due to the decrease of the cost of equity and of the cost of debts (due to an decrease of the interest rate).

Table 1: The weighted average cost of capital (thousands RON)

Cr. No.	Indicatori	Fiscal year	
		Previous	Current
1.	Equity	160430	157590
2.	Financial debts	106014	107470
3.	Invested capital (1+2+3)	266444	265060
4.	Operating profit	23796	14374
5.	Profit tax	1091	-
6.	Net operating profit after tax	22705	14374
7.	Interest expense	13320	12314
8.	Weight of equity (%)	60	59
9.	Weight of debts (%)	40	41
10.	Cost of equity (%)	6,80	6,50
11.	Cost of debts (%)	9,56	8,45
12.	Weighted average cost of capital (%)	7,9	7,3

Source: Financial statements

Table 2 shows that the company registered a significant net operating profit after tax, but the economic value for the same time span was lower, mainly due to the small difference between the return on invested capital and the weighted average cost of capital. The company will have to minimize its cost of capital by improving its financial structure. It will also have to increase the level of return on invested capital. In the current year EVA has negative levels proving that firm's activity doesn't satisfy the stakeholders' interests although the net operating profit after tax is still positive.

Table 2: Economic value added (thousands RON)

Indicators	Symbol	Fiscal year		Deviations	
		Previous	Current	+,-	%
Turnover	CA	194197	161599	-32598	-16,7
Net operating profit after tax	NOPAT	22705	14374	-8331	-36,6
Invested capital	KI	266444	265060	-1384	-0,52

Weighted average cost of capital (%)	WACC	7,9	7,3	-0,6	-7,6
Return on invested capital %	ROIC	8,5	5,4	-3,1	-36,5
Economic value added	EVA	1599	-5036	-6635	-414,9

Source: Financial statements and own calculations

The economic value added decreased by 6635 thousand RON as compared to the previous period. The factors that influenced the change of EVA acted in the following manner:

1. The influence of the invested capital:

$$\Delta EVA(KI) = \Delta KI \times (ROIC_0 - WACC_0) = -8,3 \text{ thousand RON}$$

2. The influence of financial leverage:

$$\begin{aligned} \Delta EVA(FL_0) &= KI_1 \times [(ROIC_1 - WACC_1) - (ROIC_0 - WACC_0)] = \\ &= -6626,5 \text{ thousand RON} \end{aligned}$$

2.1. The influence of cost of invested capitals:

$$\Delta EVA(WACC) = -KI_1 \times \Delta WACC = 1590 \text{ thousand RON}$$

2.1.1. The influence of the structure of invested capital:

$$\Delta EVA(w_i) = -KI_1 \times \left(\frac{\sum w_1 k_1}{100} - \frac{\sum w_0 k_0}{100} \right) = -80 \text{ thousand RON}$$

2.1.2. The influence of individual costs of invested capitals:

$$\Delta EVA(k_i) = -KI_1 \times \left(\frac{\sum w_1 k_0}{100} - \frac{\sum w_0 k_0}{100} \right) = 1670 \text{ thousand RON}$$

2.2. The influence of return on invested capital:

$$\Delta EVA(ROIC) = KI \times \Delta ROIC = -8216 \text{ thousand RON}$$

2.2.1. The influence of return on sales:

$$\Delta EVA(ROS) = KI_1 \times \Delta \frac{NOPAT}{CA} \times \frac{CA_0}{KI_0} = -5402 \text{ thousand RON}$$

2.2.2. The influence of the invested capital turnover:

$$\Delta EVA(RSIC) = KI_1 \times \frac{NOPAT_1}{CA_1} \times \Delta \frac{CA}{KI} = -2810 \text{ thousand RON}$$

The analysis of the factors' influence shows the negative influence of the decrease of invested capitals (8.3 thousand RON) and of financial leverage (6626.5 thousand RON) on economic value. At its turn, financial leverage was positively affected by the weighted average cost of invested capitals (1590 thousand RON) and negatively by the return on invested capital (-8216 thousand RON). WACC was bad influenced by the structure of invested capital (-80 thousand RON), and favorable impacted by decrease of its individual cost (1670 thousand RON).

The negative influence of the return on invested capital was determined by the influence of return on sales (-5402 thousand RON) and the invested capital turnover (-2810 thousand RON). Depending on the information available, the analysis of the influence of return on sales can be further continued by establishing the influence of the structure of production, of unit costs and prices.

5. Conclusions

Value creation is a main objective of companies. However, the companies' economic actions may contribute to value creation but may as well remain neutral or may have harmful consequences concerning value. Therefore, the computation and analysis of adequate indicators for company performance assessment from the perspective of value creation is a good support for management decisions.

EVA maximization implies a re-orientation of investments (re-modelling of the investment portfolio) towards more profitable sectors or activities. Those, which return more than the weighted average cost of capital, are in advantage. A rational investment policy will always select projects that contribute to the growth of *EVA* and disinvestments will be made in activities that negatively affect this indicator.

Another direction aimed by management based on value indicators refers to the *optimization of the financial structure* by minimizing the weighted average cost of capital. Thus, a higher created value is obtained. Some studies show that *EVA* has an increased sensitivity towards the cost of own funding sources and a lower sensitivity towards the cost of loaned sources, which suggests that economic value added is strongly influenced especially by the return of equity (Salmi, and Virtanen, 2001).

It is generally admitted that debts cost less than equities for at least two reasons: on the one hand, the shareholders' risks are higher than the creditors' and thus, shares are more profitable than bonds; on the other hand, debts are tax-deductible while dividends due to shareholders are not. From these conclusions, we are tempted to identify an optimum structure of a company's capital, in view of minimizing the procurement cost and of increasing created value.

Other authors identify a close interdependence between created value and the structure and type of rewards for company management as a *method of cost reduction*. By promoting a proper system of interests based on value creation, the employees and especially the company executives will turn into entrepreneurs-shareholders. This may be achieved by buying shares and including in the salary agreements several conditions regarding the contribution brought to created value

in their line of work, production line, plant etc. (Evans, 2002). In this way, each department or place of work can be managed based on the value added indicator, which thus becomes a standard for results measurement.

The leverages of value creation can be identified and transposed into economic indicators in order to increase the degree of understanding, accessibility and utility. Often, EVA is seen as an abstract notion, which, due to its character as indicator, which is expressed in absolute numbers, is more difficult to use when comparing companies.

Even in this situation, created value-based performance management has the role of a corporate philosophy. If transposed in company practice, *the employees are motivated and educated to make a difference between activities* that lead to value creation and activities that lead to value destruction (Phani and Bhattacharya, 2000).

Therefore, decisions on the value creation mechanisms are based on a series of specific actions for each decision level (group, divisions, and operational units) and they refer to: defining value centres, measuring created value, identifying development directions, measuring market attractiveness, assessing possible strategic orientations, resource allocation and the implementation of the established measures.

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METHODOLOGICAL ASPECTS OF AGRICULTURAL ENTERPRISES' INCOME CALCULATION

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Abstract: *In the process of the European Union enlargement, experts felt an increasing need for the harmonization of existing systems and the adoption of practices used in the EU countries. Hungary intended to meet the requirements stated by the European Union by introducing, among others, the EU directives, the FADN (Farm Accountancy Data Network) agricultural data network, and the System of Agricultural Accounts as well. Despite the efforts towards rapprochement between accountancy systems and the harmonization of information systems, a judgement of enterprise performance and the practice of income calculation and profitability analysis show great differences in many aspects between the member countries. Considering that financing and profitability problems of enterprises are very important questions in the economy, I regard a comparison of income calculation methods of agricultural enterprises used in some EU countries essential. Regarding the above mentioned situation, the general aim of the paper is to introduce and compare analysing methods used in some EU countries, such as Great-Britain, the Netherlands and Hungary. In the course of comparing income calculation practices and methods in the European Union, first I have briefly examined the reporting system of these countries, and next the formats of profit and loss accounts follow together with the patterns of profit and loss calculation and income categories used in the FADN system for the analysis of agricultural activities in the different countries. After all, in the purpose of getting extra information I have taken into consideration the opportunity cost as well. After reviewing the elements, methods and systems about income calculations, I try to find answers to the following questions:*

- *Are there differences between practices of EU member states despite a seemingly unified European regulation system?*
- *If there are differences, will the shown incomes be of different volume?*

This paper is mainly a theoretical issue. The next step in the process of comparative analysis will be a following research which will take the international accounting standards into consideration.

Keywords: *methodology, income, FADN, profit and loss statement*

JEL classification: *M41*

1. Generally introduction

Besides conventionally accepted definitions and indices, international practices of judgement of companies/enterprises (e.g. credit analysis), national and international economic policy and the support system of the EU create new categories from time to time, which can influence the judgement of company activities in different sectors considerably. After recognizing these issues it is appropriate to review those income calculation methods, which have high importance in evaluating the results of economic and especially agricultural activities. Regarding the above mentioned situation, the general aim of the paper is to introduce and compare analysing methods used in some EU countries, such as Great-Britain, the Netherlands and Hungary.

In the course of comparing income calculation practices and methods in the European Union, first I have briefly examined the reporting system of these countries, and next the formats of profit and loss accounts follow together with the patterns of profit and loss calculation and income categories used in the FADN system for the analysis of agricultural activities in the different countries. After all, in the purpose of getting extra information I have taken into consideration the opportunity cost as well. After reviewing the elements, methods and systems about income calculations, I try to find answers to the following questions:

- Are there differences between practices of EU member states despite a seemingly unified European regulation system?
- If there are differences, will the shown incomes be of different volume?

During FADN profit and loss calculations I intended to give insight exclusively to national specialties, and I took the income categories of the model enterprise derived from EU, Hungarian and Dutch FADN profit and loss statements under inspection. In consideration that the income categories of LEI have meaning only in the case of family businesses, I made the comparison of FADN profit categories based on the data of the private model enterprise.

2. Comparative analysis of income calculation methods used in certain member states of the European Union

During the comparison of income calculation methods used in the European Union I favoured great attention to differences of analysing methods – due to diverse agricultural conditions and other factors - and to the adaptation to EU principles aiming integration. I examined the reporting system of the Union (in Great–Britain, the Netherlands and Hungary), accountancy rules in connection with income calculation, formal and content requirements of accounting statements and profit calculating patterns of FADN systems used for analysing and presenting agricultural activities of the different countries. In some of the countries a new income calculation method has been developed, which is based on basic reports, but provide extra information and use opportunity cost.

From the comparative analysis I stated that despite of the seemingly single European regulation, are there differences between income calculation practices of EU member states, and due to these, the presented incomes will be of different volume. In general I would say that due to policies aiming unification of the Union, and to international accounting standards there are no great differences between

profit and loss statements – apart from differing taxation methods in some country - and the harmonization have been implemented on the field of accountancy.

On the contrary, profit calculations used by farm accountancy data networks in the examined countries show great differences – due to differing cultural, society and legal circumstances – and use various income categories too. The Union consigns the right to the member states to choose the format of the form they would like to use to meet the requirements of supply of data, but expects transformability of those data to usable form. This requirement is extremely important for the sake of decision making in the Union, because comparison of the economy of the member states is only possible in the same system with uniform income categories. Analysis clearly proved that the different income categories of FADN profit and loss statements in the different states result in different incomes. The Hungarian FADN profit and loss statement have been compiled in similar format to profit and loss statements used in accounting, while more income categories are under testing covering total income in the Netherlands. Thus it is essential to determine the aim of income calculation and the type of income level we would like to present, in every case during examinations in connection with income.

Profit and loss statements are primarily used to communicate data of the enterprise towards the members of the market and serve as a basis for annual tax calculation. FADN profit and loss statements present exclusively profit generated in agricultural businesses, although their main aim is not to serve as a basis for tax calculation, these do not show total income achieved in reality. Considering these facts other income categories are used in The Netherlands than those expected by the EU, which regard the incomes of non agricultural activities and the value of own labour, capital, land as an opportunity cost in order to show the real income. In Great Britain, profit is also modified by the opportunity cost so that the real income of the business examined from various viewpoints could be shown at different levels.

Most income calculation methods (accountancy and FADN) used in performance judgement of enterprises are present in some sort in all EU member states and in Hungary as well. But in the Hungarian practice it is not known or not generally accepted the internationally widely used income calculation method concerning opportunity cost, in which certain not paid costs (value of the work made by the farmer, cost of own machines and land leasing, interest of own equity) are taken into the calculation in order to determine the unit – price of products and the income of the business more accurately. Regarding the fact that the accountancy and FADN regulations of the European Union do not allow these costs to be settled as expenditures, the income calculation methods using opportunity cost are primarily used for internal calculations and for better comparison of results.

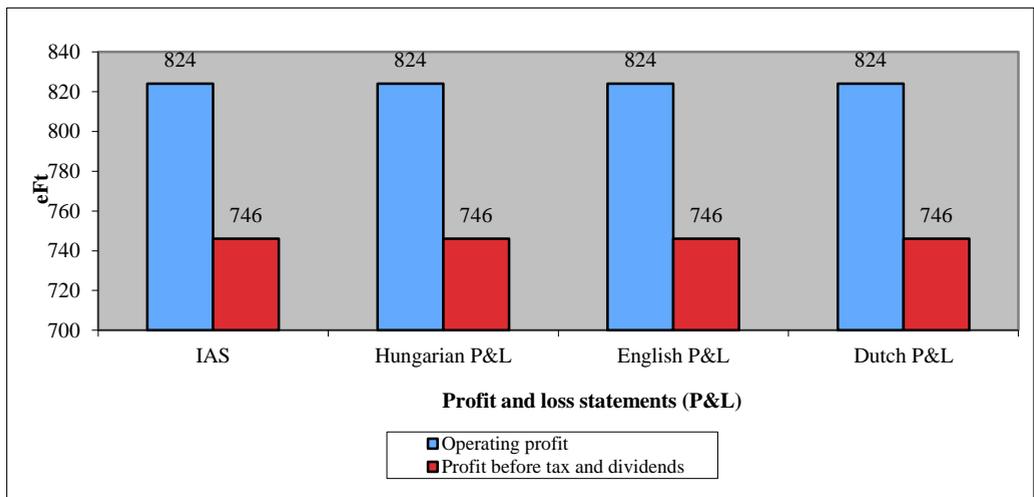
In order to reason the conclusions made from the comparison of the income calculation methods used in the EU member states, I also made the comparative analysis of the different methods based on model calculation using actual data. I've created two model enterprises which data were based on the average values of the examined companies (joint and private enterprises) from the Hungarian FADN (MSZIH)'s database. As a result of the model calculation variation of income - analysed with various methods –, introduction and examination of deviations caused by diverse methodologies were brought into focus.

Presenting and comparison of the income of the model enterprise calculated by diverse income calculation methods was implemented by grouping the methods

into three categories (accountancy profit and loss statements, FADN profit and loss statements, income calculation scheme concerning opportunity cost) in favour of better perspicuity.

By means of model calculation, findings resulted from comparative analysis have been proved by empirical data too:

- Profit and loss statements prescribed by accountancy acts, international accounting standards (IAS, Hungarian, English, Dutch): there are no significant differences between profit and loss statements – which serve as a basis for taxation - of certain member states of the Union. The Figures 1. and 2. clearly show that operating profit and the profit before tax and dividend have the same value in all accountancy profit and loss statements in the case of the examined business forms.



1. Figure: Variations in profit in the examined countries in the case of private businesses

Source: Own calculation

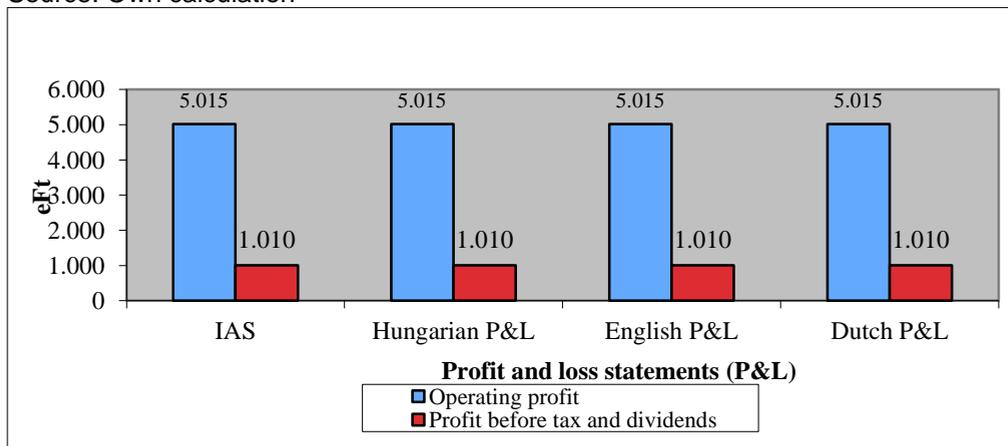


Figure 2.: Variations in profit in the examined countries in the case of joint businesses

Source: Own calculation

- FADN profit and loss statements (MSZIH, FADN, LEI): FADN profit and loss statements of the examined EU member states contain various income categories, thus reported incomes also show difference. The Figure 3. represents well that the different income categories – differing in name, content and value – do not cover each other, thus to compare them, we have to be very careful. LEI, the Dutch FADN system calculates with incomes originated from non-agricultural activities and own labour, own equity and cost that have not been paid for land (opportunity cost) as well.

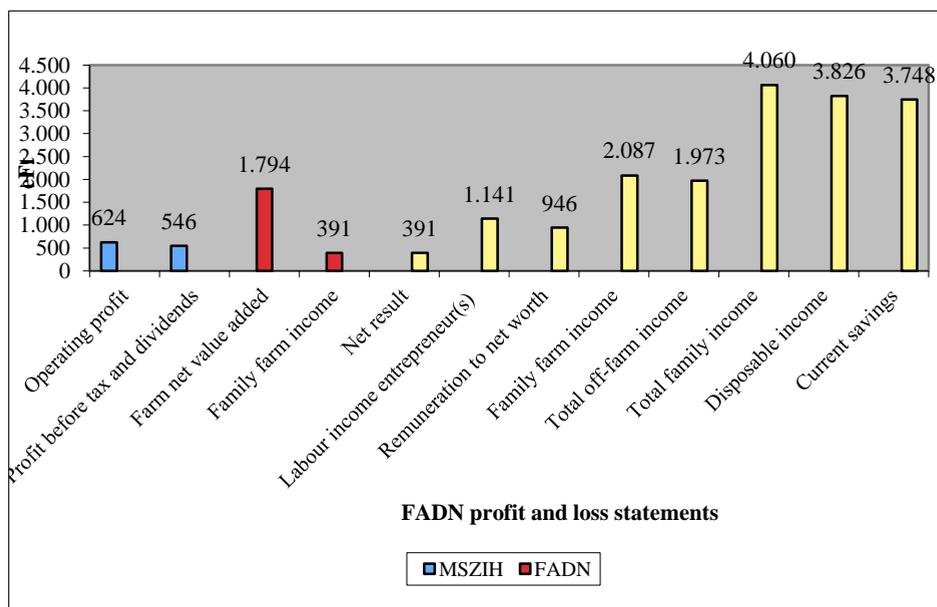


Figure 3.: Variations in profit in EU FADN in the case of private businesses

Source: Own calculations

- Income calculation scheme using opportunity cost: Usage of income calculation methods concerning opportunity cost, especially concentrating on agricultural activities, which differ from FADN systems and accountancy were developed primary for profit calculation in private and family businesses. Different income levels calculated by this scheme differ from income presented by accountancy and FADN methods. As for the technique of cost settlement, the English method is close to the income concept formed by LEI, since both use opportunity cost. The basic difference between the two systems is that the English income calculation aims to present the income of the enterprises, while the LEI wants to express all the income reached by the family (from agricultural and non agricultural activities, employment etc.)

- Income categories in accountancy and FADN profit and loss statements: Differences between the methodology of accountancy and FADN profit and loss statements cause deviations in presented incomes. The main characteristic of the FADN profit and loss calculation is that Net sales include consumption of the family as well, and the value of activated own performance consist changes in self produced stocks, and as the value of own produced assets only the activated value of livestock is presented. This can be reasoned with the fact that the FADN calculates only once with accounts connected to agricultural production. Profit expressed by the Hungarian FADN and the Hungarian accountancy profit and loss statements are closer to each other than income calculations of the FADN and the widely used IAS, regarding that the Hungarian FADN system (MSZIH) determines its own report based on accountancy. There are greater deviation between the profit calculation of IAS and FADN because FADN is not based on accountancy but determines and calculate new income categories.

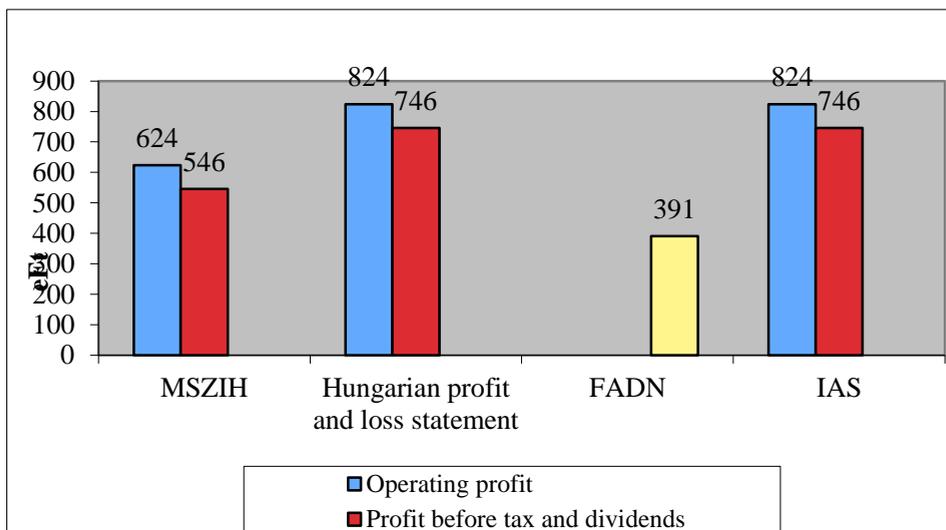


Figure 4.: Income categories in accountancy and FADN profit and loss statements in the case of private businesses

Source: Own calculations

3. Conclusion

During the comparative analysis of income calculation methods of the European Union and some of its member states (Great–Britain, The Netherlands, Hungary) showed that despite the seemingly single European regulation, there are still differences between income calculation practices of certain countries, and these deviations result in different incomes.

As a result of the comparative analysis, it became obvious, that due to policies aiming unification of the Union, and to international accounting standards there are no great differences between profit and loss statements, while there are significant differences between FADN profit calculations in certain countries. These methods use various income categories (although, income categories required by the Union can be converted from these), whose use results in incomes presented on different

levels. Some countries (Great-Britain, The Netherlands) use income categories differing from those required by the Union, and these in order to show the real income reached by an enterprise, calculate with a kind of opportunity cost (own labour, equity and land), and with incomes from non-agricultural activities as well. In order to reason the conclusions made from the comparison of the income calculation methods used in the EU member states, I also made the comparative analysis of the different methods based on model calculation and actual data. By way of examination, effect of different methodology on income has been proved. Accountancy, FADN and incomes containing opportunity cost calculated by this scheme differ significantly from each other.

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DIAGNOSIS OF FINANCIAL POSITION BY BALANCE SHEET ANALYSIS - CASE STUDY

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Abstract: *This study aims to elucidate and to exemplify an important technique for assessing the economic entities, namely the fundamental analysis of the balance sheet, in several significant aspects. The analysis of financial data reported in the balance sheet are, for an economic entity, the basis of a principle diagnosis by determining specific indicators of economic and financial analysis. This analysis aims to provide an insight into the company's financial position. The stated aim of this study is to highlight the usefulness and necessity of the Balance sheet analysis as the first step for the good financial management of an enterprise. The analysis in this paper is based on an updated and specific bibliography of economic and financial analysis, which, by using real data, interprets computed indicators on the main balance sheet items. Thorough analysis is then followed by financial stability assessment expressed by calculating and interpreting the Working Capital and finally by studying the rates of financial profitability (ERR, return on equity and return on assets). The case study research is dynamically conducted over a period of four years and it substantiates a diagnosis on the company's financial condition background and thus, we conclude that our analysis may reveal a true picture of the financial position and stability of an economic entity, resulting the importance and usefulness of studying the balance sheet.*

Key words: balance sheet analysis, economic and financial analysis, working capital analysis, financial rates of return

JEL classification: M41, G32;

1. Introduction

Fundamental analysis of Balance by specific techniques, by calculating and interpreting the financial and economic indicators, can economically underline a diagnose background of the financial position, identifying difficulties faced by an economic entity. Financial diagnosing an entity involves more key elements. Thus, at least two aspects can be taken into account, namely the analysis of financial position through Balance sheet analysis and the analysis of financial activity through Profit and Loss Account analysis.

Basic terms and techniques of analyzing the balance sheet are detailed in the pages of this study in a comprehensive manner, through a theoretical and practical approach by pointing to many existing trends in specialized literature, according to the existing trends in economic and financial analysis. Between the study of financial position and the financial diagnosis there certainly is a relationship, we would say from the part to the whole, meaning that the study of financial position is

part of developing a financial diagnosis. Thus, our research is part of a complex analytical and much broader process of the company's global diagnostics. Although the techniques and practices presented in our analysis in this paper cannot be exhaustive, in financial diagnosis, in specialty practice, dynamic analysis of main balance sheet items, working capital analysis and financial rates of return analysis can provide a fair picture of an economic society's financial position.

2. Research Methodology

In achieving this paper, we used the comparison method for a descriptive analysis based on instruments specific to the economic and financial analysis technique. The analysis was based on actual financial data of a Romanian trade company. In the case study, financial data were organized in tables. In addition, various indicators specific to the technique were calculated, and figures were drawn for graphically expressing the evolution of the main indicators analyzed, in order to facilitate understanding the economic phenomena produced. Since the analysis theoretically and practically approaches the analysis of several indicators proper to the balance sheet analysis on real financial data, processed for a period of four years, we consider the research method chosen for this paper is useful and initial. The bibliography used is of specialized economic and financial literature, updated and positioned as economic discipline within the financial analysis.

3. Literature review

Financial position and balance sheet analysis, in the special literature, have several meanings and interpretations, depending on the vision of each author or common approaches, specific to economic and financial literature. The analysis of financial position carries many definitions and assessments, but it is under the sphere of economic and financial analysis, and we believe that it precedes the performance analysis of a global company's possible diagnosis.

According to Prof. Camelia Burja (2009, page 12), economic and financial analysis "is a scientific discipline whose object of study is the methodology of knowledge of economic and financial results, the factors and causes that determined them, and the pathways of continuous increase of the activity's economic efficiency, consistent with the requirements of objective laws". It follows thus the scientific role of decisions substantiation in the field of management based on the indicators offered by the economic and financial analysis techniques.

According to IAS 1 "Presentation of financial statements", law updated in 2012 by the EU Regulation no. 475/05.05.2012, "the purpose of general financial statements is to provide information about *an enterprise's financial position, performance and cash flows, useful to a wide range of users in making economic decisions*" (IAS 1, paragraph 5) .

Prof. Silvia Petrescu Ph. D., having made an introduction to the meaning of studying the balance sheet as financial analysis stage, emphasizes that the study's main purpose is to "take corrective management decisions in the short, medium and long" (Silvia Petrescu, 2010, page 179). However, she provides a definition of the Balance sheet's importance as "the main situation of financial reporting, which is the accounting summary document by which the entity's assets and liabilities are shown (tools and resources) at the end of the financial year as well as in other

situations provided by law, grouped by nature, destination and liquidity, namely by nature, origin and chargeability” (Ibid).

Romanian accounting regulations in at that time, the Order no. 3055/2009 of the Minister of Finance, in accordance with International Financial Reporting Standards (IFRS), generally recognize the list-type balance sheet presentation, but in financial practice, other types of balance sheet presentation are accepted too. Several authors point to the existence, in the actual Romanian bookkeeping, of several types of balance sheets organized by various criteria. Among these, the most important are: *Legal patrimonial balance sheet*, *financial (patrimonial) balance sheet*, *functional (economic) balance sheet*, *“pool of funds” balance sheet (all resources)*, etc. (Silvia Petrescu, 2010, page 180; Nicoleta Bărbuță-Mișu, 2009, pages 76-94, Petre Brezeanu, 2010, pages 135-151; Hada Teodor, 2013, page 47).

According to A. Popa (2011, page 36), the financial position “represents the financial situation of an entity at a time, represented by assets, liabilities and equity. It shows the company’s ability to adapt to the business environment changes. Information on the company’s financial position is given first by the balance sheet”. The same author presents *the fundamental equation of financial position*:

$$\text{ASSETS} - \text{LIABILITIES} = \text{EQUITY}$$

Professor Ristea M. (2002, pages 14-15), debating on the balance’s basic equation, captures *a company’s financial position as being positive when capital is higher or at least equal to liabilities*, so that the company can meet its obligations in relation to third parties. C. Mereuță calls financial diagnosis as *“a measurement standard of business plan quality, underpinning the decision of acceptance or rejection of such business”* (C. Mereuță, 1994, page 102). This view expresses the importance of understanding financial diagnosis in terms of business language, as a good financial diagnosis provides the decision for acceptance or rejection of an investment. The close and inherent relationship between business environment and financial-accountant language can be found by defining classical economic terms in various interdisciplinary approaches.

An important element in thorough study of balance sheet is the analysis of the *Working Capital*. It is treated in most of the financial and economic analysis works and it is the basis of a financial position diagnosis. Theoretically, the value of the working capital must have a positive value, which means it is a safety element for the company, and a negative value, which indicates a major alarm signal (Silvia Petrescu, 2010, 197; Nicoleta Bărbuță-Mișu, 2009, page 78; Camelia Burja, 2009, page 239). In fact, there are three calculation formulas for determining the working capital (ibid.):

$$(1) \text{NWC} = \text{Permanent Capital} - \text{Net Fixed Assets};$$

$$(2) \text{NWC} = (\text{Current Assets} + \text{Expenditure in advance}) - (\text{Short-term Debts} + \text{Revenue in Advance})$$

$$(3) \text{NWC} = \text{Net Current Assets} / \text{Current Net Debts}$$

Another approach for assessing the financial position based on the balance sheet is the financial profitability analysis which is also based on the balance sheet, by the formulas presented in our case study, section 4.3 (Silvia Petrescu, 2010, page 241). The dynamic analysis of Net Financial Return (ERR - Return on Equity), of Own financial return (Fr) and of Total Assets Financial Return provides a detailed

picture of the company's financial position, determined on the basis of the balance sheet items given.

4. Results and discussions - Case Study

Following, is the analysis of information from the simplified financial balance for the trade company X. Note that the company is divided into year N-2 in two companies with the same business object, for which, this division can be seen in the balance sheet by several aspects, among which are the halved equity and the fixed asset growth.

Table 1. The simplified financial balance sheet
lei-

<u>INDICATORS</u>	N-3	N-2	N-1	N
TOTAL ASSETS (TA)	177531	189617	104161	114405
FIXED ASSETS (TOTAL), OF WHICH:	129559	153539	64.428	89.970
Intangible Assets	1683	1367	805	-
Tangible Assets	127876	152172	63623	86970
Financial Assets	0	0	0	0
CURRENT ASSETS (TOTAL), OF WHICH:	47972	36078	39733	27435
Stocks	26625	9729	28297	22976
Claims	3977	5997	4820	2250
Cash and bank accounts	17370	20352	6616	2209
<i>ACCOUNTING NET ASSET (Ac.NA)</i> <i>Total Asset- Total Debts</i>	<i>77250</i>	<i>80240</i>	<i>33770</i>	<i>41615</i>
<i>Coefficient of accounting net asset</i> <i>CNA= Ac.NA/Total Asset * 100</i>	<i>43,51%</i>	<i>42,31%</i>	<i>32,42%</i>	<i>35,44%</i>
<i>EQUITY (TOTAL), OF WHICH:</i>	<i>77250</i>	<i>80240</i>	<i>33770</i>	<i>38615</i>
Social capital	300	300	300	300
Reserves	51998	51998	4710	4710
Profit or loss brought forward (sold C.)	24952	24952	27942	28760
Profit or loss of the financial year (sold C.)	11300	2990	818	4845
<i>Permanent capital</i> <i>Equity + Long-term Debts</i>	<i>77250</i>	<i>132687</i>	<i>48770</i>	<i>95502</i>
LIABILITIES (TOTAL), OF WHICH:	<i>100281</i>	<i>109377</i>	<i>70391</i>	<i>75790</i>
Short-term Debts	100281	52447	55391	18903
Long-term Debts	0	56930	15000	56887
TOTAL LIABILITIES	177531	189617	104161	114405

Source: Personal projection based on the trade company's actual financial data.

Table 2. Annual patrimonial dynamics highlighted by the simplified balance sheet

INDICATORS	N-2		Dif. %	N-1		Dif. %	N		Dif. %
	Begin.	End		Begin.	End		Begin.	End	
TOTAL ASSETS (TA)	177531	189617	+ 6,8	189617	104161	- 45,06	104161	117405	+ 12,71
<i>Fixed Assets</i>	129559 72,97% of TA	153539 80,97% of TA	+ 18,5	153539 80,97% of TA	64428 61,85% of TA	- 58,03	64.428 61,85% of TA	89.970 76,63% of TA	+ 39,64
intangible:	1683 0,94% of TA	1367 0,72% of TA	- 18,77	1367 0,72% of TA	805 0,77% din TA	- 41,11	805 0,77% of TA	/	/
tangible:	127876 72,03% of TA	152172 99,27% of TA	+ 18,99	152172 99,27% of TA	63623 99,22% of TA	- 58,19	63623 99,22% of TA	86970 100% of TA	+ 36,69
financial:	0	0	/	0	0	/	0	0	/
<i>Current Assets</i>	47972 27,02% of TA	36078 19,02% of TA	- 24,79	36078 19,02% of TA	39733 38,14% of TA	+ 10,13	39733 38,14% of TA	27435 23,36% of TA	- 30,95
Stocks	26625	9729	- 64,45	9729	28297	+ 190,8	28297	22976	- 18,80
Claims	3977	5997	+ 50,79	5997	4820	- 19,62	4820	2250	- 53,31
Cash and bank accounts	17370	20352	+17,16	20352	6616	- 67,49	6616	2209	- 66,61
TOTAL LIABILITIES (TP)	177531	189617	+6,8	189617	104161	- 45,06	104161	117405	+ 12,71
<i>Equity</i>	77250	80240	+3,87	80240	33770	- 57,91	33770	38615	+ 14,34
Social Capital	300	300	0	300	300	0	300	300	-
Reserves	51998 29,28% of TP	51998 27,42% of TP	0	51998 27,42% of TP	4710 4,52% of TP	- 90,94	4710 4,52% of TP	4710 4,01% of TP	0
Profit or loss of the financial year (sold C.)	11300 6,36% of TP	2990 1,57 of TP	-75,5	2990 1,57 of TP	818 0,78% of TP	- 72,64	818 0,78% of TP	4845 4,12% of TP	+ 492,2
Permanent capital:	77250	132687	+71,3	132687	48770	-3,24	48770	95502	+ 95,82
Total debts	100281	109377	+ 9,07	109377	70391	- 35,64	70391	75790	+ 6,90
Short-term debts	100281	52447	- 47,69	52447	55391	+ 5,55	55391	18903	- 65,23
Long and medium-term debts	0	56930	/	56930	15000	- 73,65	15000	56887	+ 279,2

Source: Authors' projection.

4.1. Data processing on the company's assets and liabilities

Graphed, current assets and fixed assets had the following evolution over time.

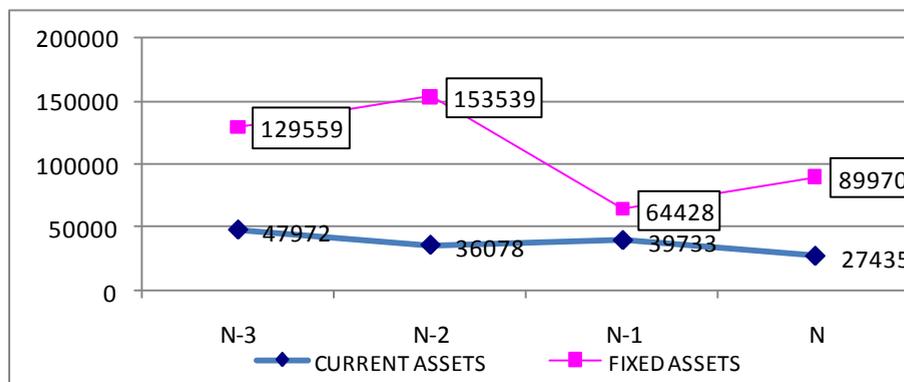


Figure 1. Analysis of balance sheet assets

Source: Authors' projection.

Figure 1 shows that, over time, the company's assets development was oscillatory. In subcategories, we can see that at the end of year N, the patrimonial items value increased by 12.71%, while the three groups of assets faced various changes.

Fixed assets increased by 36.94% from the beginning of year N. This means that in year N, the company has made significant investments in properties, which attracts a renewal of fixed assets and a decrease in liquidity. Therefore, there is no phenomenon of "aging" of fixed assets, as in our case, fixed assets consist of tangible assets.

Current assets decreased by 30.95% at the end of year N compared to its beginning. In subcategories, we can see that stocks fell by 18.8% compared to N-1.

Due to turnover decrease by 34.49%, claims decreased drastically - 53.31% - and the cash and bank accounts -66.61% - from the beginning of the year. Another reason for current assets decrease may be due to investments in fixed assets.

Decreased liquidity does not necessarily denote a bad thing, but in terms of future hypothetical large debts to suppliers, liquidity risk is significant. In these undesirable conditions, "financially, the company will be forced to pay the debts and accumulated consumption through investment, and there is the possibility of being forced to enter into long-terms loans" (T. Hada, Mărginean R., 2012, page 351).

According to Table 1, the company's financial data indicate a decrease of the accounting net assets. Year N-1 showed the lowest value, although it increased in year N and its value is much below the one recorded in the year N-3.

Regarding liabilities, dynamic evolution is represented in Figure 2.

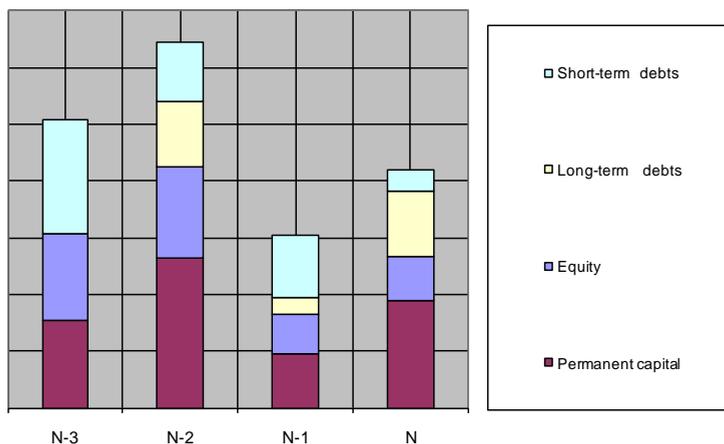


Figure 2. Analysis of balance sheet liabilities

Source: Authors' projection.

Total liabilities, just like total assets had an oscillatory evolution during the four years studied. From Table 2, which shows the heritage dynamics, one may notice an increased equity in N-2 by 3.87%, but an increase by 71.6% of permanent capital, under the influence of medium and long-term debts.

In N-1, the first year after the company's division, there is a significant decrease in equity, by 57.91%. From our observations, the company this year is facing serious problems due to its restructuring.

The evolution of structural indices of assets and liabilities during the period studied shows a time of confusion for the company. If during the first year, short-term debts represented 56.48% of total liabilities, in year N, they were only 16.10% of total liabilities. We can thus consider this one of the company's biggest issues, which is revised only in the last year studied.

The last year under review is a year of recovery, a year of increasing equity by 14.34% and permanent capital by 95.82%. There exists an important sign of growth, even if investments continued this year. We note also that the company contracts in the last 2 years long-term and not short-term loans for financing as in the first two years.

This provides an additional element of stability. Credits chargeability is more flexible for the company, so there is a stronger background financial structure. However, permanent capital growth based on long-term debts is certainly a

sustainable growth for the company, while it has goodwill for a prosperous business.

4.2. Analysis of working capital

Using the financial data presented in Table 1, we calculate the Working capital by the three formulas in Table 3.

Table 3. Analysis of working capital

Working capital calculation		N-3	N-2	N-1	N
1	Equity	77250	80240	33770	38615
2	Long-term debts (Ltd)	0	56930	15000	56887
3	Short-term debts (Std)	100281	52447	55391	18903
4	Capital permanent	77250	137170	48770	95502
5	Net fixed assets (Nfa)	129559	153539	64.428	86.970
6	Current Assets	47972	36078	39733	27435
7	Cash and bank accounts	17370	20352	6616	2209
8	<i>NWC= Permanent cap. (4) – Nfa (5)</i>	<i>-52309</i>	<i>-16369</i>	<i>-15.658</i>	<i>8.532</i>
9	<i>NWC = Current Assets (6)-Std (3)</i>	<i>-52309</i>	<i>-16369</i>	<i>-15.658</i>	<i>8.532</i>
10	<i>NWC = Net Current Assets / Net Current Debts</i>	<i>-52309</i>	<i>-16369</i>	<i>-15.658</i>	<i>8.532</i>
11	<i>Own working capital Equity (1)- Nfa (5)</i>	<i>-52909</i>	<i>-73299</i>	<i>-30658</i>	<i>-51355</i>
12	<i>Foreign working capital Long-term debts (2) – Nfa (5)</i>	<i>-129559</i>	<i>-96609</i>	<i>-49428</i>	<i>-33083</i>

Source: Authors' projection.

According to data processed in Table 3, the working capital highlights a problem of particular importance to the entity. Working capital, during the entire period under review, recorded values that indicate the existence of significant imbalances for the analyzed company.

Thus, in the first year studied, imbalance is major, the deficit in working capital representing about one third of total liabilities. This imbalance has multiple implications, as temporary resources cannot finance temporary needs, current assets being more than twice lower than short-term debts. In addition, another negative indicator is the ratio of own and foreign working capital, the latter being over two times higher than own working capital.

In N-2, the second year studied, the situation is improving, but the first year's imbalance still exists. Thus, working capital improves by 68.70%, recording another negative value. This improvement is due to improving the company's financial management that intends to finance permanent needs with permanent resources.

This is done by increasing permanent capital by 177% through contracting medium and long-term loans. The ratio of own and foreign working capital balances is significantly improving, but the situation is still poor. In N-1, working capital slightly improves over the previous year, but the situation is improving under division. In the last year, net working capital shows a positive value, showing thus normality in the company's financial policy. The upward trend is confirmed by the financing surplus of permanent resources for the company's urgent needs materialized in temporary needs. However, the situation is still delicate because the own and foreign working capital register negative values.

4.3. The study of rates of financial return

Based on Table 1, we shall calculate the indicators of financial return, presented in Table 4.

Table 4. The study of financial return

Rates of financial return	N-3	N-2	N-1	N
Permanent Cap. Return (PCR): $PCR = \frac{GrossIncome * 100}{Permanent_capital}$	13,44	3,25	1,42	9,61
Return on equity(ROE): $Fr = \frac{Net_profit * 100}{Equity}$	14,62	3,72	2,42	12,55
Return on total assets $RTa = \frac{Net_profit * 100}{TotalAssets}$	6,36	1,57	0,78	4,23

Source: Authors' projection based on the company's balance sheet.

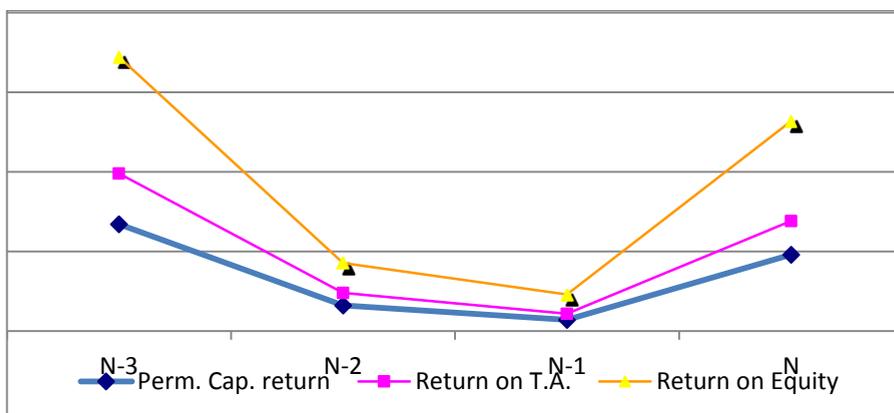


Figure 3. Representation of rates of financial return

Source: Authors' projection.

The study of rates of financial return confirms the information presented so far. Thus, due to poor financial management for the company, after a first year with good values, the company recorded major declines in the second and third year of analysis, with an increase in rates in the last year. The imbalances surprised in the working capital analysis can be continued here for explaining the above situation. However, if the indicators value is maintained in growth, the company will record progress.

5. Conclusions

Following the analysis of our case study, we can say that a company's financial position can be extensively measured based on the data provided by the balance sheet.

In our case study, analyzing the company's balance sheet information for a period of four years, major imbalances have been noticed in the balance sheet, as well as a precarious financial balance expressed by the value of working capital, and ultimately the value of the indicators of rates of financial return. Together, the three analysis techniques allow an overall assessment of the financial position based on the balance sheet data, through the comparison method used in financial analysis of the above dynamic's indicators.

Given the conclusion expressed, based on the outcome of the case study analysis regarding the financial position, without claiming completeness, we believe we achieved the research objectives proposed for this paper.

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PUBLIC SECTOR COMBINATIONS: A NEW CHALLENGE FOR IPSASB

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Abstract: *The International Public Sector Accounting Standards Board (IPSASB) has released in June 2012 a Consultation Paper (CP) entitled “Public Sector Combinations” (PSCs) to initiate discussion on the possible accounting treatment for these events. The purpose of this paper is to examine and to provide an overview, regarding the reactions of various categories of preparers, users, auditors, standard-setters and other interested parties to this CP. The research involves a qualitative approach based on the detailed examination and the content analysis of twenty six comment letters that are collected from the official website of the IPSASB. To this end, we analyse the answers to seven specific matters for comment (SMCs) and nine preliminary views (PVs). This research shows that the proposals generally encounter favourable reactions by the different organizations around the world. Most of the respondents that provide general comments support the need for guidance in this area and provide specific comments for improvement. However, some differences of opinion between respondents have been detected. Furthermore, respondents from France are not satisfied with the provisions of the CP and suggest that the text should emphasize on amalgamations. Another three respondents are of the view that transactions between public sector entities (PSEs) cannot be likened to commercial transactions and recommend the IPSASB to explore more in depth public sector oriented situations. The results of this study indicate that for this standard to be successful, further investigations concerning the PSCs’ theoretical and practical implications are necessary. The importance of this topic, as well as the impact of the IPSASB on the government combinations accounting treatment impose the necessity of examining the feedback of worldwide organizations which are interested on this issue. Thus, this paper is original in that it addresses the problem of a possible accounting treatment for PSCs in the standard development process of IPSASB, emphasizing a significant gap in the literature regarding accounting treatment specific for these events.*

Keywords: *public sector combinations; IPSASB; Consultation Paper; comment letters.*

JEL classification: *L32; M41.*

1. Introduction

PSCs are a significant feature in the architecture of the public sector. Thus, the accounting guidance for these restructurings in the governmental environment is very important and necessary. Two fundamental questions follow. How should PSCs be approached from accounting point of view? Should they be treated the same as the business combinations or it should be developed a separate issues paper? Currently there is no international standard to provide specific guidance on the accounting for PSCs. Moreover, apparently the only governments that have a specific standard for these events are Australia, USA and South Africa. The absence of accounting guidance in this area doubtless has contributed to diversity in practice. In times when no international standard exists, International Public Sector Accounting Standard (IPSAS) 6 *Consolidated and Separate Financial Statements*, indicates that guidance on accounting for PSCs can be found in the relevant international or national accounting standard dealing with business combinations. But, this guidance does not address conditions and circumstances that are normally encountered in such events. Furthermore, the adoption of a private sector reporting model such as international accounting standards has been questioned as incompatible with the accountability reporting model for the public sector (Broadbent, 1999; Pallot, 2003; Christiaens, 2004). Thus, users may not be able to obtain the information needed to evaluate the nature and financial effect of a combination that occur in the public sector. Considering this fundamental idea, the need for a specific standard identifying the accounting requirements for these transactions is expressed with a higher and higher voice in recent years.

The IPSASB understands the unique characteristics of governments and the environment in which they operate. Therefore, it has released in June 2012 a Consultation Paper entitled "*Public Sector Combinations*" to initiate discussion on the possible accounting treatment for PSCs in the General Purpose Financial Statements (GPFSS) of entities which prepare their financial statements on an accrual basis. The IPSASB requested comments on all of the matters discussed in the CP by October 31, 2012. We believe that the importance of this topic, as well as the impact of the IPSASB on the government combinations accounting treatment impose the necessity of examining the feedback of various interested organizations on this issue.

2. Public Sector Accounting and the Role of IPSASB

The last three decades have witnessed significant efforts to reinvent the worldwide public sector (Wynne, 2008). The paradigms of public policy-making have changed substantially from the "old public administration", to the "new public management", and finally to the "good governance" perspective. Their implementation by the worldwide governments implies particularly the accrual accounting reform. Thus, public sector financial reporting has been adapted and developed in accordance with the 'New Public Financial Management' and accrual accounting is probably the most obvious phenomenon within this accounting reorientation (Lapsley, 1999; Guthrie et al., 1999). IPSASs are the core of the "global revolution in government accounting" (Heald, 2003). Therefore, there are several authors from the public sector accounting area of research who sustain that national governments must approach them (e.g. Adhemar, 2002; Chan,

2003).

The IPSASB was established in 1997 as an operating component of the International Federation of Accountants (IFAC), being an independent standard-setting body that focuses on the accounting, auditing, and financial reporting needs of PSEs, including national, regional, and local governments, and related governmental agencies. The IPSASB's goal is to serve the public interest by developing and issuing, high-quality accounting standards (IPSASs) and other publications for use by PSEs, other than Government Business Enterprises (GBEs), around the world in the preparation of GPFS. This will consolidate confidence in public sector financial management and will improve the transparency and quality of public sector financial reporting that will result in decision-useful information for users of GPFS. Additionally, a key part of the IPSASB's strategy is to support the convergence of the IPSASs with national public sector accounting standards, International Financial Reporting Standards (IFRSs) and the convergence of accounting and statistical bases of financial reporting where appropriate. Many jurisdictions, governments, and international institutions have already adopted IPSASs—many others are on their way to convergence.

3. Research Methodology

This paper analyses the reactions of preparers, users, auditors, standard-setters and other interested parties to the proposals made by the IPSASB. Therefore, a qualitative approach is used based on the content analysis of the comment letters received by the Board for Consultation Paper *Public Sector Combinations*.

For this research we analyse the answers to seven specific matters for comment and nine preliminary views available in the CP of IPSASB (2012). The sample is consisted of 26 comment letters which are considered by IPSASB members for inspection, and are publicly available on the Board's official website.

In the beginning of the qualitative analysis the comment letters were collected from the official website of the Board and afterwards the research involved a detailed examination of their content. Subsequently we conducted a detailed analysis of the narrative through the content analysis of the text and where appropriate, we have subdivided the comments of respondents that have made several points. A major issue of our survey research resides in grouping the answers, as they were unstructured due to the open-ended type of questions.

4. Feedback Results for Consultation Paper *Public Sector Combinations*

4.1. General Comments

85% of respondents provide general comments. Most of them mention the necessity and the relevance of the project in general, and provide specific comments for improvement. However, the respondents from France are not satisfied with the provisions of the CP. They consider that the critical subject of public-sector entity amalgamations is not sufficiently addressed. Therefore, Cour des comptes does not respond to individual SMCs and PVs. Also, three respondents are of the view that transactions between PSEs cannot be likened to commercial transaction and consider that the CP is inadequately suited to the

specific characteristics of the public sector.

Three respondents from Australia support the development of an accounting standard which is consistent with existing requirements of IFRS 3, modified where appropriate, to reflect public sector considerations. Also, other respondents consider that the IPSASB should maintain its view that deviations from IFRS/generally accepted private sector accounting standards are only justified, where the nature of the transactions are different in a public sector context. Moreover, two respondents from Australia consider that a joint project with the IASB would be an appropriate way to move forward on this issue. Other respondents suggest that the IPSASB should continue its work, in connection with the work on the Conceptual Framework and revision of IPSAS 6.

One of the main concerns that the respondents have with the CP is the approach taken in determining the type of PSCs. For instance, respondents from USA and Kenya support the approach suggested in the CP of accounting for such transactions as either an acquisition or an amalgamation. They mention that this is similar to an approach proposed by the Governmental Accounting Standards Board (GASB) in their recent exposure draft on this topic. The presence of consideration is a factor in determining whether an acquisition has taken place for both GASB (the determining factor) and IPSASB (characteristic among others) to be considered. The respondents also comment on: accounting base of acquisitions not under common control (NUCC), acquisitions under common control (UCC), amalgamations; the control criterion for distinguishing an amalgamation from an acquisition; and preliminary views.

4.2. SMC 1: The Scope of the Consultation Paper

Figure 1 below summarizes the overall views of the responses to SMC 1, which were generally supportive. However, there are some organizations which agree that the scope of the CP is appropriate with some reservations. A further three respondents do not specify whether or not they agree with the scope of the CP, but provide comments.

In addition, a large subset of respondents provides suggestions as: supplementing the provisions of the standard with concrete examples that might shed light on the transactions referred to in the draft text; excluding transferor accounting from the scope of the CP; including the GBEs in the scope of this project; and summarizing at a higher level the section that refers to the parties to PSCs which are in the scope of the CP. References to the relevant standard would be also useful to provide additional guidance for accounting treatments for transfers outside the scope of CP. Additionally, some organizations consider that the standard should include guidance in relation with the definition of "operation"; on accounting non-current assets held for sale and discontinued operations; on accounting for an operation by the transferor; for differentiating between assets acquisitions, acquisitions and amalgamations; and whether the requirements for PSCs NUCC also apply to situations where one or more of the parties is not a PSE. Finally, the Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) suggests that there is a need for a clear demarcation between real mergers on the one hand and the unions and special purpose associations on the other. A clear demarcation towards IPSAS 6 – 8 should also be drawn.

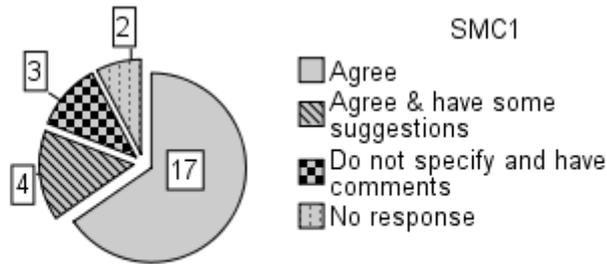


Figure 1: Overview of Responses to SMC 1: The Scope of the CP
Source: Authors' computation

4.3. SMC 2: The Types of Public Sector Combinations

4.3.1. Distinction between Acquisitions and Amalgamations

Figure 2 below summarizes the overall views of the responses to this issue. Thus, 14 respondents support the distinction between acquisitions and amalgamations. However, three of them have the following comments: acquisition transactions where consideration is provided should be distinguished from combinations where no consideration is provided; the distinction between acquisitions and amalgamations should be based on economic substance rather than legal form; the term "acquisition" should be replaced with "transfer of operation".

The CP proposes the control criterion for the distinction between acquisitions and amalgamations. But, several respondents support a different distinction, as follows: using the exchange of consideration criterion; classifying combinations as acquisitions NUCC and all other combinations; the determining factor should be whether or not the combination is voluntary. Moreover, two respondents do not support this distinction. Australian Accounting Standards Board (AASB) thinks that, in practice, the distinction between an acquisition and amalgamation is likely to be difficult in some circumstances. The respondent is not persuaded by the arguments presented in the CP for drawing this distinction. Another respondent from Australia also does not support the distinction as no adequate justification for a public sector difference has been advanced to depart from the principle of acquisition accounting which is the basis of IFRS 3.

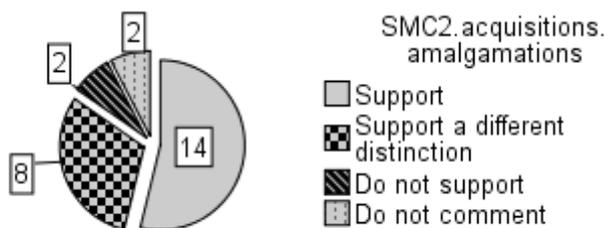


Figure 2: Overview of Responses to SMC 2: Acquisitions and Amalgamations

Source: Authors' computation

4.3.2. Distinction between Combinations NUCC and UCC

Seventeen respondents support the distinction between combinations NUCC and UCC (Figure 3). The rest of respondents do not comment on this issue. Some respondents consider that all combinations UCC should be accounted for as amalgamations. Moreover, two respondents suggest that the accounting treatment for a combination UCC is determined based on whether or not it is voluntary/ whether or not it has commercial substance.

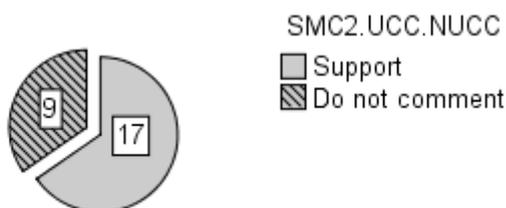


Figure 3: Overview of Responses to SMC 2: Combinations NUCC and UCC

Source: Authors' computation

4.4. SMC 3: Characteristics that Indicate Control

The opinions are divided over the SMC 3 (Figure 4). Eight respondents don't believe that there are other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations. On the other hand, further eight respondents consider that there are also other elements. In addition, some respondents do not believe that control is the sole definitive criterion for distinguishing an amalgamation from an acquisition. Furthermore, AASB disagrees with the distinction between acquisitions and amalgamations and disagrees with the control criterion.

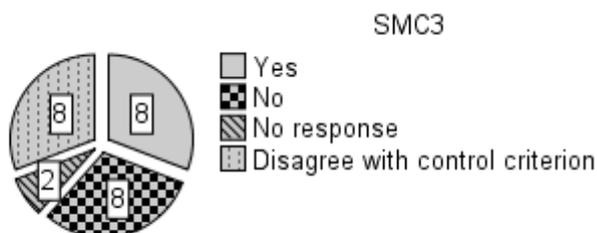


Figure 4: Overview of Responses to SMC 3: Characteristics that Indicate Control

Source: Authors' computation

4.5. SMC 4: Measurement of Acquisition NUCC

38.46% of respondents support approach A: applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation. Three respondents are concerned that allowing different accounting treatments where consideration is transferred from where consideration is not transferred/

transferred at nominal value, may lead to financial statement structuring opportunities. Other respondents are of the view that approach A is consistent with IFRSs, IFRS 3 and with other IPSAS.

42.31% of respondents support approach B: distinguishing between different types of acquisitions so that for acquisitions where no or nominal consideration is transferred, recognize the carrying amounts of assets acquired and liabilities assumed in the operation, with amounts adjusted to align accounting policies; and for acquisitions where consideration is transferred, recognize the fair value of identifiable assets acquired and liabilities assumed in the operation.

The members of The Japanese Institute of Certified Public Accountants (JICPA) have different views with some members supporting approach A and some members supporting approach B. Two respondents from France do not specify but do not consider fair value measurement to be appropriate. Furthermore, one of them considers that historical cost seems best suited to the public sector. Charity Commission for England and Wales do not specify but comments on each approach (Figure 5).

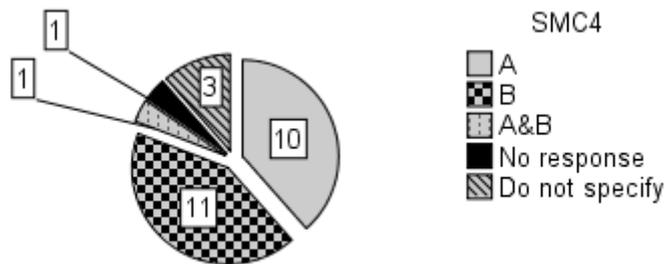


Figure 5: Overview of Responses to SMC 4
Source: Authors' computation

4.6. SMC 5: Accounting for Difference Arising in an Acquisition NUCC

As figure 6 reveals, 22 respondents reply to this SMC. Only five of them support approach (a) – the difference arising in an acquisition NUCC should be recognized in the recipient's financial statements, on the date of acquisition, as goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions. On the other hand, eight respondents support Approach (b) – the difference arising in an acquisition NUCC should be recognised as goodwill. Some of them support this approach for consistency with IFRS 3.

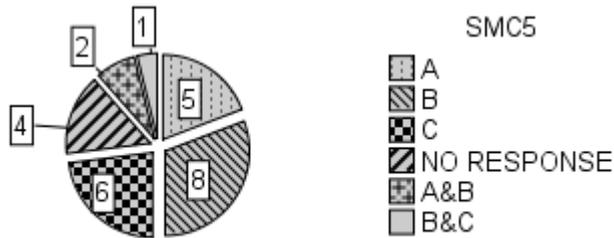


Figure 6: Overview of Responses to SMC 5

Source: Authors' computation

Another six respondents sustain approach (c) – a loss for all acquisitions. Conceptually, Ernst & Young and New Zealand Accounting Standards Board support approach (b). However, from a practical perspective, these respondents support approach (a). Also, respondent from Brazil supports an integrated approach that consolidates the both methods (a) and (b) or to use only the approach (b). Furthermore, Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) from Australia support both (b) and (c) options.

4.7. SMC 6: Accounting for Difference Arising in an Acquisition UCC

23 respondents reply to SMC 6 (Figure 7). Five of them support recognizing the difference arising in an acquisition UCC in surplus or deficit (option A). Ten respondents consider that the difference arising is a contribution from owners or a distribution to owners (option B). New Zealand Accounting Standards Board supports B if some combinations of entities UCC are accounted for as acquisitions. Three respondents support recognizing the difference arising in an acquisition UCC as a gain or loss directly in net assets/equity (option C). Another three respondents make alternative suggestions: a modified version of option C; option B or C chosen as appropriate to the individual circumstances of the acquisition UCC; option A or B based on whether or not the acquisition UCC is voluntary. Conseil de normalisation des comptes publics from France rejects all three options, considering that acquisitions UCC are infrequent. Finally, Chartered Institute of Public Finance and Accountancy (CIPFA) does not specify and questions whether acquisitions UCC occur.

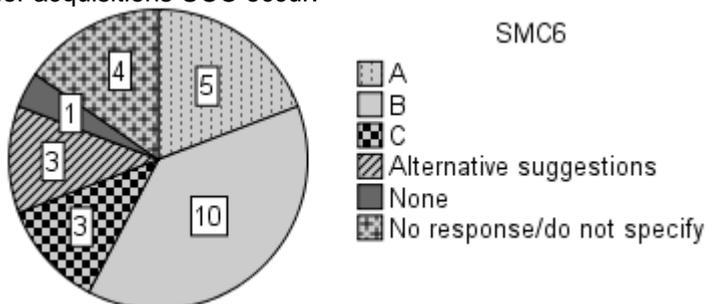


Figure 7: Overview of Responses to SMC 6

Source: Authors' computation

4.8. SMC 7: Symmetrical Accounting for an Acquisition UCC

All 24 respondents that reply to SMC 7 consider that the accounting for the recipient and the transferor of an acquisition UCC should be symmetrical. There are different reasons mentioned by the respondents in favour of the symmetry. However, two respondents do not comment on this SMC.

4.9. Preliminary Views

In addition to the SMCs the CP has 9 Preliminary Views (PVs). The first two PVs propose the definitions for the future standard. The PV 3 states that the sole definitive criterion for distinguishing an amalgamation from an acquisition is control. The PV 4 and the PV 5 relate to acquisition NUCC. Thus, an acquisition NUCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation (PV 4); and the recipient in an acquisition NUCC recognizes in its financial statements on the date of acquisition, the difference arising as a gain where the recipient acquires net assets in excess of consideration transferred (if any) and a loss where the recipient assumes net liabilities. The PVs that relate to acquisitions UCC are PV 6—recipient recognizes acquisition UCC when it gains control and PV 7—recipient uses carrying amount in acquisition UCC. Finally, the last PVs relate to amalgamations: PV 8—resulting entity applies modified pooling of interests method in an amalgamation and PV 9—combining operations continuing to present GPFs on going concern basis where resulting entity will fulfill responsibilities of those combining operations.

In general, the feedback regarding PVs is not very positive, as there are few respondents that comment on them (Table 1). Moreover, AASB has strong reservations relating to all of the PVs. However, both respondents from Canada and The Public Sector Committee of the Institute of Chartered Accountants of Scotland (ICAS) agree with the PVs/direction taken in the PVs.

Table 1: Overview of Responses to Preliminary Views

	PV1	PV2	PV3	PV4	PV5	PV6	PV7	PV8	PV9
Agree	5	7	6	8	6	8	9	8	7
Disagree	3	1	2	1	2	1	1	2	1
No response	18	18	18	17	18	17	16	16	18

Source: Authors' computation

5. Conclusions

This study outlines a global picture of the reaction of the accounting worldwide community to the IPSASB proposals regarding accounting treatment for PSCs. The IPSASB has received 26 comment letters for the CP of accounting for such transactions, in which are requested seven SMCs and nine PVs. This research has found that generally the respondents welcome the fact that the IPSAS Board has included the subject of PSCs on its agenda and support the development of a standard for PSCs and the approach suggested in the CP.

However, some differences of opinion between respondents have been detected. Moreover, Cour des comptes does not respond to any SMCs because CP emphasizes exchange acquisitions and instead should explore in depth public sector oriented situations. Additionally, the feedback regarding PVs is not very

positive, as there are few respondents that comment on them. The results of this research support the idea that for this standard to be successful, further investigations concerning the PSCs' theoretical and practical implications are necessary.

An important generalization of this study is that an accounting and financial reporting standard designed for the combinations arising in the government environment is essential because PSEs are basically different from for-profit entities. The guidance that is currently being applied to government combinations does not address conditions and circumstances that are normally encountered in combinations of PSEs. Thus, there may not be consistent or appropriate reporting of such combinations in the financial statements of public sector bodies. Also, it is important that such a Consultation Paper is being circulated for comment, because in different countries (e.g. Switzerland, United Kingdom, Scotland) PSCs are becoming more frequent.

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FAIR VALUE VERSUS HISTORICAL COST IN FORECAST OF INCOME FOR BANKING COMPANIES

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Abstract *The financial crisis began on 2008 has led to a debate about the pluses and minuses of fair-value accounting (FVA). This debate presents a new start for fair-value accounting going forward and standard setters' push to extend fair-value accounting into other areas. In our research, we found four important issues as an attempt to make sense of the controversies. First, much of the controversies results from confusions about the issues of fair-value accounting . Second, while there are legitimate concerns about implementations of fair-value accounting , it is less clear that these problems apply to the stipulations of fair-value accounting in the accounting regulations. Third, historical cost accounting (HCA) is not the remedy. Fourth, although it is difficult to avoid the fair-value accounting standards per se, implementation issues are a potential concern, especially with respect to litigations. Fair value accounting is used when reliable fair value estimates are available at a low cost and when they convey information about operating performance. The costs of constructing reliable fair value estimates are expected to be a key cross-sectional determinant of the choice between the two accounting practices - HCA and FVA . By shining a bright light into dark corners of a firm's accounts, fair value accounting precludes the dubious practices of managers in hiding the reality of accounts. Proponents of fair-value accounting argue that the market value of an asset or liability is more relevant than the historical cost at which it was purchased or incurred because the market value reflects the amount at which that asset or liability could be bought or sold in a current transaction between willing parties. A measurement system that reflects the transactions prices would therefore lead to better insights into the risk profile of firms currently in place so that investors could exercise better market In conclusion, we highlight several ways for future researches.*

Keywords : *Fair value accounting, Banks, IFRS, Earnings, Financial reporting.*

JEL: *G30, M41*

Introduction

We realized this paper by being challenged by the communications of banking system in Romania about the registration of financial losses in the financial year 2012.

The recent financial crisis has turned the spotlight on fair-value accounting (FVA) and led to a major policy debate involving among others the European Commission as well banking and accounting regulators around the world. Critics argue that fair-value accounting has significantly contributed to the financial crisis and exacerbated its severity for financial institutions around the world. On the other extreme, proponents of fair-value accounting argue that it merely played the role of the proverbial messenger that is now being shot (Tuner, 2008). In our view, there are problems with both positions. Fair-value accounting is neither responsible for the crisis nor is it merely a measurement system that reports asset and liabilities values without having economic effects of its own.

In this article, we attempt to make sense of the current fair-value debate and discuss whether many of the arguments in this debate hold up to further scrutiny. We come to the following four conclusions. First, much of the controversy about fair-value accounting results from confusion about what is new and different about fair-value accounting as well as different views about the purpose of fair-value accounting. In our view, the debate about fair-value accounting takes us back to several old accounting issues, like the tradeoff between relevance and reliability, which have been debated for decades. Second, there are legitimate concerns about marking asset values to market prices in times of financial crisis once we recognize that there are ties to contracts and regulation or that managers and investors may care about market reactions over the short term.

However, as our third conclusion highlights, there could be implementation problems in practice. It is important to recognize that accounting rules interact with other elements of the institutional framework, which could give rise to unintended consequences.

Fourth, we emphasize that a return to historical cost accounting (HCA) is unlikely to be a remedy to the problems with fair-value accounting. HCA has a set of problems as well and it is possible that for certain assets they are as severe, or even worse, than the problems with fair-value accounting. For instance, HCA likely provides incentives engage in so called "gains trading" or to securitize and sell assets.

We conclude our article with several suggestions for future research. Based on extant empirical evidence, it is difficult to evaluate the role of fair-value accounting in the current crisis.

In the following we take a closer look at the banks' positions on fair-value accounting and conclude with suggestions for future research.

1. Fair-value accounting: What is it and what are the key arguments?

Fair-value accounting is a way to measure assets and liabilities that appear on a company's statement of financial position. Paragraph 9 of IFRS 13 defines fair value (IASB 2011) as "*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*" - that is, an *exit price*. When quoted prices in active markets for identical assets or liabilities are available, they have to be used as the

measurement for fair value (Level 1 inputs). If not, Level 2 or Level 3 inputs should be used. Level 2 applies to cases for which there are observable inputs, which includes quoted prices for similar assets or liabilities in active markets, quoted prices from identical or similar assets in inactive markets, and other relevant market data. Level 3 inputs are unobservable inputs (e.g., model assumptions).

Fair value is defined similarly under US GAAP as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction. In determining fair value, IFRS make similar distinctions among inputs as FAS 157 "Fair Value Measurements" : Quoted prices in active markets must be used as fair value when available.

Under IFRS, fair values are most frequently used for financial assets and liabilities. But even for financial assets and liabilities, there is a mixed attribute model with a multitude of rules stipulating that some items are reported at fair value and others are reported at historical cost. Moreover, unrealized gains and losses of items that are reported at fair value may or may not affect net income, depending on their classification. Few dispute that transparency is important. Proponents argue that fair values for assets or liabilities reflect current market conditions and hence provide timely information, thereby increasing transparency and encouraging prompt corrective actions. But the controversy rests on whether fair-value accounting is indeed helpful in providing transparency and whether it leads undesirable actions on the part of banks and firms. Opponents claim that fair value is not relevant and potentially misleading for assets that are held for a long period and, in particular, to maturity. That prices could be distorted by market inefficiencies, investor irrationality or liquidity problems and fair values based on models that often are not reliable.

In the accounting literature the choice between fair value and historical cost accounting is one of the most widely debated issues. While the debate dates back to the 1990s it is still unsettled (Laux and Leuz 2009). Our approach follows that private markets often differ from regulators in their accounting method choice.

We consider that our work has a number of advantages. First, unlike most other accounting standards, IFRS provides a free choice between fair value and historical cost accounting for non-financial assets. The second and more important advantage of the current setting is that IFRS requires ex ante commitment to one of the two accounting policies. Therefore, managers have stronger incentives to respond to market demands and commit to the accounting treatment that maximizes the value of the firm, i.e., is more efficient.

In our research we contribute to the debate over fair-value accounting by adding benefits of fair value accounting for non-financial assets such as increased value relevance and information content, reduced information asymmetry, and increased comparability. Our findings suggest that the choice to use fair value is not random and occurs when benefits outweigh the costs. Yet, our evidence suggests that the vast majority of managers find the net benefits from fair value accounting to be rather limited.

The choice between historical cost and fair value must be stated in the accounting policy section of the annual report following the IFRS adoption and must be applied consistently going forward. A switch between historical cost and fair value is considered a voluntary change in accounting principles and needs to be justified to auditors, lenders, equity investors, and potentially to regulators. Therefore, the

choice between fair value and historical cost in our setting effectively represents an ex ante commitment, and as such is unlikely to be driven by earnings management considerations.

2.Regulatory developments in the application of IFRS in the banking system in Romania

Banking system through money market regulatory authority of Romania (BNR) and the Romanian accounting system stood for a long period of time on different positions on accounting regulation on financial reporting. Romania's EU accession brought here some alignment. Thus, since the financial statements for year 2007, IFRS became mandatory for the consolidated financial statements of the entities listed on the capital market, together with a set of financial statements prepared according to national accounting rules. Provisions of Order Ministry of Finance No. 907/2005 requires banks to prepare a set of consolidated financial statements in accordance with IFRS for 2006, a provision which was confirmed by the Ministry of Finance Order No. 1.121/2006 for subsequent periods. In addition, the Ministry of Finance Order No. 1.121/2006 established also that *E/IFRS* (IFRS accepted by the European Union) to be used as mandatory financial reporting standards for consolidated accounts of listed companies since 2007.

The financial crisis has led to the generation of significant differences between bank profits determined in accordance with IFRS and profits arising after the Romanian regulations. This was caused mainly by different accounting policies used for calculating loan provisions under IFRS compared to the amount of provisions according to national accounting regulations. In accordance with regulations issued by the National Bank, bank loans are classified as standard, in observation, substandard, doubtful and loss and are based on financial performance and debt service. Of these, for the first four categories, the provision is calculated by applying a rate to the outstanding loan balance and accrued interest, after deducting the fair value of any collateral obtained by the bank from its debtors. This is different from the procedure described by IAS 39 for impairment of financial assets.

World Bank and International Monetary Fund urged the National Bank who issued Order No. 9/2010 which provides that *E/IFRS* to be applied to the individual financial statements of credit institutions and for recording transactions since 2012. The IFRS affected areas related to currency positions, solvability, provisions and own funds. In order to avoid the impact of IFRS application on the solvability of Romanian banks new prudential rules were introduced. Before 1 January 2012 IFRS financial statements were obtained by restating financial statements in compliance with Romanian regulations. The restatements were done by a limited number of specialists only for reporting purposes and didn't affect the evidence systems. The use of IFRS as basis of accounting involves the application of IFRSs when each transaction is recognized.

IFRS disclosure requirements might lead to increased volatility in financial results, as compared to results that would have been reported under national standards, for reasons such as the recognition of more financial assets and liabilities (including derivatives) at fair value, more rigorous asset impairment reviews. The impact of IFRS application as basis of accounting on banks is expected to be more significant. Because there is no empirical evidence on the perceptions of preparers

from banks on each IFRS application strategy we conducted an exploratory study to gain insight into the process of applying IFRS for Romanian banks.

3.Methodology

The sample was comprised of 39 banks from 41 acting in Romania in 2011 followed by financial analysts according to RBI (Romanian Banking Institute) data base. We followed monthly predictions made in 2009 - 2011.

We focused our research in order to gather informations about the perception of preparers on the costs, difficulties encountered and potential benefits to be gained from the use of IFRS. Because the Romanian banks were using IFRS as a reporting standards before 1st January 2012, being required to fill audited IFRS financial statements to the National Bank, we included separate questions on the costs and benefits for each IFRS application alternative to see if there is any change in preparers' perception. We asked the auditors involved in auditing banks IFRS financial statements and a member of the accounting working group of the Romanian Banking Association to comment on the instrument before it was administered. Our study has involved working on the survey according to commentaries received and sent it to project managers responsible for the implementation of IFRS in banks members of the Romanian Banking Association (39 banks from 41 acting in Romania in 2011). Responses were received by e-mail. We will not disclose the names of banks and the identity of respondents, according to a confidentiality policy communicated in advance to respondents. We have discussed with the auditors in order to achieve a deeper understanding of the process.

Our research included questions related to the application of IFRS in the credit institution, questions on respondents' profile (professional experience and experience in IFRS), questions on the benefits and costs of IFRS use as reporting system and questions on the use of IFRS as basis of accounting. Respondents were given feedback about IFRS accounting treatments according to their difficulty.

Another plan of our research was to determine fair value for banks' revenues through a variety of evaluation methods . Discounted cash flow (DCF) valuation method and all derived from DCF valuation methods are used normally for banking financial entity type related and for other financial assets . Thus, we developed a definition of possible evaluation methods used for this type of values that can be assimilated to the fair value of financial assets .

TABLE 1
Definitions for the Valuation Scoring Convention

Major Valuation Models		Definition
Single-Period Comparative	Earnings multiples (E)	price to earnings (PE), enterprise value to earnings before interest, taxes, depreciation and amortization (<i>EV/EBITDA</i>), discounted future earnings multiple (DFE multiple).
	Sales multiples (S)	price to sales (P/S) and enterprise value to sales (EV/S) multiples.
	Price-to-book (BV)	stock price to book value per share
	Price-to-assets	stock price to asset value multiple.

Major Valuation Models		Definition
	(Assets)	
	Price to cash flow (CF)	price to cash flow multiple.
	Dividend yield (DY)	the dividend yield method.
	Enterprise value to R&D (R&D)	Enterprise Value divided by R&D expenses.
	Rating to economic profit (REP)	ratio of the market-to-book value of the enterprise to the return on invested capital.
Hybrid	Accounting rates of return (ARR)	the return on equity (ROE) and return on invested capital (ROIC)
	Cash recovery rates (CRR)	the standard cash recovery rate (CRR) and the cash flow return on investment (CFROI™).
	Economic value added (EVA™)	the return spread times the book value of a firm's assets.
	Continuing value (Cont.V.)	the capitalized value of a firm's net operating profit minus its current debt.
	Technology value (Tech.V.)	market value minus cash plus debt, compared to similar firms.
	Options-Pr	real option style and simple probability weighted net present value models.
Multiperiod	Discounted cash flow (DCF)	the present value of a firm's cash flows over multiple future periods,
	Residual income valuation (RIV)	current book value of equity plus the present value of residual earnings .

Note 1

DISCOUNTED FUTURE EARNINGS (DFE)

When analysts value a firm based on a PE multiple, they control for the effects on earnings of nonrecurring events, transitory components, and accounting conservatism. Where a firm has negative, very low, or very high earnings that are unlikely to continue, financial analysts try to normalize earnings. The DFE approach to valuation, given by the following equation, is one such technique:

$$V_t = \left[(EBITDA_{t+\tau})(1 + wacc)^{\tau} \right] \times (EV / EBITDA)_t$$

where V_t , is the fundamental value of the firm at date t, $EBITDA_{t+\tau}$ is earnings before interest, taxes, depreciation, and amortization in period t+t, $wacc$ is the firm's weighted average cost of capital, and $(EV/EBITDA)_t$ is (enterprise value)/(earnings before interest, taxes, depreciation and amortization) for comparable firms at date t. Financial analysts project forward to the period when the firm is expected to reach a sustainable level of performance and discount the relevant future earnings to the present using the firm's weighted average cost of capital. Multiplying by a current benchmark value of $EV / EBITDA$ for a set of comparable firms yields the fundamental value of the firm.

We mentioned earlier that almost all the equity research reports include some form of single- period comparative valuation analysis. Investment companies might differ

in their preferences for DCF and accounting-based economic profitability models. Panel A of Table 2 reports the frequency of employing DCF analysis at each house; BCR (69.2 %), BRD Societe Generale (68.4 %), and Transilvania (45.5 %) use DCF the most. Table 2, Panel B offers a sell-side analysts' ranking based on the use of accounting-based economic profitability models (rating to economic profit, accounting rates of return, economic value added, and residual income valuation model). BCR uses some form of economic profitability analysis for valuation purposes in 72.7 % of its reports, followed by BRD Societe Generale (42.9 %), Transilvania (36.8 %), and CEC (36.4 %).

TABLE 2

Differences in the Choice of Valuation Model across Brokerage Houses

Panel A: Rankings of Sell-Side Analysts Based on the Use of the Discounted Cash Flow (DCF) Model

1 BCR	69.2
2 BRD Societe Generale	68.4
3 Transilvania	45.5
4 CEC	42.9
5 Raifaissen	30.0
6 UniCredit	22.2
7 Volksbank	16.7
8 Alpha Bank	16.7
9 ING	9.1

Panel B: Rankings of Sell-Side Analysts Based on the Use of Accounting-Based Economic Profitability Models (EPM)

No. Sell-Side Analysts %

1 BCR	72.7
2 BRD Societe Generale	42.9
3 Transilvania	36.8
4 CEC	36.4
5 Raifaissen	25.0
6 UniCredit	11.1
7 Volksbank	10.0
8 Alpha Bank	8.3
9 ING	7.7

Accounting-based economic profitability models refer to REP, ARR, EVA, and RIV. In emerging economies macroeconomic variables could be difficult to predict, as the business environment can be easily upset by sudden changes in the economic or taxation policies, for instance. In such circumstances, forecasts accuracy may be stronger associated with this kind of events, disclosure related factors becoming irrelevant.

We hypothesize that, on the emergent market of Romania, macroeconomic factors are perceived as more important drivers of forecast accuracy than accounting related variables.

The literature investigating the role plaid by IFRS in reducing forecasts errors do not focus on the actual characteristics of the IFRS that could drive such an outcome. Accordingly, it would be useful to explore the perception of financial

analysts on such characteristics, in order to support further conclusive research. The Romanian financial analysts will welcome fair value measurements promoted by IFRS as the most important driver of their forecasts accuracy. We have found from our research that the views of users depend on previous use of international financial reporting standards for forecasting .

Conclusions

In accordance with the results of our research the fair value introduce a relatively high degree of volatility in forecasting of the revenues for banking companies . High volatility is not convenient for banking system, in this respect banks showing reluctance to widely use fair value accounting . Under conditions of low predictability of revenues for banking companies generated by financial instability, banks tend to take a conservative approach on the application of fair value accounting.

Another example is that fair-value accounting recognizes losses early thereby forcing banks to take appropriate measures early and making it more difficult to hide potential problems that only grow larger and would make crises more severe. But this benefit gives rise to another set of tradeoffs. Fair-value accounting introduces volatility in the financial statement in “normal times” (when prompt action is not needed). Full fair-value accounting can give rise to contagion effects in times of crisis, which need to be addressed – be it in the accounting system or with prudential regulation. In our view, it may be better to design prudential regulation that accepts fair-value accounting as a starting point but sets explicit counter-cyclical capital requirements than to implicitly address the issue of financial stability in the accounting system by using historical costs. It is an illusion to believe that ignoring market prices or current information provides a foundation for a more solid banking system.

We need to make more progress on the question of whether fair-value accounting did in fact contribute to the financial crisis through contagion effects. At present, there is little research that would answer or even directly speak to this question. Fair-value accounting did not cause bank failures because the fraction of assets reported at fair value was small in most cases, and in those cases where the fraction of fair- value assets was larger, the share price reflected even higher losses than were reported by the bank. While this argument and the accompanying evidence point to real losses as the source of bank failures, they do not provide convincing evidence that there was no contagion. The failure of some banks could have increased market illiquidity, which in turn may have spilled over to other banks via fair-value accounting . Moreover, it is tricky to use banks’ share prices as evidence that fair-value accounting did not have any negative effects for banks with a large fraction of fair-value assets since the share price may already reflect the negative real effects of fair-value accounting (e.g., asset fire sales in illiquid market).

The models that show contagion effects in pure mark-to-market settings are not sufficient to explain the role of fair-value accounting in practice. However, the main challenge in finding evidence on contagion effects related to or caused by fair-value accounting likely lies in isolating accounting effects and separating them from contagion effects due to correlated (real) risks. This is not a trivial exercise. One important step would be to show that prices were indeed distorted and

deviated substantially from fundamental values, which is not an easy task either. Similarly, we do not have evidence that banks' write-downs on securities were indeed excessive relative to their fundamentals. Interestingly, banks have also not put forward such evidence even though they should have strong incentives to do. Banks are not constrained by the accounting standards to provide additional disclosures about the fundamental values of their assets. But it is possible that litigation risks or concerns about investor rationality inhibit such disclosures.

This brings us to a new direction for future researches. Our analysis suggests that implementation problems and, in particular, litigation risks could have played a role for the performance of fair-value accounting standards and banks' reporting practices in the crisis.

There is more and more evidence suggesting that banks' loan losses exceeded fair-value losses on securities (IMF 2008). It is conceivable that the opacity of banks' loan books and the lack of strict impairment rules have considerably contributed to the current crisis and investor uncertainty. Along similar lines, it would be worthwhile to analyze the role of off-balance sheet vehicles and retained positions in asset securitizations in the crisis. The disclosures for these positions are often difficult to understand and may have been insufficient.

The current crisis provides an interesting setting to further explore these issues further. The analysis of European banks' annual reports suggests that, in 2007, banks increased their disclosures related to financial instruments, in part due to the beginning of the crisis. It would be interesting to study what determines disclosure (or non-disclosure), how investors reacted to these disclosures and whether there are signs that investors overreact to such disclosures.

Finally, it is important to recognize that the debate on the role and place of fair value in the forecast of the revenues of the banks are far from over. The role of the political forces further complicates the analysis. For instance, it is possible that changing the accounting rules in a crisis as a result of political pressures leads to worse outcomes than sticking to a particular regime. In this regard, the intense lobbying and political interference with the standard setting process during the current crisis provide a fertile ground for further study.

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**SECTION: MANAGEMENT, MARKETING, ECONOMIC
INFORMATICS AND CYBERNETICS**

SUB-SECTION: MANAGEMENT

MANAGING CHANGE IN ECONOMIC EDUCATION THROUGH A LEARNING BY DOING PROGRAM (PRACTEAM)

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Abstract *Entrepreneurial universities have emerged as a consequence of survival in a global competitive environment. It is for that reason change in economic education becomes so important. The aim of this paper is to discuss how well learning-by-doing programs could be used and produce significant and sustainable results in Romanian universities used the results of the implementation of a learning-by-doing program (PRACTeam). The project "The practice of economics students. An inter-regional partnership on the labor market between universities and the business field" (PRACTeam) developed starting from the 1st of October 2010 for a period of three years by three partners working together: the University of Oradea - Faculty of Economics, the West University of Timișoara - Faculty of Economics and Business Administration, the University "Ștefan cel Mare" of Suceava - Faculty of Economics and Public Administration. For students in the second year undergraduate programs, 180 students/year from each of the three Universities partners, time for practical internship is 90 hours, 6 hours / day, during three weeks. Place of internship for students in undergraduate studies is provided by various units (private companies, public institutions, NGOs) under certain partnership agreements, as well as Framework Convention, which specifies the rights and obligations of the parties involved. The internship- units appoint a tutor, who will guide the undergraduate students during the internship, this is do in collaboration with an representant of the university. Methodology-wise the paper relies upon a qualitative research approach that includes interviews with twelve undergraduate students, systematic Observation (using the PRACTeam Selection Sheet and PRACTeam Sheet of practical skills) as well as secondary data regarding knowing and showing what you know. It is anticipated that a quantitative approach could be used for a follow-up work which can test capacity for generalisation of this paper`s findings. Thus it would be interesting to know whether this increase educational effectiveness through "learning by doing" - basically it is maintained over time (e.g. in the master studies). What would we expect after completing this program is to determine a change, the undergraduates to be transform. How can we improve learning? One way to enhance "learning" is through "by doing". If you want the graduates to learn about business, they must be put in situation to see it with their own eyes how it works, or even how it to do. It is a shift from a learning model based primarily on the reproduction of information from one based on producing results using information. In the economic education by including "Learning by Doing" - program PRACTeam, undergraduates are encouraged to prefer the questions, rather than the imperatives: "how to be done?", instead of "you must do it!".*

Key words: *management, change, economic education, learning-by-doing program*

1. Introduction and purpose

Under the pressure of economy in a world that exceeded seven billion people, the issue in discussion is to have usable knowledge. To be applicable, the knowledge must exceed the theoretical scope, and to include skills based on experience. This leads to what is known as: knowledge and skills.

The idea is not new. In 1916, almost 100 years ago, John Dewey remarked in his book, *Democracy and Education* that: "education is not an affair of "telling" and being told, but an active constructive process ... Its enactment in practice requires that the school environment be equipped with agencies for doing ... to an extent rarely attained." (Dewey, 1997: 38, first published in 1916).

In 2007, the Romanian Presidential Commission for Analysis and Policy in Education and Research found that individual performance of some undergraduates and teachers, not belonging to the school as a whole, that 95% of the courses are held in university and the graduates that start to work in knowledge-based economy have less knowledge about the actual state of their field. The problem is even more acute in the economic field, it is most distinctly explained by the present crisis, one of historic proportions that manifests itself now time, time of advanced globalization, which determines the extension of registered damage, like a comet tail. Reality is marked by fresh destructive effects, as many banks bankruptcy, disappearances and insolvencies of companies, savings evaporation, loss of goods and especially jobs, represents convincing arguments for the necessity of a profound changes, to avoid a possible "capitalism of disasters" (Klein, 2008). Everyone hopes and expects solutions, in our case, anchored in economic science. Those who would performed mission, must be the one who it knows and the one that it works. A science, "based on the assumption of general richness (either prosperity or as welfare) is rather sentenced to be a religion, a religion of social progress. It is a religion that it may not anticipate the fall into sin (crisis) does not prevent its consequences through solutions done before" (Dinu, 2009). And has not succeeded to be a religion, "not because it would not have discovered the necessary knowledge, but because those knowledge were acquired and are used for destructive purposes" (Smith, 2006). Or maybe, now in the XXI century, its deadline it arrived for the given credit of the previous century without enough coverage, that despite the fact that it was not religious, and this was more evident starting since its second part.

In terms of crisis, experts (as well as the public) were divided into two camps. The first consists of those who believe that this is an error, unavoidable for a system that is based on risks, and the second consists of those who see a serious defect, with malignant potential, to be removed. While Frank Knight, one of the founders of economic theories of the Chicago School, believed that teachers should instill in their students the belief that every economic theory is a sacred feature of the system, we believe that economic theory is only a hypothesis subject to debate. As is well known, economic theory is based on two principles, namely: the first tells us that economic laws have proven long-term durability and the second has to do with the large number of rational economic agents. Or, violations were serious, both in duration and intensity.

It seems to become increasingly clear that, if before mankind was concerned predominantly on scientific, technological development and so on, it is time that emphasis should be placed on developing better people, in bringing to the fore the fundamental values such as ethics, morality, truth, honesty, integrity, conscience etc.

The aim of this paper is to explore relationship between a program of learning-by-doing, motivation, knowledge and skills in the Faculty of Economics of University of Oradea.

2. Theoretical framework

The *learning-by-doing* concept was identified by Kenneth Arrow in his attempt to explain the endogenous growth theory. Later Robert Lucas Jr. (1988) and Yang and Borland (1991) showed that *learning-by-doing* provides long-term solutions for growth. Currently, the concept known as *learning-by-doing* has become popular through its inclusion in what is called evolutionary economics and Resource-Based View (RBV) of the firm.

In the economic literature the social-cognitive theoretical framework developed by Bandura enjoys recognition. This was the first known author who underlined an important thing namely that of knowing and showing what you know. Bandura states that self-efficacy, meaning "belief in one`s capabilities to organize and execute the courses of action required to produce given attainments" is the most powerful motivational element (Bandura, 1997: 3). Several studies (e.g. Schank, 1995) confirm this. Thus, Schank shows that people learn because something has caused the need to know. Undergraduates learn because they have no alternative. It is clear that this is not representing a natural motivation, and therefore is not able to create knowledge in the most appropriate sense of the concept, namely a depth knowledge, long-standing and solid. One is to be heard about something, and another is to know something about it, but quite another is to really know/ its had studied that thing. And besides the economics graduate is asked for skills. Or, it's well known, the fact that the best way to teach someone is to put her into a situation that requires precisely those skills you want to learn her. In this manner it is born a natural motivation, an organic motivation to learning. One that it comes from within, capable to produce the changing for the better.

Bandura (1997) highlights four sources of self-efficacy:

- An active experience, craftsmanship. A successful attempt increases self-efficacy performance not only because of the performance itself but also of personal factors (e.g. "I can") and situational (e.g. "I know whom to ask");
- Vicarious experience to modelling. No one remains immune to influences, and in time the circle of those who influence us is more and more growing. More, there is a trend, to be more and more involved in the work which we watched! A model within reach is "from our world", and this is a valuable resource and desirable;
- Verbal persuasion. A real-time feedback, provided by someone with authority, it would be an ideal, it is somebody we admire, it is another key ingredient;
- Physiological and affective states. Brancusi rightly said that "is not hard to do something; the hardest thing to do is to put yourself in a state of doing".

Spiru Haret, the great mathematician, who has linked his name to the introduction of modern education in Romania, in its time (1910) determined the most profound

and effective school reform, which was based on similar ideas. He founded a school characterized by responsibility, diligence, discipline, rigorous knowledge, "a well built machinery" as he called it in his paper: "Social Mechanics". Adept of hours in nature, he wanted to create that organic motivation, fully manifested: on an intellectual, emotional and spiritual level. It is confirmed that always we are motivated by an aspiration towards a future, in our case the economic profession, that it is a compound that brings together: to be, to have and to be useful. In a certain way, we remove ourselves from the intellectual experiences of the external world in which everything is the result of what it was before. If we have aspiration to build a future world and this is what determines evolution, it means that we must add passion. It is about the "comprehensive man"! "The comprehensive man" has insights, and impulses which then she must give a form. But when she gives a form to her intuitions, her impulses she appeals to her own intelligence. It is essential that its intelligence must structure the impulses, the emotional-spiritual and the intellect all must work together, circumscribed to the idea of building a bridge. The intellect and the emotional-spiritual is one of those couples of different concepts, but which cannot exist unless together.

To become useful for lifetime, the education must award to a graduate, the skills of using information for her future profession, information that will be classified according to the nature of own objectives, of subjects and the problems that need solutions.

In this paper, the concept of *learning-by-doing* refers to the ability of economics undergraduates to increase their level of training through practical internships, performed on specific positions in the company under the guidance of a tutor specially trained and motivated.

3. The Use of the Theory in Three Economic Faculties

The release of the two components: intellectual and act, for aiming of the real development in preparing of undergraduates has found its expression in the project "The practice of economics students. An inter-regional partnership on the labor market between universities and the business field" (PRACTeam) financed from the European Social Fund - "Invest in people!" POSDRU 2007-2013, Priority Axis 2 "Linking lifelong learning with the labor market", Key area of intervention 2.1 "Transition from school to work", financing Agreement no. POSDRU/90/2.1/S/64150. Amounting to 19,830,198 lei, the PRACTeam project developed starting from the 1st of October 2010 for a period of three years by three partners working together: the University of Oradea - Faculty of Economics, the West University of Timișoara - Faculty of Economics and Business Administration, the University "Stefan cel Mare" of Suceava - Faculty of Economics and Public Administration.

The overall objective of the project aims to develop work skills for undergraduates in economics, during a practical internship on labor market conducted by inter-regional partnerships between universities and business. A survey conducted under a Phare 2005 project on a sample of 721 companies from Bihor revealed as scarce the following categories skills of employees - graduates of higher education institutions: entrepreneurial skills - 16.2%, relational, communication skills - 35.8%, technical, professional skills - 43.4%.

In summary, there is weak adaptation of education and training prior to employment and work. Moreover, future graduates have a reduced capacity entering the labor market due to lack of experience. Practical training assessments conducted before project implementation showed that the firms do not fully understand the contents of the corresponding practical training programs, complaining that they are not adapted to the firm. Through the PRACTeam project, assimilated to the program "Learning by Doing", we sought to provide opportunities for effective knowledge of the employers environment, to offer a real motivation to create the foundations needed by graduates to achieve professional and transversal competences. In order to individualize the internship for each student, personalized files were prepared for each post and each student, according to the distribution of undergraduates in host organizations and on the topic of practice specified in the PRACTeam Guide.

For students in the second year undergraduate programs, 180 students/year from each of the three Universities partners, time for practical internship is 90 hours, 6 hours / day, during three weeks. Place of internship for students in undergraduate studies is provided by various units (private companies, public institutions, NGOs) under certain partnership agreements, as well as Framework Convention, which specifies the rights and obligations of the parties involved. The internship- units appoint a tutor, who will guide the undergraduate students during the internship, this is do in collaboration with an representant of the university. Tutors themselves receive in advance a training course within the program PRACTeam. After completing the practical internships, tutors send their feedback, beside recommendations and proposals on how to conduct the practical internship, upon curricula of undergraduate programs involved in the project PRACTeam, for a better adaptability of graduates to Labor market.

Tutors participate in establishing generic tasks of the job (occupation) that it can access for practical internship by undergraduate students; meanwhile the Undergraduate students are questioned about the need for training. At the end of the practical internship, each undergraduate make a report containing: (1) Overview of practical internship (1.1. Aims of the internship; 1.2 Presentation of the host organization - the legal issues, business and organizational structure peculiarities; 1.3 Submission Service / Department / Office where it was conducted the practical training), (2) Internship description (2.1 Describe the 15 topics in accordance with a custom theme and/or activity; 2.2 Presentations the activities carried out, according to the topics of practice and Diary of the Intrenship), (3) Conclusions and recommendations (3.1 Comments upon the practical internship, through the eyes of the colleagues of intrenship (network) , and of the members of the host organization, as well as on the activities during the practical internship; 3.2 Creating a SWOT analysis of the internship unit; 3.3 Proposals to improve the practical operation of the unit, in terms of the position held; 3.4 Practical internship - highlights and contributions in terms of professional development / individual), (4) Discipline sheet for "Practical Internship" with custom tasks to various jobs.

Evaluation of students is based on three components: 1. Presentation by student practical work performed (weight 50% of the final grade) 2. evaluation of the tutor, who appreciate how the student was able to integrate into the company and its ability to implement knowledge Theoretical acquired specialized courses and practical knowledge acquired (weighting 25% of the final mark) 3. Evaluation

Teacher - responsible for practice, who appreciate how the student has complied with the terms portfolio of practice and how it responded guardian requests of practice (weighted 25% of the final grade).

4. Research questions and method

In the study we had conducted, we have started from the following hypothesis:

H: We assume that practical training through PRACTeam Program “Learning by Doing” contribute to better adaptation to the labour market of graduates of Faculty of Economic Science by acquiring skills and it prevent/ improve the adaptation difficulties.

The problem of adaptation to labour market is an essential part of education in economic field. In our opinion, achieving this, indeed, requires a diversification of situations, also of learning experiences and their construction according to the possibilities and needs of different categories of students (e.g. by personal variables, work experience, other social- demographic variables).

For testing the research hypothesis we watched and analyzed two aspects that constitute the research objectives, namely:

- adjusting to a job requirements, seen as an indicator of the acquisition of professional skills;
- normative and social adaptation, seen as an indicator of the acquisition of transversal competences.

In order to test the hypothesis and objectives of our work we used the following methods:

- semi-structured interview method;
- systematic Observation (using the PRACTeam Selection Sheet and PRACTeam Sheet of practical skills);
- Method of survey the documents.

Semi-structured, personal interviews were conducted in November 2012. Twelve undreguates from the University of Oradea – Faculty of Economics have been invited and agreed to participate. The students interviewed are listed in Table 1.

In-depht interviews were used as research method and we mention that the interviews were of conversational nature. No fixed questionnaire was used (Paton, 1990). Instead the respondents – undergraduate who followed the PRACTeam project, were encouraged to speak about their experience, their results, their vision for the future. Follow-up questions were asked by the author of this article as inter-regional coordinator for bachelor studies in the PRACTeam project. Each intervention was made not to influence the respondents in any direction. Each interview lasted for about one hour and focused on learning, prerequisites, attitudes, achievements.

The interview guide was divided into three sections: (1) one who seeks data about the place of practical internship and data of the student; (2) another section aims the practice activity covering topics from the perspective of the jobs held position; and (3) another is upon the experiences related to practical internship. In parallel, we conducted documentation, an analysis of selection and records of testing skills. Then, we took each interview, and we tried to find out what it is says about each

participant regarding her adaptation to job requirements, as well her adaptation to normative and social requirements.

Table 1: The respondents – students who follow PRACTeam project that participated in this study

Specialization (University program: undergraduate program)	No of interviewed students	Occupied jobs during the internship	Period
International Business	3	economist reviewer purchase (1) assistant manager (1), sales representative (1)	5-25 Nov. 2012
Accounting and Book Keeping Informatic Systems	3	accountant (2), public administration expert reviewer (1)	5-25 Nov. 2012
The Economy of Trade, Tourism and Services	3	receptionist(1), salesman (1) company administrator (1)	5-25 Nov. 2012
Finance and Banking	3	economist reviewer in the financial - accounting domain (2), client counselor (1)	5-25 Nov. 2012
Marketing	3	marketing expert reviewer (1), salesman (1), commercial representative (1)	5-25 Nov. 2012
Management	3	economist reviewer in Management (1) assistant manager (1), Management economist (1)	5-25 Nov. 2012

Source: author's own analysis

5. Findings and discussions

After the data were analysed, the following aspects can be mentioned.

Firstly we can mention aspects *confined to the sphere of knowledge*, respectively, the acquisition of skills. Undergraduates interviewed talked about "enriching and enhancing theoretical knowledge learned" and "access to new knowledge." The way how knowledge is created, but mostly how it is managed, how it is disseminate and integrated into business in the new millennium, undeniable competitive advantages. How it is knowledge and why is it so special asset? Knowledge it is transferable among entities / individuals, like any other type of asset. It becomes flow, but it remains even stock, each participant and each beneficiary, being both supplier and beneficiary; actually adds to what she has, what receives from others, depending on how it is able to receive them. Knowledge is contextualized, meaning that after it is produced and it is disseminated, is received a feedback, this serves to increase the level of knowledge. It evolves into the understanding of the context, and thus knowledge are particularized. Knowledge assumes mobilizing a variety of

theoretical perspectives and practical methodologies. Knowledge it is reflexive, meaning a communication network capable of integrating multiples viewpoints. Knowledge produces, on the long-term, a creative behavior, with relational potential more flexible in society. An important component of knowledge is innovation. It is based on the abilities of individuals, which are characteristic of them and remain the same in any social environment: skills acquired by individuals - knowledge, information, and experience - that can be put to use to create wealth. At the basis of this statement are two important aspects: (1) the existence of a potential based from knowledge, information and experience that can contribute to products and services; (2) the ability to transform this potential into a series of operational elements, creators of value, to be integrated into end products. Efficient capitalization of knowledge and skills moves from "the logic based on conformity" to "the one based on pro-activity". Actual, circumscribed to adaptation of the job requirements, its may defined two indicators:

- the working style, made known by references to situations of practice in the place where the internship takes place, using examples or attributes such as "systematic", "rhythmic", "organized", "targeted";
- the way of acquiring knowledge. Meaning that students learn more logical, more natural, with the instant possibility of testing. E.G. "You cannot function as an external hard drive, you must yourself be involved, to come with your own solution", "Do not start from opinions of others, but start from your own assessment."

Secondly we can mention aspects circumscribed to attitude, behavior, character. This type of program, meaning "Learning by Doing", is an opportunity to experience the working environment and system of social relations and associated work. Placements lead to the formation of certain habits and attitudes of prospective employee, including those to work in a team. Undergraduate discover and develop their passion for the chosen specialization, ability to learn, to learn new behaviors, develops skills to utilize their working environment in new ways. In this field, the profession can be explained much more easily:

- the profession answers to the question what do you want to do? complementary with what do you know? This is a strong argument for why the learning system needs a professional dimension;
- the profession anticipates goals and the occasions that occur later in life. Another teacher occurs – the tutor, a possible model, much more credible for the next generation - multitasking, accustomed to short-term and firing stages.

We can remark as a result restoring the role of experience, of fact and free connection to another form of education, non-formal and informal. Early learning mechanisms as attractive and ludic process help preparing for an active life, with the possibility of changing assumed roles in each period.

The desired outcome of learning circumscribed to this issue is in our opinion, the formation of the habit to distinguish between identity and role, by adopting a critical reconsideration directed to the former benefits.

Conjugate to the normative adaptation and social adaptation, we identified two indicators:

- Capability to comply with the rules and standards of conduct operating within the internship unit. It is about a capability, is builded on the naturalness, from understanding things from inside: "rules are meant to protect us"; "I can see, rules ma e sense";
- Interest and concern for the practical internship: "I made this myself", " a job it is what you make of it", "you can make money if you know how."

In third, are those aspects circumscribed to understanding the context, to be connected to the reality.

The growth in the rate of transformation of society requires continuous renewal of knowledge. Especially, those useful, applicable. We are witnessing a shift of emphasis from knowledge to problems to be solved. However now, all problems are interdisciplinary, it requires adequate preparation. Through internships, undergraduates come to understand that everything is connected to everything: food, water, population, health, education, habitat etc. Here is the testimony of a student interviewed: "Good idea, this practical internship. We are not only data collectors, introducing notices and bills. Thus, we have the opportunity to see the company, to learn about the products we sell, plus you have to think of supply, transportation, distances, weather etc. There are many, many other things that need to be understood". Basically it creates availability and attractiveness to leave the usual environment to learn and exploit new knowledge, to verify them. Here are two results that are results are immediate consequences:

- Developing skills for integrating (instead of adding) new knowledge into what the individual already knows;
- Developing teamwork skills, a group of people who share a common interest, they meet, discuss and moving towards affection, power, and tasks.

Understanding the world in which we live in makes possible the transition from the adaptation anticipation. And "disasters size decreases as people think and imagine possible solutions to prevent or at least limit their negative effects" (Kyle Watt - Titanic effect in the economy).

Possible circumscribed indicators, both to adaptation to the job requirements, regarded as an indicator of the acquisition of professional skills, as well as normative adaptation, and social adaptation, seen as an indicator of the acquisition of transversal competences such as:

- Capacity to understand the context of work by practicing a role, and responsibilities. "Immediate we saw the consequences"; "I have had realized that I have gaps when I was told that I would be needed to know, and I learned that the practical internship is not instead of school, but in parallel with the school";
- The capacity to assimilate desirable values. I appreciated that the tutor could alternate "the liberty with the rule", "encouraging with criticism."

6. Conclusions and limitations

The Learning has all the essential features of the "work": effort, energy, tenacity, consistency, discipline in pursuit of a goal or result. Into economy is more desirable to be consider, than in any other areas, as earlier as possible, building teams and allocating an trainer or tutor.

How can we improve learning? One way to enhance "learning" is through "by doing". If you want the graduates to learn about business, they must be put in situation to see it with their own eyes how it works, or even how it to do.

It is a shift from a learning model based primarily on the reproduction of information from one based on producing results using information. In the economic education by including "Learning by Doing" - program PRACTeam, undergraduates are encouraged to prefer the questions, rather than the imperatives:"how to be done?", instead of "you must do it!".

What would we expect after completing this program, as ideal of education, is the undergraduates to be transform. In fact in front of us we do not have, some simple work objects, neither some individual persons who must to follow a routine, repeating the the same actions.

"The practice of economics students. An inter-regional partnership on the labor market between universities and the business field" /PRACTeam project is an attempt to approach to implement principle: "Above those who do not know are those who read, above those who read are those who understand, above those who understand are those who learn with and from others".

Based on the findings it can be said that the conduct of practical internship through the PRACTeam and also by tehniqe "Learning by Doing" - contribute to a better adaptation to the labor market of the future graduates in economics field, by acquiring skills and prevent / improve adaptation difficulties. Such, our research hypothesis is confirmed.

This study certainly has limitations. Its limitations are related to the choice/ to the selection of undergraduates interviewed and related to the research method chosen. Given to these limitations, we propose to in the next step to outline some research directions to improve results. Thus it would be interesting to know whether this increase educational effectiveness through "learning by doing" - basically it is maintained over time (e.g. in the master studies). We also believe that it requires an extensive study where to find answers to questions such as: undergraduates with good school results are better suited to the job requirements? To what extent student development with a personalized training program is able to increase its capacity to adapt to market demands?

Acknowledgments:

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KNOWLEDGE WORKERS – THE MODERN WORKERS PROTOTYPE IN PRESENT AND FUTURE ORGANIZATION

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Abstract. *The paper aim is to interpret and define the concept of the „knowledge worker” with reference to the context of post-industrial transformation (new economy, information/ knowledge). In the new economy a certain category of specialists, called knowledge-based specialists is emerging. The usual employee works with his hands and produce goods or services. Instead a knowledge worker works with its head instead its hands and produces ideas, knowledge and information. Terms like knowledge work, knowledge workers, and knowledge intensive firms point to emerging social structures and processes in organisations. This focus allows us to analyse organisations in ways that differ from the notions involving less dynamic forms of organisational configurations.*

Keywords: *knowledge, knowledge workers, prototype, organization.*

JEL Classification: D83

1. Introduction

In the new economy a certain category of specialists, called knowledge wrkers in emerging. They constantly renew thei knowledge through continous learning. Each company's future depends on its transformation into a learning organization, and their success will depend on the effective use of talented people. The organisations that will not create a generative learning culture, will not adapt fast enough, will not face the challenges of the environment in which they operate. Therefore, the learning and improvement have the goal the orientation to innovation, towards different and creative solutions and preparation of the responses to different situations. We face complex problems are as effects of several causes. People must learn to solve the problems by their own and they have to be aware that in their ability to learn, to develop unique and individual capacities are kept many answers. We are heading for an era of human freedom, responsibility and intelligence. The learning ability of the organization's members must be rediscovered and revived. It is necessary for learning to become a background for change.

2. What is a knowledge worker?

In a context in which knowledge is consider “the most critical resource in any developing country” (Millar, Choi, 2010, p. 760), the business environment becomes unpredictable and the traditional models for anticipating and adapting to the market evolution are demonstrating its limitations. As a result, the attention is moved towards knowledge owners – human resources. Once again, its importance in the organizational environment it's highlighted.

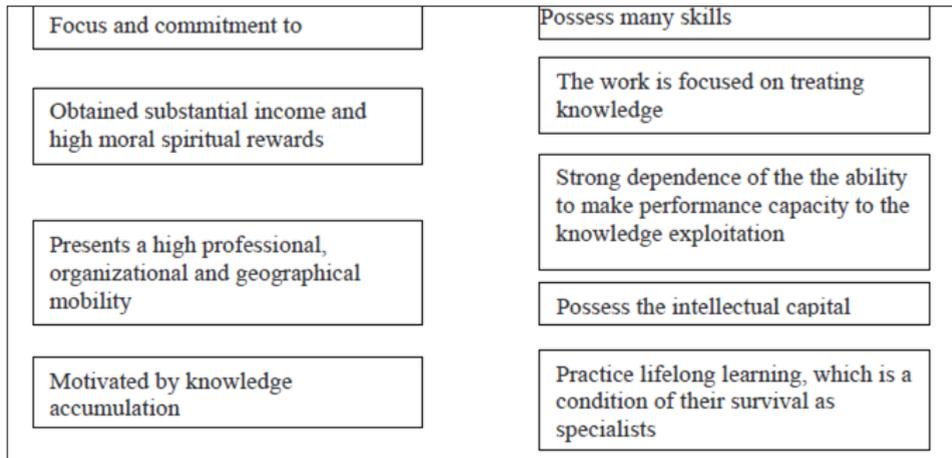


Figure 1: Characteristics of Knowledge workers

Source: Nicolescu, O., Nicolescu, L., *The knowledge economy, business and management*, Economic Publishing, 2005, p. 65

The characteristics listed in the figure conclude that knowledge-based specialists are both owners of the intellectual capital and active human resources participating in economic activities.

The knowledge workers possess knowledge and they constantly renew them through continuous learning in order to maintain their title of knowledge workers.

The productivity and work performance of the knowledge workers lies in the collection, assimilation, creation, use and exploitation of knowledge.

The knowledge workers present high mobility, meaning that they can change their job to another post or function within the same organization or in a different organization, they can change their profession, being available to change their home for their job.

Knowledge-based specialists are dedicated people to their job, get high incomes in the form of salaries, bonuses, shares in companies in which they work, concomitantly with a special moral treatment, all these rewards reflecting the knowledge and the intellectual capital they hold.

In the knowledge based economy, the specialized workforce is well trained in handling data, information, knowledge, which will lead to demand for careers such as scientists, engineers, chemists, biologists, mathematicians, scientific inventors etc.

3. Higher education institutions, creators of the future knowledge workers

Considering the specificity of the new economic environment than we can agree that „universities have become power drivers of change and are critical to local and regional development because they produce people with knowledge and skills, generate new knowledge and import it from diverse sources and apply knowledge in a range of environments” (Bosetti & Walker, 2010, p. 15). In other words, the higher education institutions are the ones that are creating the future knowledge workers who are going to become a part of the economic environment once they will come out on the labor market.

So the importance of the higher education institutions in the knowledge economy is growing fast because it is not only influences the individual's life but also the organizational performance. Higher education institutions in order to be efficient and to assume its responsibility in front of individuals, should emphasize not only the acquisition of knowledge but also the development of interpersonal skills.

In this context, economic and business higher education must be oriented towards developing graduates capable to adapt to the requirements of a rapidly changing working environment. So, the courses taught should not be confined only to the transmission of basic economic knowledge but also to the creation of skills which will allow the future graduates to express themselves, to make oral presentation, to write a report or a business letter.

The future graduates should be able to use what they have learned during their studies, should be capable of sharing information with others and adapting to the challenges that are currently appearing in a dynamic environment like the one that characterizes the knowledge economy.

In the new economy context, higher education institutions should teach students how to apply what they learn, how to make the professional knowledge circulates in the interactions they initiate with others and how to incorporate what they know in organizational products, services, products and business relationships.

4. Methodology

The purpose of the article is to determine if economic and business higher education institutions contributes to the creation of the future knowledge worker that organizations need in the new economy.

The specific objectives that had been taken into account were:

- to identify the most important skills of a knowledge worker,
- to define the employee prototype that any company looks for,
- to determine the elements upon which the courses are focusing on,
- to identify the skills developed during taking courses.

In order to achieve this goal a case study was developed. After analyzing options in this field, we selected the Faculty of Economic Science from “Lucian Blaga” University of Sibiu to be the unit of analysis.

“Lucian Blaga” University of Sibiu is a center of academic excellence and social renewal, with its over 20000 students, has made its intellectual identity known all over the world, and it also represents a major provider of future economists for labor market.

We applied a content analysis to 30 courses taught to undergraduates in Faculty of Economic Science from “Lucian Blaga” University of Sibiu. We applied the analysis to courses that are taught to students from the Faculty of Economic Science from “Lucian Blaga” University of Sibiu in order to identify the skills and competencies that students will develop during their courses. We had taken into consideration only the disciplines from the economic profile because we wanted to outline the “real” image of the future economist. The matters of investigation were education goals, practical assignments topics, teaching and evaluating methods.

The education goals were analyzed from the perspective of the future knowledge worker profile in order to see if skills and competence which business environment searches for are the same developed by the disciplines taught in Faculty of Economic Science.

5. Research results

After analyzing different articles published in this field, we discover that the economic higher education is oriented towards creating specialized knowledge, the educational programs are still focusing on the acquisition of knowledge and not on learning the future graduates how to use what they know. The teaching efforts are still oriented towards explicit knowledge even though in the current economy the mtacit knowledge is the one that makes the difference.

Given the complexity and uncertainty of the current business environment (Audia et. al., 2000, Brătianu & Vasilache, 2009, Babüroglu et. al., 2010, Narula & mUpadhyay, 2010), creating knowledge is not enough. As a result, the economic and business higher education should not focus only on managing and disseminating basic knowledge about economic phenomena and specialized knowledge (Hargreaves, D.H., 1999, Jenks, C.L., 2004) but also on developing a series of skills and abilities that will help any graduate to transpose his/hers knowledge into practice.

The skills and abilities that the future economists should develop during their studies are presented in Table 1.

Table 1: Competencies that students should develop during courses

Author	Year	Skills and abilities
Dunne, E. et. al.	1997	<ul style="list-style-type: none"> • communication skills; • study skills; • problem – solving; • political and economical literacy; • using ICT; • networking; • coping with uncertainty.
Hargreaves, D.H.	1999	<ul style="list-style-type: none"> • flexibility; • networking; • creativity; • learning skills.
Jenks, C.L.	2004	<ul style="list-style-type: none"> • critical thinking; • creativity; • sensitivity; • respect; • appreciation of other points of view; • interacting and working cooperatively and productively with others.
Johnson, D.	2006	<ul style="list-style-type: none"> • <i>technology skills</i> (using informational and communicational technology in order to collaborate, learn, solve problems,

Author	Year	Skills and abilities
		<p>make decisions, construct models, produce creative works and interact with peers, experts and other audience),</p> <ul style="list-style-type: none"> • <i>information problem-solving skills and higher-order thinking skills</i> (seeking information, using information creatively, demonstrate, interpret, analyze, compare, estimate), • <i>conceptual skills</i> (seeing the large picture, synthesizing information, being empathetic).
Brătianu, C., Shook, C.L.	2006	<ul style="list-style-type: none"> • critical thinking, • strategic analysis.
Lindberg, M.E.	2008	<ul style="list-style-type: none"> • risk-taking; • teamwork skills; • flexibility; • strategic analysis.
Uluorta, H., Quill, L.	2009	<ul style="list-style-type: none"> • flexibility; • risk-taking; • use of ICT; • innovation; • learning skills.
Sahlberg, P., Boce, E.,	2010	<ul style="list-style-type: none"> • broad cognitive learning, • communication and collaborative skills, • risk-taking, • creativity, • innovation.

Source: Hargreaves, D.H., 1999, Jenks, C.L., 2004

The most important and frequent skills identified are:

- *learning skills* – which will help the future economist to keep in touch with what is happening in the real world and, on the same time, will facilitate his adaptation to a rapidly changing environment;
- *technology skills* – which will help the future economist to obtain, disseminate and process information;
- *teamwork skills* – which will facilitate the knowledge creation, acquisition and dissemination;
- *critical thinking* – which will reflect graduate's capacity of analysis and synthesis complex information and his/hers ability of analyzing the same situation from different perspectives.

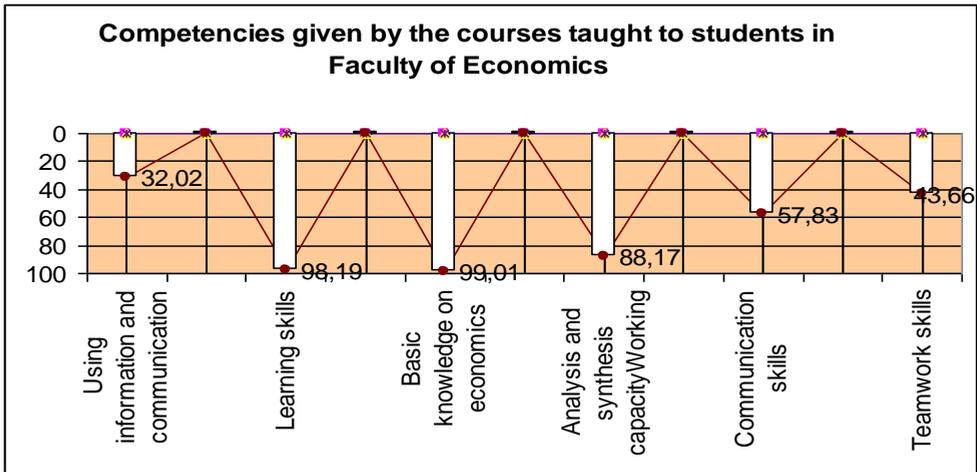


Figure 2: Competencies given by the courses taught to students in Faculty of Economic Science

Source: Author conception

As it can be seen in Figure 2, most disciplines aim to create basic knowledge about economic phenomena (100%), to build specialized knowledge (99,01%), to develop learning skills (98,19%), the capacity of analysis and synthesis (88,17%). Building the basic knowledge about the economic phenomena is the main objective of the disciplines that are taught during the first year of study while developing knowledge and creating the specialized ones are the fundamental purpose of the disciplines that students are starting to study from the second year.

On the other hand, it appears that the disciplines taught to students are focusing on developing learning skills. In other words, they are preparing the future graduate for a rapidly changing environment by teaching them that learning is continuous process and in order to adapt and be successful they must always be informed.

Despite all these there are a couple of vulnerabilities which are targeting communication and the use of information and communication (ICT). These represent the basic elements in an economic environment which is characterized by interdependences, increased informational flows and uncertainty.

So, although world's economies are increasingly interlinked are becoming more dependent on ICT, only 32,02% of the analyzed disciplines seem to be concern about teaching students how to use ICT in a productive way. 57,83% of the analyzed courses aim to develop written and oral communications skills. From this point of view it can be argued that graduates from these educational programs will fail to share with others what they know.

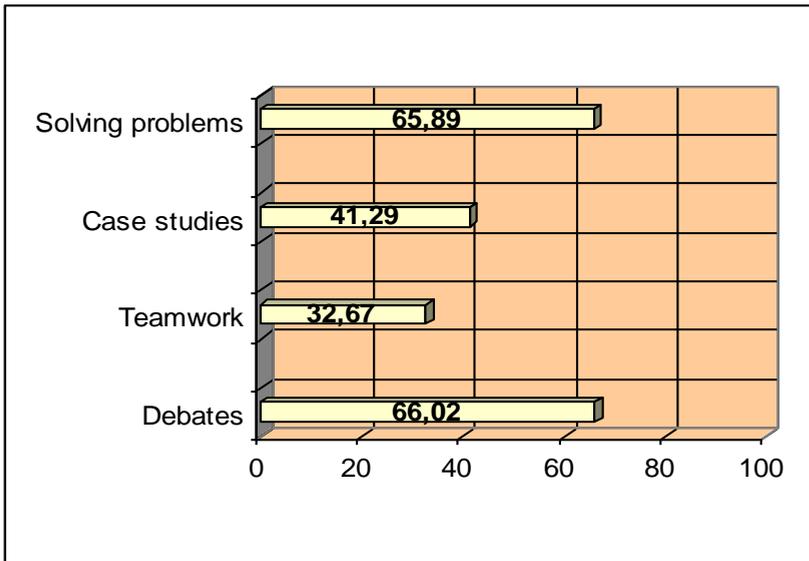


Figure 3: Teaching methods used during courses and seminars in the Faculty of Economics

Source: Author conception

According to data presented in Figure 3, 66,02% of the analyzed disciplines focus on lecture and only 32,67% are using teamwork activities. In other words, courses and seminars are concerned with transmitting the information and not with highlighting how knowledge is applied. Despite all these, 65,89% of the disciplines are preoccupied with solving problems and discussions, and 41,29% have case studies.

So, the teaching methods used in courses and seminars facilitate the creation and disseminations of explicit knowledge without taking into consideration the tacit ones.

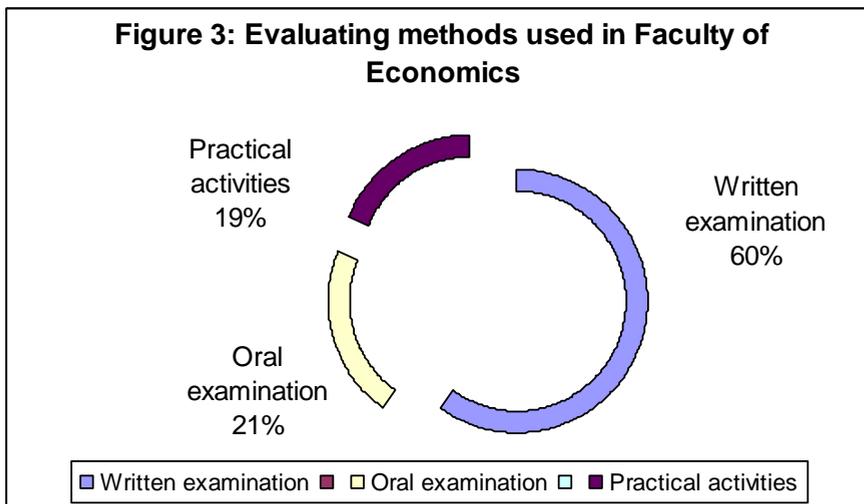


Figure 4: Assessment methods used in the Faculty of Economics Science

Source: Author conception

The strongest orientation towards the creation of explicit knowledge is emphasized in Figure 4. So, for 60% of the examined disciplines the importance of written tests is higher than 50% in final grade. These tests capture only the explicit knowledge acquired during the courses and seminars activities and don't take into consideration the skills, abilities and competences that students had developed during their studies. Only for 19% of the courses, the practical activities have a share greater than 21% refer to oral examination.

Comparing the "real" and the "ideal" profile of the future knowledge worker it reveals that graduates from the Faculty of Economic Science from "Lucian Blaga" University of Sibiu have at least 50% of the ideal knowledge worker characteristics, no matter the field in which they are specialized in.

The most important skills that are defining a knowledge worker are the same with the ones that any company needs from its employees. So, the economic higher education should focus on creating and developing learning skills, technology skills, problem – solving skills, teamwork skills, communication skills and critical thinking.

6. In conclusion

In conclusion we can say that the higher education institutions tend to be oriented only on meeting the first condition of creating a knowledge worker – which refers to creating general and specialized knowledge. In other words, it contributes to the creation of the future knowledge worker but is not creating the ideal employee that any company needs and looks for it.

Conclusions showed that the courses taught to the undergraduates' level are not oriented towards teamwork, communication, and use of information technologies. As a consequence, the graduates will not be able to respond efficiently to knowledge economy challenges and will represent a vulnerability for the organization because they will be "one step behind" what's happening on the market.

Based on these findings, it can be sustain that the disciplines taught during the undergraduate studies should be derected towards the development of communication skills, teamwork and using of ICT. These may be achieved by studies and projects on which teams must be involved.

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PERFORMANCE BENEFITS OF HARMONIZING ORGANIZATIONAL STRATEGY WITH STRATEGY AT SUPPLY CHAIN LEVEL

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Abstract: *Supply chain management (SCM) reflects the most recent approach to logistics integration, the final integrating perspective on the evolutionary processes of purchasing, production support and distribution. Existing supply chain literature identifies three hierarchical levels of SCM: strategic, operational and tactical level. After a discussion of the performance transmission tools and their mechanism, this paper uses logistic modelling with SPSS to estimate the impact of harmonizing organizational strategy with strategy at supply chain level on the organizational performance. Data comes from a questionnaire based survey which took place in 2011. A sample of 100 enterprises representative at national level was randomly selected. Results document the statistically significant impact of customers' orientation and integration efforts on organizational performance. Thus we have found that the odds for an increased performance are 1.21 times higher for organization that communicate customers' future strategic needs throughout the supply chain and 1.34 times higher for companies that search for new ways to integrate SCM activities. We also found a significant effect of industry on organizational performance. The odds of increased performance are lower for companies in manufacturing industries as compared to service companies. The results underline the importance of strategic planning in the context of supply chains. Customers' orientation and integration efforts are expected to increase the benefits for all supply chain participants. At the same time strategic planning in the context of supply chain is expected to better balance the interest of multiple stakeholders and to adequately address the multidimensionality of organizational performances. The quantitative methodology employed by the present study allows drawing meaningful conclusions valid in the context of national supply chains. Nevertheless further research is needed to consolidate these findings. Insofar as firms' size, ownership and the overall economic context have also been found to have a positive impact on organizational performance, we argue that future research in this field would benefit for employing more controls.*

Keywords: supply chain management, supply chain performance

JEL classification: M10, C54

1. Introduction

A supply chain is a network of suppliers, manufacturers, warehouses, distributors and retailers (Şeitan, 2008). The supply chain encompasses all organizations and activities associated with the flow and transformation of goods from raw materials to the end user and the information flows associated with it (Constangioara, 2013). Gunasekaran, Patel and McGaughey (2003) identify three hierarchical levels of SCM: strategic, operational and tactical level. At a strategic level, SCM provides strategic guidance, transforming the way in which improving the flows control within the supply chain better addresses customers' demands. At operational level, the above-mentioned authors consider that SCM favours more efficient flows through cross-functional teams. At tactical level, the SCM deals with resource allocation given binding constraints. The supply chain management's literature focuses more on efficiency issues such as cost reductions and less on strategic fitting of supply chains operations to consumer demands.

The present paper follows the existing supply chain literature, focusing on estimating the impact of harmonizing organizational strategy with strategy at supply chain level on the organizational performance.

The first part of the study presents the tools necessary to transmit performance from the level of supply chain to firms in the supply chain. Understanding the transmission mechanisms of these tools is essential in defining the performance metrics in a supply chain. The second part of the study uses a sample of 100 observations from Romanian firms to test the main hypothesis of interest:

H0 - at a national level, SCS has a positive impact on organizational performance.

2. Performance transmission tools and their mechanisms

The tools ensuring the transmission mechanism of performance from the level of supply chain to the level of firms are presented in table 1.

Table1: The tools ensuring the transmission mechanism of performance

Tools	Dimensions of performance
Cross-functional teams	▪ efficiency and effectiveness
Strategic partnerships	▪ financial and operational performance
Continuous improvement	▪ competitiveness ▪ sustainability
Harmonizing organizational strategy with strategy at supply chain level	▪ overall supply chain performance

The first SCM tool necessary to achieve performance in a supply chain is the establishment of cross-functional teams. Such teams facilitate the resources, information flows in the supply chain, and thereby they have a positive impact on the efficiency in the supply chain. Table 1 reveals that the impact of cross-functional teams goes beyond efficiency. Boudewijn and van Weele (2012) identify two dimensions of the effectiveness tackled by cross – functions teams. First dimension covers, in addition to efficiency issues, aspects such as quantity, planning and overall performance. The second dimension stresses the necessity of cooperation between team members and people external to the team. Boudewijn

and van Weele (2012) labelled this dimension as 'external cooperation effectiveness'. Same authors identify a third dimension of the effectiveness of cross-functional teams, but this dimension is specific to cross-functional sourcing teams, covering sourcing task specific elements. We see that establishing cross-functional teams tends to increase the dimensionality of supply chain performance by broadening the dimensionality of performance towards effectiveness. Yet empirical findings on the impact of cross-functional teams on performance show that their benefits are limited in time due to overlooking people issues. Thereby research on this issue recommends enhancing collaboration, teamwork and empowerment (Boudewijn and van Weele, 2012).

The second SCM tool necessary to achieve performance in a supply chain also stresses the need for cooperation. Yet this tool embraces a more functional view of the performance, targeting financial and operational performance. The rationale behind its positive impact on organizational performance is simple: cooperation and information sharing reduces uncertainty in the supply chain. By doing so, reduces inventories and total costs, improves service and product design and, finally, promotes dissemination of new technologies. There are several studies on the impact of supply chain uncertainty on business performance. Boonyathan and Power (2012) in a survey of 1923 purchasing and procurement Australian professionals have documented that closer relationships with trading partners are positively related to organizational performance. Hendricks and Singhal (2003) investigate the shareholders wealth impact of supply chain glitches. They documented that supply chain glitches are associated with a decrease in shareholders' value of 10.28%. Same authors have also documented a negative impact of supply chain glitches on the return on sale (-13.78%) and on the return on assets (-2.32%). Lee, Padmanabhan and Whang (2012) focus on an information distortion in a supply chain known as bullwhip effect. The paper does not provide empirical evidence but rather calculates the variances of orders and sales as information is transferred in the form of orders upstream the supply chain. They prove that the variance of orders tend to be higher than the variance of sales, with distortion amplifying as information moves upstream. To counteract the bullwhip effect, the authors recommend information sharing, coordination of orders and simplification of pricing / promotional activities of the manufacturer.

The third tool employed to achieve performance in a supply chain is continuous improvement. This tool serves two objectives: increasing competitiveness and ensuring sustainability. The competitiveness is achieved by a better alignment between supply chain priorities and product / business strategies. Regarding the second objective, managing business risks, realizing efficiencies and creating sustainable products are considered the business drivers of supply chain sustainability.

Seitan (2008) presents from a theoretical stance the performance benefits of harmonizing organizational strategy with strategy at supply chain level (SCS). The hypothesis of the research (there is a positive relationship between SCS and organizational performance) is based on the research of Algren and Kotzab (2011). Questions to assess the elements of SCS were proposed by Wisner (2003). They are presented in table 2.

3. Empirical analysis of performance measurement in Romanian supply chains

3.1. Data and methodology

Our empirical analysis uses a national representative sample of 100 companies. Similar sample size was also used by Gunasekaran, Patel and McGaughey (2003). The questionnaire used for data collection in 2011, uses a scale from one to seven to assess the elements of SCS. Most empirical research use ordinary least squares regressions (OLS) to model the performances in supply chains (Constangioara, 2013). Of 100 questionnaires mailed only 26 returned usable data, for a response rate of 26%, similar to that obtained in other supply chain empirical research (Constangioara, 2013).

For testing the research hypothesis this paper uses a logistic regression. The option for logistic regression instead of OLS is natural when estimating probabilities. Logistic regression assumes a logistic distribution of the error term. In this case the probability of interest is given by equation 1:

$$\Pr(Y_i = 1 | X_i) = \frac{\exp(bX_i)}{1 + \exp(bX_i)} \quad (1)$$

The working sample is more than sufficient for formal quantitative analysis (Constangioara, 2013).

3.2 Main results

Independent variables used in logistic regression correspond to the dimensions of SCS proposed by Wisner (2003). In addition to SCS characteristics, we control for industry. The dependent variable is dichotomous, with value one corresponding to an increase in ROS over a two years period (2009 to 2010) and zero otherwise. Results of logistic regression are presented in table 2.

Table 2: The SCS impact on organizational performance

Variables labels	Effects
Manufacturing	-0.06
Searching for new ways to integrate SCM activities	0.29**
Creating a greater level of trust throughout the supply chain	0.07
Establishing more frequent contacts with supply chain members	0.15
Communicating customers' future strategic needs throughout the supply chain	0.19*
Communicating your firm's future strategic needs to suppliers	0.17
Note *** statistical significance at p=0.01 ** statistical significance at p=0.05 * statistical significance at p=0.1	

Results in table 2 reveal a positive relationship between efforts to promote further integration in supply chains and overall organizational performance. All the estimated coefficients have the expected sign. We see that in the context of Romanian supply chains manufacturing enterprises have lower performances than service enterprises. All variables measuring supply chain strategy have a positive impact on organizational performance. Nevertheless only searching for new ways to integrate SCM activities and strategic communication among supply chain members are found to have a statistically significant impact on organizational performance.

Concluding remarks

Table 2 documents the statistically significant impact of customers' orientation and integration efforts on organizational performance. The odds for an increased performance are 1.21 times higher for organization that communicate customers' future strategic needs throughout the supply chain and 1.34 times higher for companies that search for new ways to integrate SCM activities. We also found a significant effect of industry on organizational performance. The odds of increased performance are lower for companies in manufacturing industries as compared to service companies.

We appreciate that results reported in Table 2 document the importance of strategic planning in the context of a supply chain. Strategic focus on searching for new ways to integrate SCM activities and improving the strategic communication among the supply chain members would result in maximizing benefits for all supply chain participants.

As we have measured the organizational performance by using financial indicators, it follows that strategic focusing in the context of supply chains maximizes the value to shareholders. By documenting the relevance of communicating customers' future strategic needs throughout the supply chain, we have revealed the impact of strategic focusing on the customers. Thus, while adequately addressing the multidimensionality of organizational performance, our results also documented the impact of strategic focusing on shareholders and customers.

For further research we appreciate that it would be beneficial if we would account for interdependences among multiple performance dimensions, using a research methodology similar to that proposed by Wagner and Neshat (2010). We also propose increasing the number of independent variables. Controlling for firms' size, ownership and the overall economic context would afford a more accurate ceteris paribus estimation of the impact of strategy on the organizational performance in the context of a supply chain.

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THE NEED OF RETHINKING THE PUBLIC ADMINISTRATION SYSTEM IN THE CONTEXT OF THE GROWING POWER OF THE CIVIL SOCIETY

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Abstract: *Worldwide, the trend of the last twenty years has been that of globalization and the intense development of the social systems. In this context, nation states are put in a completely new position in which institutions and administrative systems should be flexible to accommodate these changes. In the new coordinates of established geopolitical framework, central and local government is the defining factors in economic competitiveness of a country or economic region. A very important aspect of the globalization is related to the affirming power of civil society emergence and to the concept of social responsibility. What distinguishes the contemporary era from the modern one is the high sensitivity to ethical issues, manifested at the level of individuals and organizations. This fact can be explained by technological advances of communication that allow free access to information about the conduct of national and international communities, less tolerant regarding the business related abuses. We witness thus a process of powerful radicalization of the pressure groups thanks to planetary networks, which inevitably leads to a reassessment of principles and culture of the organization, be it public or private. Romanian society is in a continuous process of change, in which all the economic, social, political and civic factors know a new dynamic in trying to adapt to present conditions. For Romania, under these conditions, all the changes in government acquire new dimensions. Thus, public bodies must respond to new changes in the world economy, but equally to new requirements of integration into EU structures. Public administration reform involves changes in the substance of its major components, both at central government and the local government and public services in general. Furthermore, the development of democracy requires a new relationship between citizens and government, involving the growing and strengthening of the role of local authorities and the reconsideration of the partnership between the civil society and local officials. This paper proposes a theoretical and operational analysis of the new coordinates that define the context of reconstruction of the government - stakeholders relationships.*

Key words: *public administration, social responsibility, morals, ethics, sustainable development.*

JEL classification: *M31*

1. Introduction

An extremely important aspect of globalization is linked to the affirmation of power of civil society and the emergence of the concept of social responsibility.

What distinguishes the contemporary era from the modern one is the high sensitivity to ethical issues, manifested at the level of individuals and organizations (Zait and Prihoanca, 2007). This fact can be explained by technological progress in communications that allow free access to information regarding the behavior of national and international communities, less tolerant towards the abuses of the business environment. We witness thus a process of powerful radicalization of the pressure groups thanks to planetary networks, which inevitably leads to a reassessment of principles and culture of the organization, be it public or private.

2. The affirmation of the power of civil society and its impact on business environment

The complexity of ethic issue increases when placing this concept in the context of global implications (Ballet and De Bry, 2001). It is about the differences especially between morality and ethics even though these two terms originate from a common definition - "a decisive manner to act according to the customs and traditions of a nation"; for example, the terms have the same meaning for Anglo-Saxons nations, but for Latin countries there is a strong distinction between them, with philosophical implications.

It is not so surprising to find that ethics in business will transform with the evolution of ideological patterns and in accord to the place reserved by these patterns to the social-economic role of public and private organizations.

At the cultural level, "morality is not confined to a sub-culture, but it is a structural component that influences in the same time, political and economic spheres of society" (Masse, 2000). Moreover, we can identify another concept – deontology - which in some respects is more expressive compared the ethics; deontology is associated with an action that accompanies the exercise of a function, and it is defined as "all rules and duties of a profession, the conduct of those who exercise it and their relationship with the target audience" (Epuran, 2005). Deontology differs from traditional morality because morality does not imply obligation, it arises only in the exercise of a profession, the associated penalty is provided in the professional code, while morality is based on an a priori principle.

An extensive study regarding this problem was conducted between February 2002 and November 2003 by two well-known specialists: Bollinger and Hofstede (Bollinger and Hofstede, 1987). This research, exhaustive in nature (given the vastness of the areas of investigation and the interdisciplinary essence), was based on analysis of Francophone and Anglophone scientific journals, periodicals and other journals in the period of 1997-2003. The information was supplemented by secondary data obtained from four computerized databases: ProQuest, Emerald (Canada), Delphes and Ebsco, France. Apparent abundance of literature on the interdependence between ethics and business management has been considerably reduced when it has been placed in the context of international marketing. For example, from the total number of articles published in the period of 1998-2003, Emerald database provided only thirteen articles addressing ethics in the context of international marketing. From those, ten of selected items addressed

the importance of the stakeholders for the enterprise, strengthens the reality that the subject is relevant and there is still a need for further studies in the area.

Highly visible in the business environment, the specific actions associated to the concept of social responsibility generate benefits for all stakeholders; on the one hand we witness the growth of confidence of stakeholders in the organizations and on the other hand, we can see that legal entities achieve significant economic performance and clear position in terms of the underserved targets, often being seen as “favorite companies”. These organizations respond to a new set of social values based on the increasing role of corporations in society, defined by the term of Corporate Social Responsibility (CSR).

CSR (Corporate Social Responsibility) is a concept related to the contribution that companies must have in the development of modern society. Over time, this contribution was theorized differently through the many streams of thought. In the context of the diverse currents of thought, the initiatives of „responsible” companies were called by a variety of terms: corporate citizenship, corporate philanthropy, corporate societal marketing, community affairs, community development, etc.

Representing an evolving concept, and not having a standard definition or a set of specific accepted criteria, CSR is generally perceived as being “the manner in which an organization achieve a balance or realize an integration of economic, environmental and social factors, answering the expectations of shareholders and other stakeholders”.

Societal marketing concept is the new philosophy of the five that comprise marketing management. Basically, societal marketing comes in response to a series of questions that dominate the actual business context:

- There is classic marketing concept still adequate in an era of environmental problems, with limited resources, global economic issues and neglected social services?
- The global firms still keep looking to meet individual needs and to work to consumers and society benefit in the long run?

Societal marketing concept is based on the consideration that the organization should establish and adequately meet the needs, wants and interests of its target in a more efficient manner than competitors, in order to maintain and improve the welfare of society in general and consumers in particular.

3. The pillars in the reconstruction of public administration in the context of the affirmation of civil society power

To support the marketing implications over the measures taken in the public system, we can extend the realities of the business environment in the sphere of government action; practical, due to increased public power, whether considered individually or collectively, central and local government must place on the basis of all their performed actions the community interests.

As the states and international institutions have realized that the adoption of the CSR principles by the companies serves the objectives of sustainable development, we can witness the emergence of the need for international standards that define what a “desirable corporate behavior” is.

The United Nations, European Union and Organization for Economic Cooperation and Development are three of the most important institutions that were involved in

developing a CSR framework, defining and establishing indicators that can be transparently measured.

The European Union grants an great importance to the dimension of social responsibility, as a means to achieve the goal set at the Lisbon European Council in 2000, namely to become "the most competitive and dynamic economic system in the world, capable of supporting economic development through more and better jobs and greater social cohesion" (Profiroiu, 2005). In order to guide companies and institutions in implementing the concept of social responsibility, the European Union has developed a two-dimensional framework for the relationship between organizations and communities:

- an internal dimension, which concerns the relationship between the organization/public institution and employees with the following objectives: ensuring better quality of life of the employees, ensuring a safe and healthy working environment, the responsible approach to restructuring in a crisis period, taking into account the interests of all parties involved, minimize the impact of the operations with impact on the environment and natural resources.
- an external dimension, which concerns the relationship between organization / public institution and stakeholders, with the following directions: development of local communities, development of local economic systems through partnerships with various categories of stakeholders, protect and encourage the implementation of environmental standards at central and local levels. This framework was accompanied by recommendations and principles to guide states and local authorities in policy formulation, to ensure transparency and promote activities on the one hand, and support CSR initiatives, on the other.

Therefore, in order to demonstrate that is „socially responsible“, a company must understand the internationally promoted principles of CSR and moreover has to regularly report on integrating these principles into its work.

Several factors explain the increased interest of the organizations and public institutions for the operationalization of the concept of corporate social responsibility, as follows:

- the new concerns and expectations of individuals, consumers, public power and investor in the context of globalization and changes in the public sector;
- the social criteria influencing the investment decisions of individuals and / or organizations;
- the discontent regarding those activities detrimental to the natural environment.

Regarding the concept of sustainable development, it was launched 30 years ago, first theoretically, and then passed through the spheres of politics, becoming now an undeniable current practice.

As with social responsibility, sustainable development concept is presented as a result of multiform forces and pressure, generated by groups and actors with different interests and motivations.

Implemented within the public domain, sustainable development implies "sustainable growth that meets the needs of the present, without affecting or compromising the ability of future generations to meet their own needs". Basically,

beyond the known elements of the sustainable development approach (genuine concept of marketing field) - often associated with environmental protection - it involves a balance between three components: economy, society and environment, an element that justifies its existence in the reform process of public administration. The interest of public institutions taking steps towards social responsibility, business ethics and sustainable development in society, it is becoming more evident through the measures proposed in the reform strategies that can be found in every government programs.

Although the implementation is difficult and expensive, requiring a coherent reform in the rest of the areas of national interest, in the foundation and development of the processes following the strategy to develop a citizen-oriented administration there is consistency and clarity. The objectives of such a strategy are properly defined in terms of added value for citizens, as follows:

- focusing the attention to a greater extent from the contributions to results and awareness, to the need for government to provide services that are able to meet community needs;
- establishment of appropriate quality standards according to the expectations of the citizens;
- generalization of the system of „one stop shop”.

Developing such a strategy, however, needs to have as its starting point a set of logical and coherent principles, interrelated with the need for transparency in the activities of government and according to the desire for information and participation of local communities in decision-making, in order to allow:

- creation of an administration closer to citizens;
- applying a system for the standardization of services designed to define quality requirements to be fulfilled by them. Moreover, granting a higher importance to the results of public consultation mechanisms is a prerequisite for determining more detailed needs of citizens;
- awards for quality of services, to increase motivation of service providers;
- ensuring permanent services (non-stop hotline to provide important information, Internet, etc.).

Governmental institutions that make the interests of their citizens the basis for their activities will benefit from many advantages: increase stakeholders' confidence in their activities, quality services, motivating human resources, reputation and good image, cost reduction, etc.

The operationalization of the development strategy requires creating, developing and using specific marketing approach, whether we consider improving the offered services and their proper communication to citizens, whether we aim to develop sustainable relationships with various interest groups as follows:

- *creating effective consultation mechanisms for citizens in order to horizontally diversify the range of services and getting direct feedback on the quality of services.*

According to marketing approach, the manner in which public service is provided is very important, but it is also important to ensure correspondence between what citizens want and what government provides. According to the middle function of marketing approach, that aims to connect organizations to the external environment, in order to increase the targeting ability, the need for information and participation of citizens in decision making must be one of the in premises in the

establishment and development of citizen-centric strategy. In this context, policy makers in central and local governments will be able to develop services to meet the needs of groups with different interests. Government-citizen interaction through wider consultation and participation of citizens in determining the type and level of service to be provided will generate significant results in terms of efficiency of government activities. The practices of the developed countries reveal that consultation and cooperation between different levels of organization of government and citizens support the efforts to create motivating and innovative standards in public services.

- integration of services.

In order to be available, the services should be consolidated in a physical or virtual center, according to the needs and expectations of citizens and not in the logic provided by rigid administrative structures. Adding value to citizens by providing time and place utility implies service integration both vertically through a collaboration between the different organizational levels of government and horizontally, through the relationship between the public and private sectors. It entails a change in organizational architecture, in terms of deployment processes and significant changes in organizational culture; for example, making one stop shop requires several steps, preceded by simple integration solutions (telephone information services, web portal, and so on).

- *the use of information and communication technology.*

The information technology opens new opportunities both for service providers and citizens. A government that works on the principle of 7x24 (7 days a week and 24 hours of 24) helps to create a more accessible and transparent government.

- *bureaucratic mentality change.*

Improving the quality of public services require changing the way of thinking and to address various issues, managing the transition from a rigid to flexible thinking activities, results and action-oriented in accordance with predetermined objectives. Through the steps for taken sustainable development, often associated with the concept of social responsibility, public services should be designed in such a way to generate good results in increasing the quality of the life of society, and local communities in particular. The arguments supporting the sustainable development approach in the public sector are related to the need to modernize the infrastructure in order to reduce the influence of pollutant factors (waste water treatment, waste disposal). The compliance with environmental requirements throughout the whole life cycle of municipal services infrastructure (construction - operation - maintenance - demolition) acquires a particular importance within the concept of sustainable development. Therefore, the Government should make efforts to align the Romanian standards and practices of public services to EU requirements by: the harmonization of the regulations governing municipal services with the EU directives on water, waste, energy and transport; financial support for co-development programs including infrastructure measures (ISPA, SAPARD, PDR, MUDP 3, TECP 2, and so on).

In addition to the efforts to develop the sustainable development strategies and those which target at citizens, policy makers must manage other types of stakeholder interests, and taking considerable efforts in promoting social partnerships. Today, policy makers of local government attaches great importance to the participation of all social partners in making the decisions, with a major

impact on the quality of community life. Public services are essential in the solidarity of the citizens, in maintaining the social peace.

Based on this principle, the Government should target programs that investigated a number of issues:

- the amplification of the involvement of civil society structures, mainly trade unions and employers in developing strategies, policies and sectorial programs;
- the implementation of partnership projects in order to strengthen ties with associations representing the interests of beneficiaries of water services;
- ensuring the continuous training of all workers in the field of municipal services.

4. Conclusions

The legitimacy of the state actions cannot be reduced only to issues of management and effectiveness, but must take into account the interactions between global and local level, so that the accelerating effects of territorial phenomena on public management should not be neglected. Moreover, the state should develop innovation and development strategies to facilitate achieving conferred society mission of the public services.

The involvement of civil society in decision-making within the public structures, the development of the public-private partnership and the dropping of the vertical management of the communities are realities that require rethinking government reform strategies as a factor in maintaining social dynamism engine.

For Romania, under these conditions, all the changes in government structures and actions acquire new dimensions. Thus, public bodies must respond to new changes in the world economy, but equally new requirements of integration into EU structures. Public administration reform involves changes in the substance of its major components, both at central government and the local government, and public services in general. Furthermore, the development of democracy requires a new relationship between citizens and government, growing and strengthening the role of local authorities and the reconsideration of the partnership with civil society and local officials.

A democratic system is functional when the economy records positive results and to the extent that develops a democratic spirit in social mentality. In the broader transformation of Romanian society it cannot be ignored the public administration system, and the need to introduce a European dimension in this field, in accordance with the values of the new administrative space. By developing consistent and ongoing decentralization process, in the near future we could assist to the increase of the quality and efficiency of public services as a result of developing the capacity of local governments to respond to a greater extent to the needs of citizens and local development.

Given the positive experience of developed countries, and national trends, we estimate that the inclusion and consideration of stakeholder influence in public structures will generate medium to long term benefits for all beneficiaries, such as: reduction of public expenditure, thus combating bureaucracy and corruption in the public institutions; increasing the transparency of the use and management of public funds; improving access to information and services, in accordance with the law on the protection of personal data and the free access to public information;

eliminating direct contact between the counter-clerk and citizen through e-government portals; providing information and public services by electronic means; strengthening the administrative capacity of public institutions to carry out the role and its objectives and ensure delivery in a transparent manner of the information and public services; promoting collaboration between public institutions for providing electronic public services; redefine the relationship between citizen and government, and between business and government, with the purpose of facilitating their access to public services and information through information technology; promoting the use of Internet and High-tech in public institutions (Tudorel et al; Moon, 2002; Abbasi, 2005).

In conclusion, in order to combine the classic administrative hierarchy with modern creative and focused on citizens management in a unitary organization of the public sector, the "architecture" of the overall system it should be changed, redesigning the systems and internal decision-making processes, the modes and levels of participation and social inclusion of decision-making and implementation of policies, the targeting systems, the performance measurement, the asset allocation, the accountability, the supervision and control.

To support this process in an overall consistent and coherent reform, we believe it is necessary to have a stable network to promote change, which must be established both by decision-makers and operational staff from the local government, parts of a county and by citizens and interested organizations as primary beneficiaries. However, the creation of this network is not a simple issue; it calls from the parties a fair and thorough knowledge and understanding of the structural elements necessary to implement the reform, in general, and of the guiding principles by various stakeholders, in particular.

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STAKEHOLDERS, THE DETERMINANT FACTORS IN DEVELOPMENT AND OPERATIONALIZATION OF E-GOVERNANCE IN ROMANIA

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Abstract: *Worldwide, the trend of the last twenty years has been globalization and intense development of social systems. In this context, the national states are put in a completely new position in which institutions and administrative systems should be flexible to accommodate these changes. In the new coordinates of the geopolitical framework, central and local governments are the defining factors in the economic competitiveness of a country or economic region. For Romania, in these circumstances, the combination of changes in government acquires new dimensions. Thus, public entities must respond to new changes in the world economy, but equally to the new requirements of integration into EU structures. Public administration reform involves changes in the substance of its major components, both at the central government and the local government and public services in general. Furthermore, the development of democracy requires the establishment of a new relationship between citizens and administration, namely growth and strengthening the role of local government and partnership with civil society and local officials. Basically, the mere process of public administration reform is no longer justified in the context of the current marketing environment; orientation option from outside to inside the organization has become a condition "sine qua non" for public institutions. With the development of information society, the introduction of information and communication technology raises new challenges for public administration efficiency while providing the opportunity and the coordinates for developing activities closer to the citizen; in this context, increasing administrative capacity improves the ability for Romania to defend its interests at European and international level. An important dimension of the strategic approach is the e-Government which states, increasingly more, as a major feature of the new information and knowledge-based society. Ensuring transparency of activities, measures in reducing or even eliminating bureaucracy, improving the quality of public services are unequivocally defining elements, at least in principle, for the need for e-government platforms in Romania. Based on numerous attempts in building principles of public governance in Romania this paper attempts theoretically and practically to identify the influence of different categories of stakeholders in the process of rethinking the public system. Were analyzed both the system coordinates of the relationship between public system and stakeholders, in the context of large-scale promotion of information and communication technology, and benefits from rethinking their alignment with EU policy context.*

Key words: *e-government, e-administration, stakeholders, smart cities, citizens, reform.*

JEL classification: *M31*

1. Introduction

Since 1990, the creation of a modern and efficient public administration was considered a priority for the Government of Romania. However, its efforts to mobilize resources needed to create and develop a legal framework and institutional arrangements to support the reform process has been hampered by a number of constraints, such as: severe financial constraints, lack of political will, limited experience regarding alternative administrative structures, the absence of clear regulations regarding personnel and administrative structures, etc.

The purpose of the public administration reform should be precisely to determine the nature of problems in its various fields of interest, to propose optimal solutions and describe their implementation principles. In the context of Romania's integration into the European Union, the scope of reforming public administration at both central and local level should be aimed at creating administrative architecture able to perform its functions in order to prepare the conditions of major restructuring of the public services and ensure economic, social and organizational development in a certain space.

Reorganization processes and procedures in public administration and integration and interoperability are essential to operationalize innovation within government structures, but also extremely important elements to provide superior service in terms of quality to citizens, businesses and other government institutions. A solution in this reorganization is the e-government platforms. E-government is the interaction between the government, Parliament and other public institutions, on the one hand, and citizens, on the other hand, through electronic means. Information on the bills in question, counting citizens' opinions, paying taxes by taxpayers, filing of online complaints and petitions are efficient means provided by the state for the exercise of fundamental rights by the citizens. So the direction of implementation of e-Government is top-down (from state to citizen).

The basis of the development of this concept was the need felt by the government to provide citizens and organizational and social entities quality services, providing time and place utility, creating added value for all stakeholders. Arguments supporting the process of computerization of public consist in improving public services, public confidence and overall democratization.

Regarding the operationalization of the concept of e-government in Romania, this process consisted in the creation of the governmental portal www.e-guvernare.ro. Going on the structure of the portals used in the developed countries, the mentioned website contains information on the procedures for individuals, general information, reports from governmental sources, links to websites of ministries, information on procedures for businesses, search engine for laws and statistical data.

One of the goals of the information society is to implement the concept of electronic services which aims to reform administrative act to respond quickly to the demands of citizens and government structures. Thus, in 2003 it has been founded the National Electronic System (SEN), created in base of the Law no. 161/2003 regarding the measures to ensure transparency in the exercise of public dignities, public functions and in business, and the prevention and punishment of corruption. Also, through legislation such as Government Ordinance No. 24 of 2002 and Act 291 of 2002, it has been established the obligation of all cities and towns to

develop electronic payment systems for local taxes. These systems are the most effective tools to inform people and provide “an easy”, fast and convenient solution to pay debts to local budgets.

2. Stakeholder theory - conceptual issues

The first initiatives associated to stakeholder theory are related to business ethics, and therefore they were a specific approach regarding private organizations environment. The strong economic growth since the beginning of last century has generated numerous concerns in positioning the organization as a major social institution, in support of these practical realities standing out some specialized studies offered by different authors (Berle and Means, 1993; Coase, 1973; Barnard, 1968). They were among the first to have argued that the purpose of a company is “to serve the society” and management models must provide employees this moral sense.

The study of stakeholder concept and its implications are the subject of a growing current in contemporary Romanian society. The importance of these issues was signaled by Henry Mintzberg (2004), which states that “in addition to shareholders and their interests regarding the profitability of their invested capital, other partners play an important role in the organization”. Modern organization`s vision and mission suffer in this context significant changes especially in terms of raising awareness and adaptation to the requirements of these stakeholders.

The term of stakeholder, as Freeman (1999) admitted in an article, indicates a biased perspective. Rather than defining the unit of analysis such as “interest groups” or “constituencies”, the term “stakeholder” deliberately denotes opposite vision to specific terms such as “stockholders” or “shareholders”. Consequently, proponents of the theory based on the concept of stakeholder see it as a challenge to neoclassical economic theory of the firm (Marens and Wicks, 1999).

Analyzing historical evolution of the concept, we can see that it has increased significantly in importance since the 1960s, the first contribution in this regard being the ones that point out to term presentations, its utility and its applicability in managing marketing and management activities. In a report by the Stanford Research Institute in 1963, the term stakeholder was defined as representing “those groups without whose support the organization would cease to exist” (Stewart et al, 1973).

In the 1970s, Russell Ackoff (2004) highlighted the importance of these groups of partners and the fact that they can play an important role in business activities, and propose their consideration for the general interest of the organization.

During the same period, William Dill (1975) proposed a business model that places the new concept at the basis of all activities of any organization; in his approach, the author was supported by scientists from the Wharton School, who initiated a research project on organization`s stakeholder, aiming formulation and interpretation of a strategy in a turbulent environment.

In 1983, Freeman and Reed proposed a more comprehensive definition of the concept of stakeholders: “stakeholder is any group or individual that firm depends for its survival”. The definition offered by these authors, comes and clarifies a number of obvious issues, but omitted by their predecessors - any organization, regardless of the business, has limited resources and support solution for its activity comes from the holders of interests.

Complementing the previous approach, Freeman offers in 1984 the most popular definition of the term: „stakeholders are groups or individuals who are directly or indirectly affected by an organization's objectives or that may affect the achievement of these objectives”. The definition points out the core of this concept, namely the fact that the organization has an ethical obligation to stakeholders. Basically, the relationship organization - stakeholders is mutual, organization can affect the stakeholders, and they can influence, in turn, the company.

Two lines of research have developed in the last decade and a half. One instrument called instrumental theory or theory based on social science, and the other direction is called business ethics. While both directions cover some common elements, they differ drastically on the used methods and obtained results.

The line based on social science theory sees itself as part of organizational studies, overlapping in part with agency theory, network theory and resource dependence theory. This line of research employs rigorous methodological procedures. On the other hand, the line based on business ethics involves the use of different methods and touching different purposes. The last one assumes that each actor of the company has an intrinsic value, regardless of its power or its legal status. Basically, this line of research is trying to develop the correct ethical norms linked to managerial behavior.

The analyzed concept definition starts from the conceptualization of the two correlated terms: “stake” and “interested party”. The stake term points either to “legal, moral, or default” expectations or to “the ability to affect an organization in terms of behavior, direction, process or result” (Mitchell et al, 1997). Reed (1999) defines stakes as “interests that have associated imposed regulatory requirements”.

The definitions related to the term of "interested party" are numerous, some with a narrow coverage and others with broad coverage. Considered classic and perhaps the most cited is the definition of Freeman: “interested party in an organization is represented by any group or individual who can affect or is affected by the organization's objectives." Freeman gave the same definition in an article from 1983, the broader term of “the mission of the organization” replacing the term of “organization's objectives”. This definition was accepted, and at the same time, has been criticized by academic according to the adopted position. While the theory based on business ethics promotes a much broader definition, the theory based on social science favors the definition of limited coverage.

In the following paragraphs, we will submit an analysis of the commonly used arguments of stakeholder theory. Corporate governance paradigm states that those who invest their capital in any business and assume the risk of losing some or all their investments have the right (and obligation) to regulate their own affairs. Equity investors (owners) either manage their own affairs, or do so with the help of agents (managers). As pointed out by Etzioni (1995), understanding the rights of owners or equity investors should be a natural extension of the right to private property. However, unlimited transferability of individual property rights and corporate issues related to the management of the corporation is becoming increasingly questioned in the literature specific to different disciplines. As noted by Etzioni, the idea that “shareholders of a corporation manages the work of is largely a fiction, usually executives having greatest power”. Moreover, the idea that the owners and managers may have divergent interests led to the development of

agency theory (Jones, 1995) and to discussions about corporate management. As noted by Donaldson and Preston (1995), “corporate conventional models, taken both ways, legal and managerial, failed to discipline self-serving behaviors dictated by managers”.

Stakeholder theory attempts to describe, prescribe and identify alternatives in corporate governance, including a balance between multitudes of interests. The theory has attracted considerable attention and support in organization`s practice early in its formulation. However, as discussed above, there are at least two major branches of stakeholder theory. Jones and Wicks (1999) distinguish between the following elements or research tracks: companies / managers should behave in certain ways (normative); certain outcomes are more likely if firms / managers behave in certain ways (instrumental); companies / managers actually behave in certain ways (descriptive / empirical).

The difference between the three research tracks were highlighted in an oft-quoted article written by Donaldson and Preston: “Stakeholder Theory: concepts, evidence and implications”. Their theory focuses on the role of business manager, on how he recognizes and acts to various stakeholders and to their interests.

The origins of the theory were associated to the need to provide managers with a more balanced and more robust framework in developing strategies to reflect changes that occur inside and outside the organization. The organization, in this context, is seen as a network node that meets stakeholder discourses, which are essentially equidistant from the organization. In other words, stakeholder theory is a result of reflecting the impact of internal and external factors (other sides) on the organization (managers, employees).

However, with increasing focus on power held by managers, and the failure of leadership, it has been developed a new perspective, that of external factors, fueled mostly by the philosophy of business ethics.

More recent approaches see stakeholders as:

- “investors who made a risky investment in the company and have something to gain or lose, depending on firm behavior” (Clarkson et al, 1994).
- “groups or individuals that have moral or legal claims against a company, through its actions the company being able to grant them or not” (Langtry, 1994). In this context the focus is linked the role of ethics in business conduct, the action of one stakeholder being able to generate positive or negative effects on other stakeholders.
- “those on whom company has non-contractual unjust effects and in whom case the company would like to change these effects” or “individuals with their own values and goals with whom the company interact to achieve mutual benefit” (Slinger, 1999). This definition combines ethics and economic interests of the company.
- “those individuals or those entities that contribute voluntarily or involuntarily to the organization's activities, contributing to its capacity to create wealth, taking risks and being potential beneficiaries” (Post et al, 2002). This definition indicates the possibility of gain or loss in organization-stakeholder relationship.

Although the provided definitions (accounting for only a small fraction of those in the literature) are different in the way of enunciation, they have in common

delineation of the stakeholder from the organization and emphasizing the importance they have in the company, their influence on the organization and the of economic and moral, mutual relationship which is established between them and the organization.

Stakeholders can be classified according to the relationship they have with the organization and the influence they exert in it. Thus, according to the interaction with the organization, they fall into the following categories:

- Primary stakeholders, represented by the shareholders (partners) and investors, employees, creditors, suppliers, distributors, customers and competitors. The way in which the organization interacts with all these entities is reflected in the strategic management decisions.
- Secondary stakeholders. A second level of involvement in the society of a company is defined when other entity expresses interest or purpose in the activities carried out by it. These entities form the group of secondary stakeholders who are affected directly or indirectly by the company's two-level interaction with the socio – economic environment. The fact that they are called "secondary" does not diminish their importance, but also reveals the idea that their interest occurs as a consequence of the current activities of the organization (primary stakeholders are the very basis of the current activities of the organization). In the category we can include: local communities (domestic or foreign, if the company operates in other countries), local and central government (executive, legislative and judicial), political parties, social activists, NGOs, religious institutions, media, business support groups, trade unions, etc.

This classification, mostly common to business environment, is found in the area our interest, that of e-government in Romania. Given the promoters of this approach for e-government in Romania, namely central and local government, we can say that the primary stakeholders will be found not only as public institutions, while in case of the secondary stakeholders, the core will be the citizen.

This two-level classification model of the stakeholders of an organization provides coherence in the specific steps regarding both business market and public sector for at least the following reasons:

- in the managerial process, business organizations “share” decision-making power to all involved entities, whether the impact is primary, whether it is secondary;
- the managers of an organization must have solid knowledge and information, not only on the internal organization of the firm they manage, but also regarding political and social factors that determine the context in which they operate;
- the acceptance by society of a company and its legitimacy depend on how it considers, in its work, the entire set of stakeholders.

3. Stakeholders - prerequisite for the development of e-government platforms

Despite opposition from the supporters of stakeholder theory, it has found its place in academic discussions of specific literature of public administration and public sector practice (Tennert and Schroeder, 1999).

Donaldson and Preston (1995) completed the doubts about the value and appropriateness of such approach because they perceive theory as covering

different principles and with different implications than those specific to the public sector.

However, even if the majority of public sector managers perform their duties for different purposes (eg public) compared to private sector (eg, survival of the company and making a profit), their decisions have the same ability to affect many categories of persons or groups. As in the private sector, public sector managers and government agencies they represent can be affected by others, as a consequence of their own decisions. In other words, the stakeholder theory Freeman applies can be found even in a government context.

Governments have a duty to represent the people and solve public issues. Clearly, every citizen may be affected by government actions. Accordingly, several categories of stakeholders should be taken into account during the implementation of government services. The literature highlights the following categories of stakeholders involved in governance: citizens, businesses and government, along with other institutions.

The involvement of the citizens as stakeholders in promoting governance is measured by identifying priority policies and instruments that involve decision-making process.

In general, the main instruments of government policy aimed at: identifying stakeholders interested in using these tools, creating support services through modern communication tools, increasing electronic participation through electronic voting system, promoting efficiency by using smart cards for online payments, improving relations between citizens and territorial agents, supporting the integration of people that are at a disadvantage in terms of the use of government services.

The reorganization of the processes and procedures in public administration such as integration and interoperability are essential in order to develop innovation within government structures, but also extremely important elements to provide superior service in terms of quality for citizens, businesses and other government institutions.

By its uniform appearance, the emergence context of smart cities is, in fact, the development that meets the needs of stakeholders to promote civic engagement, giving citizens the opportunity to interact with government and local communities, providing viable opportunities for development (Pacesila and Coleasca, 2007).

The term of smart city refers to the ability and capacity of administrative leadership to find solutions accordingly to urban policy goals, using specific means of ICT in order to ensure prosperity and supporting local communities. This definition is a combination of the conceptualizations offered by major international competent bodies in the field - the UN, EU, OECD, World Bank, etc.

In terms of implementation, it requires integrated policy and actions between governmental institutions (eg, central administration modernization, citizen participation in community development activities). Both the literature (Graham and Marvin, 1996), and the practice of developed countries raise a subjective concept, namely that of "good governance" at the local level, which would seek to achieve 4 objectives to meet the needs of the stakeholders: advanced electronic services, strategies of reform and modernization of administrative structures, improving local democracy, strong support for local decisions and local public policies.

In general, it is considered that e-Government can be beneficial for government and society as a whole. Staying closer to stakeholders, motivating and providing other benefits to those involved in this process are important challenges in the successful implementation of e-services.

From a user perspective, as a stakeholder, modern public administration should provide four important elements: adequate provision of services to citizens, permanent reform of the central administration, improving local democracy and providing the necessary support to public policies. Thus, in practice there are the following categories of relationships between government representatives and the various categories of stakeholders (Harvey, 1989):

- governance - governance relationship aimed at: improving service quality (best value, lowest cost, most enduring), standardization of internal processes, uniform requirements between levels of government, facilitating information exchange and team initiatives, reducing departmental fragmentation, changing the culture of the civil servants, moving from reactive to the proactive dimension, accessing important information, identifying internal inconsistencies, administrative efficiency - reducing transaction costs, consideration in all undertaken actions the relation cost - effective benefits, improving quality and reducing time decision-making and improving the transparency of governance, promoting leadership - support for the knowledge economy and innovation, contribution to the reform objectives and the policy outcomes, improved controls regarding fraud and abuse within the public system , quality assurance.
- government - citizens relationship concerning: the possibility of easy and rapid access to information and public services for local people, improving the quality of customer service, the provision of services directly to citizens, and to a lesser extent through agencies or other categories of officials, ensuring a climate of trust and understanding between the government and citizens, citizens' participation in decision-making and governance, promoting stakeholder involvement and participation in local democracy and urban development.
- governance - business relationship aimed at: reducing the difficulties businesses facing by facilitating access to information, eliminating the need to present the same data multiple times to numerous agencies, consistency in the requirements regarding data to be reported, by creating effective ways to ensure interaction between government and business, initiating legislative reforms, development of flexible and competitive urban economy on the regional, national and global level, IT and flexibility training of citizens to adapt to the demands of a competitive economy.
- governance - community relationship involving: establishing rules for functional urban integration strategy in order to achieve community goals (establishing the necessary framework for collective action and stakeholder guiding mechanisms toward the desired targets), piloting urban governance (creating conditions for the development of urban partnerships) promoting good governance (transparency growth, building a climate of trust, promoting a sense of responsibility to prevent corruption, promote collaboration and cooperation), providing the necessary support

for the initiation and implementation of public policies (by engaging citizens in policy and through the transparency of the process).

The achieved results have the effect of increasing public value, in order to create strong and prosperous urban communities. If we consider the key objectives pursued by smart cities - development, security, interoperable and reconfigurable electronic government - we can say that these cities provide an interoperable platform that provides the link between government, citizens and businesses to improve services, assuring good governance and democracy in local communities. It's here, in fact, the role of local innovation through ICT use in urban areas, which allows to obtain results as expected and the building of trust between the government and society as a whole.

4. Conclusions

Following those presented in this work, we conclude that the integration of the concept of stakeholders in the public system and the development of e-government platforms - seen as a way to put it in practice - generate significant long-term benefits, such as: improving relationship between public system and citizens, reducing corruption, increasing transparency, increasing revenue, reducing costs and increasing opportunities for young people, etc.

The emergence of smart cities will facilitate the dissemination of information, improving communication and transactions between a wide range of urban stakeholders. It entails a series of interactions and consultations between government, business and citizens.

Analog electronic commerce which allows businesses to legalize efficient transactions and bring customers closer to their work and the use e-Government services can cause the interaction between government and society to become friendlier, more transparent and more profitable. On the other hand, in a democratic framework - which for many is the growing participation of citizens in larger decisions - the Internet, mobile communications and other modern technological means appear to be crucially linked to smart cities, those cities that develop strategies to promote e-government services.

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RELATIONSHIP MARKETING STRATEGIES IN THE KNOWLEDGE SOCIETY

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Abstract: *The paper work presents the importance of relationship marketing within the process of forming and developing the customer segments that are focused on the brand. Although mass marketing during the main stage of promotion will always serve for brand awareness, the relationship marketing is the one to establish and increase the loyalty after a purchase. By this means, one may reduce costs and increase incomes, Relationship marketing generating intangible benefits.*

The philosophy of the relationship marketing must be converted into tangible relationships. These connections must become a part of the business and marketing plan of any company. Relationship marketing orientation to organizations brought to the fore three concepts whose importance has grown significantly in the last decade: attracting, retaining and regaining lost customers. Options managers and marketing professionals may turn to offensive strategies for attracting new customers, or the defensive strategy of maintaining existing customers. Implementation of effective marketing strategies requires a substantial effort to measure the value of each customer. Relationship marketing takes into consideration the needs and the expectations of the customers. Relationship marketing is applied both for intermediate consumer and also for the final consumer and it is based on changing view the client satisfaction, becomes a priority and conditions the existence of the producer and seller with a bog accent on quality and better servings. Truly the relationship marketing refers to the process of knowing the real needs of the clients: economical, emotional and moral and also to satisfy efficiently these needs. Relationship marketing strategy depends on the number of clients the company has and the efficiency level of serving them. The company that properly implements the relationship marketing is a company that succeeds in attracting and maintaining the profitable clients. Relationship marketing is the key that really succeeds in real promotion towards sails to customers, to make them buy again and make recommendation for other clients. Relationship marketing establishes mutual advantageous relations between manufacturers and distributors, making an optimization of the company financial performances.

Key-words: *relationship marketing, brand-customer relationship, member-get-member programe*

JEL classification: *M 31*

1. Introduction

Attracting new customers still represents the target of all business operators. On the long run, they are the ones who make companies profitable. However, they have realized that it is not enough to sell a product or a service. Brand loyalty and brand value must be revisited. This particular change in the companies' vision was determined by the principle that keeping old customers is cheaper than attracting new ones. A satisfied customer will keep on buying new products if he/she is pleased after the first purchase. Therefore, the companies' main objective regarding the creation of new strategies shall be getting familiar with the segments that show interest towards the brand and formulating relevant, personalized messages for them. Although mass marketing during the main stage of promotion will always serve for brand awareness, the relationship marketing is the one to establish and increase the loyalty after a purchase. By this means, one may reduce costs and increase incomes.⁴ David Packard stated that marketing is too important to be left in the hands of the marketing department; the above-mentioned marketing method supports his opinion⁵.

Sale policies define the rules for general work, helping employees to act in certain existing situations without wasting time making decisions in certain situations.⁶

Relationship marketing generates intangible benefits. The importance given to customer services encourages establishing a contact with the customers and their involvement. Companies learn a great deal about customers and the acquired information may be used in the future for a better approach of marketing strategies.⁷

2. The Stages of the Brand-Customer Relationship

According to Gumesson, in order to establish a close relationship with the customer, one must win his/her loyalty towards the brand. This kind of loyalty may be accomplished over the following stages:

2.1. Awareness

It refers to the customer's awareness of the brand. The aim is to create a positive perception, a feeling of trust in the brand's quality, in order to facilitate future communication. This is the stage when the first interaction takes place. In order to make an acquisition, the company must first make an investment in the relationship. A personalized communication, detailed information about the brand and product are essential. It is important to emphasize the price-product connection. According to marketers, this element shall enhance the brand – customer relationship.

2.2. Consideration

⁴ Fournier Susan, et.al: *Preventing the Premature Death of Relationship Marketing*, Harvard Business Review on Customer Relationship Management, 2004, pg. 134

⁵ Payne Adrian, *Handbook of CRM: Achieving Excellence in Customer Management*, Butterworth-Heinemann is an imprint of Else vier, 2005, pg. 10

⁶ Garbo V.I. , *Asigurările si managementul lor*, Cluj-Napoca: Publishing Risoprint, 2012, pg. 247

⁷ Payne Adrian, *Handbook of CRM: Achieving Excellence in Customer Management*, Butterworth-Heinemann is an imprint of Else vier, 2005, pg 10-15.

It is natural for some people to lose interest for different reasons that are both independent and dependent from marketers. Inappropriate information, price, distribution or the quality of the product may not meet the customers' needs. Nevertheless, there will be interested people and it is important that they become committed through a personalized approach. They need an individual response from the company.

2.3. Conversion

Throughout this stage, the potential customer base shall suffer a dramatic fall. Only the really interested in the exchange of values shall remain. The marketers' message must be characterized, in order to be relevant and profound for the individual. Relationship marketing makes use of the PRM marketing (prospecting relationship marketing) in the development of the first three stages and consolidation of a structured and systematic process of acquiring new customers.

2.4. Post Sale

The final stage, after a purchase has been made, is reflected in a close and mature relationship. Hard work is necessary for maintaining a satisfied customer; however, earnings will be higher, because attracting new customers also triggers more expenses.

The objective of a loyalty program is to prolong the relationship established between the company and the customers for as long as possible. This is why it is necessary to make a hierarchy of customers, according to their importance and the proper marketing action. The marketing efforts should be focused on those customers that bring the highest value to the company.

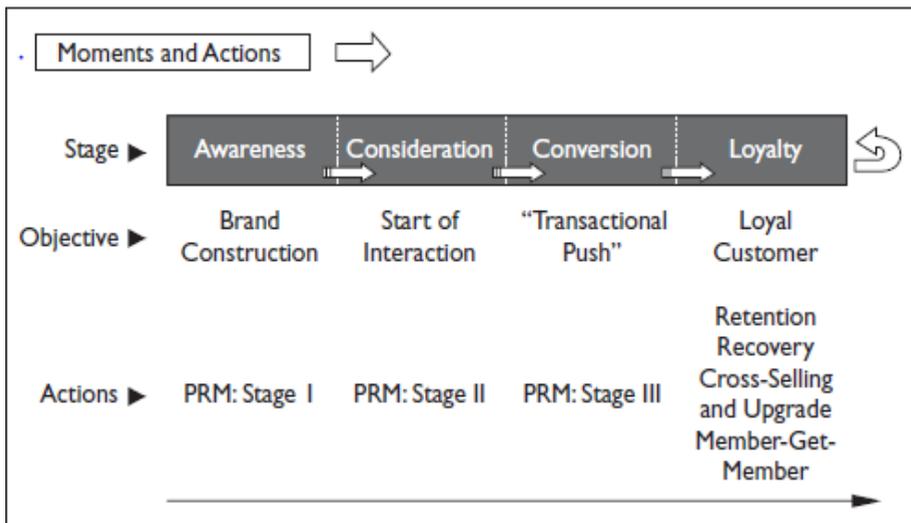
There are certain loyalty programs that focus on individuals that will probably leave the brand. In these particular cases, their priority is to find out what element influences the customer's choice and to further develop specific strategies for reversing this trend and communicating it to the group. The reasons can be very diverse. The important thing is to identify these persons and to take positive actions in order to prevent their choice to leave. There are certain programs that aim at bringing back the individuals that have already left the brand. Based on the available statistical data, one can identify the reason that stands behind such a choice and can consequently create a new strategy.

The post sale stage offers many opportunities. The satisfied costumers will start having faith in both the company and the other products that haven't been tried yet. Using a set of techniques, relationship marketing employs cross-selling and updating programs and develops a consumption map for the customer base, which is useful for predicting the future consumption habits. Similarly, with a satisfied customer won by means of the "member-get-member" marketing technique, a specific program pertaining to relationship marketing, new customers will be attracted. The identified reference group will serve as inexpensive publicity. According to Gladwell, these individuals hold a certain amount of influence because they know things that others don't. The company offers incentives to motivate these people to spread information.⁸

⁸ Malcolm Gladwell, *The Tipping Point-How Little Things Can Make a Big Difference*, Boston: Little, Brown, 2004 pg. 251

The difference between the PRM program and the “member-get-member” technique resides in the fact that the awareness stage is applied to people who already have a connection with the above-mentioned customers. The jump to the final stage may be accomplished sooner and more effectively. The purpose of the relationship marketing consists of uplifting the customer to the highest stage of the relationship.

Figure 1: The stages of brand relationship (Source: A. de Azevedo and R.



Pomeranz: *Customer Obsession: How to Acquire, Retain, and Grow Customers in the New Age of Relationship Marketing*, USA, 2008, p.30)

3. Prospecting Relationship Marketing – PRM

The market encompasses several niche segments. Marketing involves expenses. In order to have the most effective outcome, marketers must be sure that the sent messages are fit for the envisaged segment. This strategy is based on demographical and behavioral data. The relevant attributes are studied with the help of descriptive analyses so that marketers can develop direct methods of communication based on multiple factors. Once a list of perspectives has been created, the company can implement a range of brand communications, through different channels, for the potential customers. A variety of channels will ensure that the individuals will benefit from the most convenient, available method to build up a relationship.

PRM focuses on the differential processes specific for each of the first three stages: awareness, consideration and conversion. During the first stage, the company’s efforts are dedicated to brand awareness and response promotion. Direct emailing, telemarketing, emails that include direct links to the company’s web page and other techniques of direct marketing direct can prove to be very useful. The objective of the relationship marketing during this first stage is to direct the customer towards different contact points.

During the following stage, information must be much more direct. People want much more information. The websites are quite appropriate for this stage. The multimedia channels are interactive and can show the opinions of the satisfied customers and details regarding products and services. Phone services, the company's sale points and the sales persons represent other useful channels that can provide a personalized approach of the customer.

During the third stage, the relationship must become even more personalized and the information even more customer-focused. By personalizing the websites, the user is allowed to receive the pages he/she is interested in, without having to surf the Internet for them once again. The call center employees will recognize the caller, by using the call history, and will easily get to the more relevant issues. This should also be happening at the sales points or whenever the customer is in a direct contact with the sales persons.

It is important to observe the customers and note their behavior in a database, during each stage. These pieces of information will be used for developing more refined future strategies.

With PRM, the detailed communication planning must be implemented first, by specifying the actions that need to be carried out, the chosen channels and the favorable moment. People transmit our thoughts and feelings through – verbal and nonverbal through body language, tone of voice, facial expressions, gestures and action.⁹ The results need to be monitored and analyzed; any kind of difference will result in the modification of the plan.

4. The “Member-Get-Member” Program (mouth-to-mouth)

This program employs the existing connections among people as channels for directing the message.

The process is divided into five stages:

1. Identifying the individuals from the customer base who are able to influence others. They will be responsible for initiating the awareness process. Most companies do not own information regarding the people included in their database or their ability to influence others. The existing customers are important not only for the prior purchases but also due to their connections.
2. Identifying the mechanisms that encourage customers to use their influence within their network of acquaintances. In general, there are two reasons that can indicate an existing contact. The first is the close relationship with the company. Customers who are impressed with the promotional offers can rapidly inform their acquaintances. The second refers to the financial benefits. With each new customer attracted by the process, the influencer will receive tangible advantages, such as a price reduction on a new purchased product or a gift. Naturally, the higher the reward, the bigger the participant's effort.
3. Identifying the mechanisms that help the group to reach other segments, which, on their turn, will influence other people, in an endless cycle. The strength of the program resides in the fact that the process does not stop

⁹ Pipaș, Maria Daniela and Jaradat, M., *Managerial communication and leadership styles*, review Quality – access to success, 2012, pg. 649-656

at the first level of customers from the company's database. This level is constantly extended, based on the fact that references may influence contact groups.

4. Creating the communication network by means of an appropriate message, developing the instruments that facilitate the indication of new individuals. The personal communication regarding the reward and the program can be accomplished by direct emailing, marketing emails or telemarketing. For example, an email that encourages the reader to indicate the email address of other possibly interested persons or, on a website, a price reduction that can be offered for providing the email address of other persons.
5. Analyzing the result and refining future actions. It is essential to stock the information regarding the program in a data base:
 - Which persons submitted the highest number of notifications?
 - Which notifications generated new customers?
 - Which is the average response time?
 - What level did the program attained?
 - Which is the relationship tree among participants?

All the gathered information must be analyzed and, according to the results, the customer base must be upgraded and completed with behavioral information, highlighting the best influencers, their group of acquaintances and their way of responding to offers. For example, Amazon.com has many affiliate programs for people who are interested to earn a certain percent from sales. With virtual distribution channels multiple commercial transactions are conducted online, their volume increases from year to year.¹⁰ These people include addresses of the virtual store on their web sites. When visitors make a purchase from Amazon.com the credit will be automatically available.

5. Loyalty

The objective of the loyalty programs is to keep customers satisfied, by preventing them to consider the alternative of the competitor. People must be convinced to stay loyal, by using relationships that shall never be established with other companies. Rewarding campaigns for multiple purchases, personalization, convenience, brand perception, creating communities and cross-selling, all represent variables which can be explored by the relationship marketing in order to guarantee that the company will have a closer relationship with its customer base.

6. Personalization

Customers have various interests, values and buying habits and, therefore, must be treated differently. Technology can be used for improving the personalization process through databases.

¹⁰ Sirbu Janetta, *Flexibilitatea-sansa pentru intreprinderea moderna*, Cluj-Napoca: Publishing Dacia, 2004, pg. 192

7. Convenience

Internet can facilitate interaction. Live Chat enhances answering questions. The combination of sales with multimedia posts at the sale points will make the buying experience easier and more convenient.

8. Brand Perception

Positive brand perception is closely connected to the customer's satisfaction. The relationship marketing is based on the principle that the positive brand perception can be accomplished through systematic communication with the customer base, which, on its turn, influences the final result. Such consolidation actions can include birthday cards, holiday cards, and newsletters on the new available products, invitations to various events, training sessions and workshops.

9. Creating Communities

These communities are created by companies, in order to consolidate the relationship among different segments, such as forums, online events, chats with professionals or drawing up email lists that can be shared among members. The interaction among the involved parties enables the company to abandon any type of doubt regarding the offered products or services. Once the customer is seriously involved, the flow of ideas can be accelerated, as in the case of P&G, which came up with a solution that allows customers to give opinions or ideas for new products.

10. Cross-Selling and Upgrades

Cross-selling is the process of selling products or services from different categories that are nevertheless linked to the prior sale.

Upgrading is the sale of the new version of an already purchased product. The satisfied customers with a purchased brand after a new acquisition will always think first of that particular company. Therefore, one may use direct marketing instruments, email marketing, direct emailing or telemarketing in order to provide the most relevant solutions in the proper moment. The loyalty indicators improve when the customer spends more money on a product range from the same brand. According to Newell, banks keep those persons with whom they developed multiple relationships, three or four times longer than with those with whom they established a single relationship¹¹. Cross-selling and upgrading increase earnings, sales and the loyal customer base.

11. Retention and Recovery

The main purpose of these programs is the systematic identification of the reasons of dissatisfaction, in order to prevent the customers' movement towards the competition or to ensure their recovery. The maximization of the life duration of customers is the main objective of the relationship marketing.¹²

Fournie developed a CRM model, starting from the customer's perspective and the social and marital relationships. She presented six factors that define the relationship that customers can have with the brand: intimacy, commitment,

¹¹ Newell Frederick, *Loyalty.com—Customer Relationship Management in the New Era of Internet Marketing*, New York: McGraw-Hill, 2006, pg. 79

¹² Abaete de Azevedo, Ricardo Pomeranz, *Customer Obsession, How to Acquire, Retain and Grow Customers in the New Age of Relationship Marketing*, USA, 2008 pg. 21-52.

partnership, attachment, interdependence and love. She states that strategists should reform their opinions on relationships, moving from an income generating and cost reducing vision to finding a way of making customers give a meaning to the brand.¹³

12. Conclusions:

Nowadays it is important for the companies to analyze the customers' behavior and attitude in order to choose the best direct marketing technique for their attraction. The obtained information must be registered into a database called *Consumer Information Center* (CIC). This information will provide a more precise identification of the user categories, based on their buying tendencies and will help develop a more personalized communication. During the following stage, each communicating action must be evaluated against the marketing results. (ROI) This will allow the adjustment of actions and the maximization of investments throughout the customer's life cycle. This process is called relationship marketing.

The philosophy of the relationship marketing must be converted into tangible relationships. These connections must become a part of the business and marketing plan of any company. These relationships can be divided into four categories: classical marketing relationships, nano relationships, special market relationships, and mega relationships. Each of the above-mentioned includes several concrete relationships, which form together the 30R of the relationship marketing. According to Gumesson, in order to establish a close relationship with the customer, one must obtain his/her loyalty towards the brand. This loyalty may be won over four stages: awareness, consideration, conversion and post sale. The objective of a loyalty program is to prolong the relationship between the company and the customers for as long as possible. The objective of the relationship marketing is to uplift the customer to the highest stage of the relationship. For this purpose, marketers use several different strategies, among which the most common are the PRM and the "member-get-member" techniques.

The importance of value in business increased after the emergence of the idea that the success of the customer relationship management (CRM) is based rather on the exchange of values between the company and its customers than on the exchange of money, goods and services. The core values of the relationship marketing are the following:

- *Marketing should be extended towards an oriented management of the company*
- *Long-term collaboration and "win-win"*
- *All involved parties should be active and assume responsibilities*

¹³ Sorce Patricia, Ph.D., *Relationship Marketing Strategy*, A Research Monograph of the Printing Industry Center at RIT, September 2002, No. PICRM-2002-04, pg. 13.

- *Relational and service-related values instead of bureaucratic and juridical values*

Managers and researchers agree that values play a key role in the creation and support of the vital relationship with customers.

After having read several books, reviews and opinions on the relationship marketing, one may wonder what is the future of both the direct and the relationship marketing. Marketers are convinced that the direct marketing will further develop over the next years, but what is going to happen with the relationship marketing? After having considered both positive and negative opinions on this matter, we strongly believe that the future of the direct marketing is, in fact, the relationship marketing.

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STRATEGIC LANDMARKS IN OBESITY PREVENTION IN ROMANIAN CHILDREN AND ADOLESCENTS

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Abstract: *Given that in Romania obesity has also become a recognized public health problem and still there is not a public health policy on the broader “socio-ecological” model, we thought it useful to carry out three surveys using the Delphi method with the purpose of identifying and building a hierarchy for the optimum national intervention strategies to prevent obesity in Romanian children and adolescents. Of the 300 experts invited to join the Delphi surveys, 76 completed the two rounds of questions (25.33% response). The final number of surveys participants included: 26 school doctors (Delphi I); 25 interdisciplinary experts (DELPHI II); 25 parents (DELPHI III). The outcomes of our study were compared with those of the European project PorGrow. Responses were classified by the principle of ranks, using the average weighted ranks given of each participant in the survey for each question. For analyzing the degree of concordance between the three views expressed, Kendall's nonparametric test of rank correlation coefficient was calculated. This study shows a consensual opinion regarding the necessity of applying not just a few separate measures, but a whole package of well coordinated, well integrated measures, that are able to complete one another and to adapt to the Romanian social-economic and cultural environment in order to reverse the progressive tendency of the obesity epidemic on children and teenagers.*

Key words: *obesity, prevention, public health policy*

JEL Classification Codes: *H51, H83, I15, I18, I30, I38, J18, M54*

INTRODUCTION

“Obesity is one of the greatest public health challenges of the 21st century¹”. Its prevalence has tripled in many European countries since the 1980s (especially in Eastern Europe, including Romania¹¹) and the number of those affected is continuing to increase at an alarming rate, particularly among children and adolescents¹². In this situation, it has been emphasized the need for a multilevel, multisectorial approach to population-based obesity prevention, and it is recognized that children and adolescents are the priority population for intervention strategies⁸. Hence, a new paradigm was used to conceptualize the problem, and a broader “socio-ecological” model was developed, in order to conceive culturally appropriate and sensitive intervention strategies^{13, 14}. This model considers the complex interplay between individual, relationship, community, and societal factors. In this context, the success in countering the epidemic of obesity requires not only the

deepening of the subject from the scientific point of view, but also intelligent implementation in carrying out public health policies in the field. Public health obesity policies have to deal with three fundamental issues (L. King et Al 2007):

- the complexity of causal determinants which imply that a broad range of potential interventions will be required;
- the lack of a well-developed body of evidence on the effectiveness of interventions;
- the fact that many of the necessary responses are outside the direct ambit or control of the health sector.

Given that in Romania too, obesity has become a recognized public health problem and still there is not a public health policy on the model mentioned above⁹, we thought it useful to carry out three Delphi surveys, in order to identify and to prioritize the optimal national strategies for the prevention of obesity in the Romanian children and adolescents. The initial material on which the Delphi surveys were started has been the material resulted by finalizing the European PorGrow project. In 2006 the project "PorGrow on policy options for preventing obesity (Lobstein and Millstone) analyzed these options at national level through its 21 experts panel from 9 countries: England, France, Cyprus, Greece, Hungary, Italy, Poland, Spain, Finland¹⁵. The final report contains lists of the prioritized combinations of obesity prevention strategies, for each participating country and the final synthetic list.

OBJECTIVE

During the years 2007-2008, at the Institute of Public Health in Bucharest and at the Romanian Academy's Institute of Anthropology, we have conducted three surveys using the Delphi method with the purpose of identifying and building a hierarchy for the optimum national intervention strategies to prevent obesity in Romanian children and adolescents and compare them with those resulted from the European project PorGrow.

MATERIAL AND METHODS

The Delphi Surveys:

We used the Delphi method¹⁰ in order to identify and prioritize the optimal strategies of intervention for the prevention of child and adolescent obesity. We contacted 100 people for each Delphi survey. Of the 300 experts invited to join the Delphi surveys, 76 completed the two rounds of questions (25.33% response). The final number of surveys participants included: 26 school doctors (Delphi I); 25 interdisciplinary experts: specialists in public health, diabetes, endocrinology, nutrition, management, epidemiology, family doctor, anthropology, dental medicine (DELPHI II); 25 parents (DELPHI III). A statistical analysis of concordance between the three proposed classifications was realized.

The statistical analysis of concordance between the three proposed classifications:

Responses were classified by the principle of ranks, using the average weighted ranks given of each participant in the survey for each question (Table 1). For analyzing the degree of concordance between the three views expressed,

Kendall's nonparametric test of rank correlation coefficient was calculated, defined by the following formula (for the common rank):

$$W = \frac{\sum \left(n_{i.} - \frac{n..}{k} \right)^2}{\frac{1}{12} [p^2 k (k^2 - 1)] - \left[p \sum \frac{(t^3 - t)}{12} \right]},$$

where t represents the number of common ranks in each column of matrix ranks.

The concordance coefficient value $W = 0.638$ for $p = 3$ and $k = 16$ confirms a statistically significant correlation of opinions. To test the statistical significance of W , we used the Chi-square test. Applying the test (for edf = 15), was obtained the statistic $\chi^2_c = 36.85$, being significant for $p = 0.05$.

Valoarea coeficientului de concordanță $W = 0,638$ pentru $p = 3$ și $k = 16$ confirmă o concordanță semnificativă statistic a opiniilor. Pentru testarea semnificației statistice a coeficientului de concordanță s-a aplicat testul χ^2 . Valoarea obținută, $\chi^2_c = 36,85$ pentru edf = 15 confirmă semnificația statistică pentru $p = 0,05$.

Table 1: Rankings granted by members of the three different perspectives (DELPHI I, DELPHI II, DELPHI III) and the general pattern shown for all participants combined (the average ranking) showing the final concordant opinions:

No	Preventive Strategies Proposed	DELPHI	DELPHI II	DELPHI III	Concordant Opinions
1	Control sales of foods in schools	5.5	6	2.5	4.6
2	Healthier menus in schools	2.5	9.5	2.5	4.8
3	Increase the physical activity in schools	1	7.5	5	4.5
4	Guide to improve practice of school doctors	5.5	2	11	6.1
5	Council for promoting a healthy lifestyle in schools	4	13	4	7.0
6	Improve communal sports facilities	8.5	4	9	7.1
7	Health risk behavioral monitoring system in schools	2.5	4	7	4.5
8	Increase the physical activity preschools	8.5	4	16	9.5
9	Controls on food and drink advertising	7	12	12	10.3
10	Control the use of marketing terms ('diet', 'light' etc)	13.5	1	1	5.2
11	Change urban planning and transport policies	11.5	9.5	14	11.7
12	Guide to improve practice of GPs	10	7.5	9	8.8
13	Require mandatory nutrition labeling	11.5	11	6	9.5
14	Stimulation of ecological foods producers	15	16	9	13.3
15	Less salt in foods	13.5	15	13	13.8
16	Provide subsidies on healthy foods	16	14	15	15.0

RESULTS AND DISCUSSION

The results showed some similarities, but quite a few striking differences as well.

Table 2: Comparison of rankings given by members of the three different perspectives (DELPHI I, DELPHI II, DELPHI III) in the descending order the average ranking that gives as the final consensual opinions:

No	Preventive Strategies Proposed	Average Rank	School Doctors	Interdisciplinary Experts	Parents
16	Provide subsidies on healthy foods	15	16	14	15
15	Less salt in the composition of foods	13.8	13.5	15	13
14	Stimulation of ecological foods producers	13.3	15	16	9
11	Change urban planning and transport policies	11.7	11.5	9.5	14
9	Controls on food and drink advertising	10.3	7	12	12
8	Increase the physical activity in preschools	9.5	8.5	4	16
13	Mandatory nutritional information labeling	9.5	11.5	11	6
12	Guide to improve practice of GPs	8.8	10	7.5	9
6	Improve communal sports facilities	7.2	8.5	4	9
5	Council for promoting a healthy lifestyle in schools	7	4	13	4
4	Guide to improve practice of school doctors	6.2	5.5	2	11
10	Control the use of marketing terms ('diet', 'light' etc)	5.2	13.5	1	1
2	Assuring healthy catering menus in schools	4.8	2.5	9.5	2.5
1	Controlling sales of foods in schools	4.7	5.5	6	2.5
3	Increase the physical activity in schools	4.5	1	7.5	5
7	Health risk behavioral monitoring system in schools	4.5	2.5	4	7

The code for the classification order is as follows:

I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	XIV	XV
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For a country with agricultural potential in which the purchasing power of the population greatly decreased, it is not surprising that the first ranked option between consensual views was to provide subsidies to lower the prices of healthy foods, making them more affordable or to stimulate the ecological food production. Between the consensual options which were granted with the highest scores were also changing urban plans in order to provide more green spaces, playgrounds for children, the changes in town planning and transport policies which could limit the use of motorized transport and provide improved facilities for playing, walking and cycling, having regulations for setting national health-focused composition

standards for processed foods by stipulating the maximum limits on the amounts of added salt in foods, or more physical activity since preschools. Among the worst ranked choices was the one referring to "passing of a legislation that bans the sale of sweets and soft drinks in schools", which during the realization of these Delphi surveys has already been put into practice. Quite low in the rankings are also options concerning the action of "increasing the number of hours of physical education in schools", and surprisingly, "creating a system to monitor the behavioral risk factors in schools".

The table above also makes it possible to compare the marked differences between the three perspectives. An example is the option number 5 (create councils -by teachers, school doctors, parents, etc. - for promoting a healthy lifestyle in schools), number 2 (assuring healthier menus in schools) and number 10 (regulations to restrict the conditions under which terms such as 'diet' and 'light' may be used in the marketing and for labeling of food products), highly ranked in terms of interdisciplinary specialists, but ranked poorly in the other two perspectives.

Table 3: Comparison of average rankings, in the descending order, given by members of the PorGrow project and Romanian Delphi surveys (different options of the two standings are marked in bold):

PorGrow Project Options	Romanian Delphi Surveys Options
More sanitary education in schools	Provide subsidies on healthy foods
Sanitary education for the adult population	Less salt in the composition of foods
Mandatory nutritional information labeling	Stimulation of ecological foods producers
Controls on the composition of processed foods	Change urban planning and transport policies
Controls on food and drink advertising	Controls on food and drink advertising
Change urban planning and transport policies	Increase the physical activity in preschools
Courses on this theme for doctors and nurses	Mandatory nutritional information labeling
Control the use of marketing terms ('diet', 'light' etc)	Guide to improve practice of GPs
Increasing research on obesity	Improve communal sports facilities
Renewal in the agricultural policy	Council for promoting a healthy lifestyle in schools
Controlling sales of foods in public institutions	Guide to improve practice of school doctors
Provide subsidies on healthy foods	Control the use of marketing terms ('diet', 'light' etc.)
Communal sports facilities	Assuring healthy catering menus in schools
Improve communal sports facilities	Controlling sales of foods in schools
Taxes on obesogenic foods	Increase the physical activity in schools

New governmental structure for coordinating policies tackling obesity

Assuring healthy catering menus

Instruments for monitoring physical activity

Medication for weight control

Sugar and fat substitutes

Health risk behavioral monitoring system in schools

The comparative analysis of the final consensual opinions lists (Romanian final list and PorGrow final list) reveals not only the different priority that are given, but also the different existing options between the two classifications. The first ranked options from the PorGrow perspective, regarding the raising of the educational level of the population regardless their age, do not exist in the classification given by the Delphi investigations in Romania. Another option that is not present in the final Romanian list, although being very highly regarded, especially in the Mediterranean countries participating in the PorGrow project, and also in Hungary, is the one that proposes to advance a policy coordinating structure to counter the obesity epidemic. The following options are also not considered a priority: the stimulation of research on obesity, changing the agricultural policy, stimulating the production of physical activity monitoring instruments (e.g. pedometer etc.), stimulating the production of weight control medicine, or sugar and fat substitutes. The new options from the Romanian point of view, given the target population formed of children and adolescents, are: establishing school councils to promote a healthy life style, in which parents and as well as teachers should take part, and the founding of a national risk factor monitoring system through the medical school network.

In order to organize and structure the analysis, the sanitary policy and public health options have been combined into five similar action direction groups (Table 4)

Table 4: Average ranks accorded by groups of similar directions of action (the highest ranked options in each group are marked in bold):

Preventive Strategies Proposed	Average Rank School Doctors	Average Rank Interdisciplinary Experts	Average Rank Parents	Romanian Consensual Opinions
Modifying the supply of, and demand for, foodstuffs				
1. Control sales of foods in schools				
16. Provide subsidies on healthy foods	10.50	12.10	9.27	10.62
2. Healthier menus in schools				
15. Less salt in foods				

Preventive Strategies Proposed	Average Rank School Doctors	Average Rank Interdisciplinary Experts	Average Rank Parents	Romanian Consensual Opinions
14. Stimulation of ecological foods producers				
Exercise and physical activity-oriented initiatives				
11. Change urban planning and transport policies				
8. Increase the physical activity preschools				
3. Increase the physical activity in schools	7.38	6.25	11.88	8.50
6. Improve communal sports facilities				
Educational initiatives				
4. Guide to improve practice of school doctors				
12. Guide to improve practice of GPs	7.75	4.75	10.98	7.83
Information-related initiatives				
13. Require mandatory nutrition labeling				
9. Controls on food and drink advertising	10.67	8.00	7.60	8.76
10. Control the use of marketing terms ('diet', 'light' etc)				
Institutional reforms				
5. Council for promoting a Healthy Lifestyle in Schools				
7. Health Risk Behavioral Monitoring System in Schools	3.25	8.50	7.38	6.38

Regarding the consensual opinions, the best ranked in Romania were the ones regarding supply and demand change, among which the favorite option targeted the insurance of subsidies for healthy foods. The second ranked option among the consensual opinions in Romania (but also in the PorGrow project), are the initiatives that increase the level of informing and as a consequence the ability to make healthier choices. Among these, the preferred option in Romania is commercial control regarding foods and drinks. In the PorGrow project labeling foods and commercial control regarding foods and drinks came out ahead. Remarkable is the fact that among the participant countries at the PorGrow project, the new entrants in the European Union were less confident regarding the possibility of controlling this market segment. On third place in the same ranking, with really close scores, are the options regarding physical activity, especially through the change of urban plans and public transport policy in order to discourage motorized transport and stimulate walking, or cycling etc. The last placed in Romania are the options regarding medical practice improvement guides in preventing and treating obesity, especially for GP's, and the ones regarding institutional reforms.

The comparative analysis of the differences between the three perspectives on the importance given to each group of solutions with a similar approach shows the fact that:

- Interdisciplinary specialists consider that changing the supply of foods on the market has the largest impact. Next ranked are institutional reforms, and on third placed are the initiatives that will ensure the population to take an informed decision and also the control of commercial and marketing policies.
- Parents give priority to the initiatives that allow a lifestyle change through the creation of a favorable environment and the supply of cheaper, healthier food. The improvement of the school doctor's and GP's practice regarding obesity prevention is another prioritized action direction in parents' view.
- School doctors consider the proposed reforms for the institutions that they work in to be the least important, also regarding available food supply change and the facilitation and development of the population's ability to distinguish the quality of the products as being the most important.

These results should be taken into consideration at the time of organizing the implementation of the accomplishment politics and the mentioned institutional reforms.

CONCLUSIONS

Is Romania ready for a coherent obesity prevention policy? This study shows a consensual opinion regarding the necessity of applying not just a few separate measures, but a whole package of well coordinated, well integrated measures, that are able to complete one another and to adapt to the Romanian social-economic and cultural environment in order to reverse the progressive tendency of the obesity epidemic on children and teenagers. Romania still does not have such a public health policy. As a consequence, we have to notice the lack of the option to create, in Romania, as well as in other countries, a new policy coordination

structure regarding obesity prevention, a body that could set a few coherent, synergic objectives to reduce obesity levels, to monitor, report and evaluate recorded progress as well as the efficiency of political initiatives. This could also prove useful to improve communication and synergy among the implied sectors, having in mind that most obesity determinants are the responsibility sectors other than the healthcare one. Otherwise, the value of the concordance coefficient, $W=0,638$, among the participating categories to this Delphi project is good enough to start to put together a package of priority countermeasures against the obesity epidemic in Romanian children and adolescents; but it is not good enough to ensure a well articulated implementation of these policies. The analysis of the divergent points facilitates in turn the implementation of public health policies. The needed transformation in thinking on transport, environment, work facilities, education, health and food policies and perhaps on social and economic policies is unlikely when governments are wedded to individualism; but without these changes to enhance physical activity and alter food quality societies are doomed to escalating obesity rates.

Research stimulation in the obesity prevention and treatment in children and adolescents domain has not been mentioned among the priority solutions. A sustained effort is desirable towards the awareness of the efficiency resulted from the connection between research in the field not only with the medical practice, but also with the managerial one. Such studies could be accomplished dynamically and could lead to additional information regarding obesity prevention from an individual perspective (the motivations for behavioral change, especially in children and adolescents), and eventually regarding the relative efficiency of the proposed solutions.

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AGRICULTURE IN MARAMUREȘ COMPARED TO THE REST OF THE NORTH-WEST REGION

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Abstract: *This paper presents aspects of agriculture in Maramureș, compared with the situation recorded in the region to which it belongs, the North - West, at the end of 2010. Thus the work is addressed to all those interested in these issues. Maramureș County is part of the North – West Region, along with Bihor, Bistrița-Năsăud, Cluj, Satu Mare and Sălaj. The paper is based on statistical information provided by the National Institute of Statistics, Cluj Regional Department of Statistics. In March 2013, the latest data available are those that refer to the end of 2009. Thus, based on this information, it pinpoints the area cultivated with the main crops, the land by use, agricultural production of goods and services, the average yield per hectare for main crops, total fruit production, number of animals, farm vehicles. After 1989, Maramureș County, as well as the entire North - West region, underwent major changes. Population decreased from year to year, however the lack of jobs has become a constant reality. The mining of ore, the processing of metals other than iron and the auto industry, which used to cover most of the jobs in Maramureș, entered into a continuous decline, which culminated in the closure of all mines in the county. In this situation, adapting to the new conditions, the current economic reality, is a daily problem for the people of this county. Maramureș is known for its wooden churches, its rural architecture, its old traditions - preserved until today - its craftsmen and its impressive landscapes. Much of the county remained non-industrialized in the communist period, so that traditional agriculture is at home in this part of the world. In Maramureș, agriculture is not an option. It is the result of the lack of jobs in other areas, which lead to the return of the population to rural areas. It is a way of making a living.*

Keywords: *Maramureș, NW Region, agriculture, cultivated area.*

JEL Q15, R10.

1. Introduction

Talking about agriculture in Maramureș seems illogical, given that according to data from the National Institute of Statistics, from a total of 86.3 thousand employees in the county in 2010, only 1.3 thousand are employed in this field (Cluj Regional Department of Statistics, 2013), i.e. 1.55%. In this county, the mountain area represents 43%, plateaus 30%, and the remaining 27% is covered by plains. Even if the relief is mostly mountainous, agriculture is present in Maramureș, being adapted to the existing landscape.

But in terms of the percentage of employees in the population, the county recorded a value of 16.90%, well below the regional average of 21.12%. The explanation for

this could be related to subsistence agriculture, unregistered workers, working abroad and smuggling (alcohol, tobacco, wood).

In addition, the difference between employment and employees is 101.1 thousand people. We assume they work either in subsistence agriculture or on their own.

Under these circumstances, we conclude that most inhabitants of the county of the occupied population are engaged in agriculture.

Thus, we need to address the issue of agriculture in Maramureş County. Moreover, agriculture is an important sector of the economy and the fact that so many county residents are involved in this area represents a rather positive thing.

2. Agriculture in Maramureş, compared to the rest of North-West Region

The total area of Maramureş County is 630436 ha. Out of it, the agricultural area is 309325 ha (Cluj Regional Department of Statistics, 2013), as can be seen in Table 1.

Table 1: Agricultural area for the counties of the North – West Region in 2009

Indicator	NW Region	BH	BN	CJ	MM	SM	SJ
Agricultural area - ha	2079369	491124	295221	427273	309325	317032	239394
Percentage of agricultural area in the total area - %	60.87	65.10	55.13	64.02	49.07	71.76	61.95

Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [\[Online\]](#), Available: <http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do> [March 30, 2013]

In Maramureş County, the agricultural area is only 49.07%, well below the regional average of 60.87%, the county being in last place in this regard. Justification is given from the fact that Maramureş has the largest forested area in comparison with other counties in the region, about 40%.

Of the 309325 ha of agricultural area in 2009, the largest part is grassland (38.77%), well above the regional average (18.51%), as shown in Table 2.

Table 2: Agricultural area in 2009, on components, in the NW Region in Maramureş

Area	Agricultural area	of which				
		arable	pastures	grasslands	vineyards	orchards
NW Region	2079369	1020880	629234	384829	9160	35266
MM	309325	83784	98765	119930	243	6603

Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [\[Online\]](#), Available: <http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do> [March 30, 2013]

Pastures are 31.93%, while 27.09% is taken by arable land. Livestock production is a common occupation in the area.

Arable land, presented in comparison with the cultivated area, is shown in Figure 1.

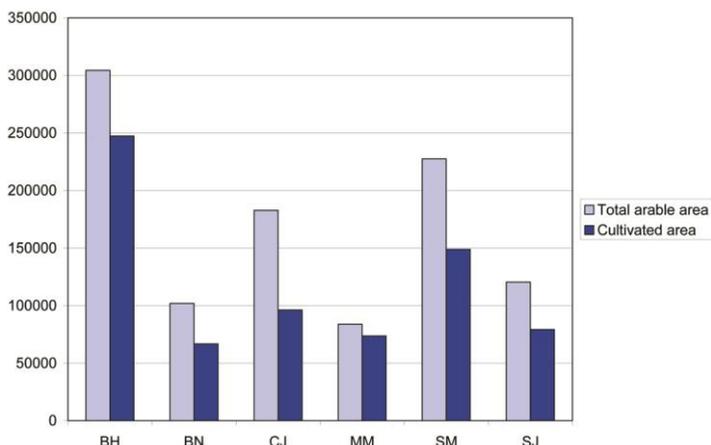


Figure 1: Arable and cultivated area for the counties in the NW Region in 2009

Source: taken after Cluj Regional Department of Statistics (2013), *Regional Statistics*, [\[Online\]](http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do), Available: <http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do> [March 30, 2013]

Maramureş is found to have the highest percentage of arable land use of all counties within the Region. Specifically, the percentage is 87.90%, while the average in the region is much lower, just 65.75%. In second place after Maramureş is Bihor with a percentage of 81.25%, and the last place is taken by Cluj with only 52.68%. The explanation for this phenomenon is related to the economic situation of the region. The lack of jobs in other sectors of the economy and the relatively low net monthly earnings in Maramureş determine the people to return to their villages and practice agriculture as a last resort. Instead, the situation is very different in Cluj. Employment opportunities are more numerous, so that agriculture is no longer a priority for county residents and uncultivated land is a problem. Uncultivated areas increase from year to year and their growth trend is evident in all counties of the Region.

In Maramureş most of the arable land is cultivated with the following crops:

- grain cereal: 41.86%;
- corn: 26.52%;
- potatoes: 20.03%.

In the Region, the largest surfaces are also cultivated with grain cereals and corn, but regional averages are higher than 60.45% and 30.14%.

In terms of the area planted with potatoes, the regional average is 7.52%. Thus Maramureş has the largest area planted with potatoes in the Region, both in absolute numbers and percentage.

In terms of average yields per hectare, Maramureş lies at the bottom of the ranking, with values generally below the regional average. Above regional average values are recorded only in the category of grasslands.

Table 3 presents the agricultural production of goods and services.

Table 3: Agricultural production of goods and services in 2009 in the counties of the North - West Region

Indicator	NW Region	BH	BN	CJ	MM	SM	SJ
Agricultural production of goods and services - current prices - lei	8503453	2075195	1178705	1681413	1451824	1206700	909616
Percentage of agricultural production in the regional total - %	100	24.40	13.86	19.78	17.07	14.19	10.70

Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [\[Online\]. Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do](http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do) [March 30, 2013]

Maramureş County has recorded an agricultural production of 1451824 lei in current prices in 2009, which represents 17.07% of the total agricultural output in the Region. The county ranks 3rd after Bihor with 24.4% and Cluj with 19.78%. Even if it has a larger area of pastures and grasslands (70.70% of total agricultural area), the share of livestock production in total agricultural production is 42.03% in 2009, as can be seen in Table 4.

Table 4: Agricultural production of goods and services, on categories, in 2009
- lei current prices -

Indicator	NW Region	MM
Agricultural production in lei – current prices	8503453	1451824
Of which:		
▪ crops	5022147	840197
▪ animals	3441397	610247
▪ agricultural services	39909	1380

Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [\[Online\]. Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do](http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do) [March 30, 2013]

In terms of percentage, the situation in the county is part of the trend in the NW Region. In all counties of the region, crop production exceeds livestock production in terms of value. Livestock production has recorded the highest percentage of total agricultural production in Bistriţa-Năsăud and Cluj, Maramureş being 3rd. Regarding fruit production, the Cluj Regional Department of Statistics website has only published information for 2008. The largest amount of fruits was obtained in Maramureş, resulting in a quarter of the total fruit production made in the region, as shown in Figure 2.

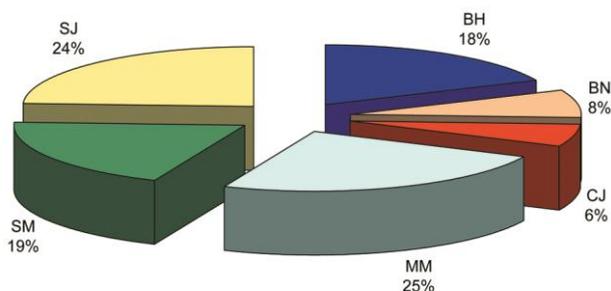


Figure 2: The distribution of fruit production in 2008 for each county of the North-West Region

Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [\[Online, Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do\]](http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do) [March 30, 2013]

This was done while orchards in Maramureş only represent about 2.13% of the total agricultural area, below the average of the NW Region which is 3.45%, according to data for 2009. It should also be noted that Sălaj has achieved about 24% of the fruit production in the Region, with an area of orchards related to agricultural area of only 1.81%.

Even if ranks 3rd in the Region in terms of agricultural production expressed in current prices (lei), Maramureş occupies the last places in terms of agricultural vehicles, according to information provided by the National Institute of Statistics for 2005, as shown in Table 5.

Table 5: Tractor park and main agricultural machinery, at the end of 2005

- units -

Territory	Tractors	Tractor plows	Mechanical seeders	Propelled combines
NW Region	26464	20230	7976	3870
BH	9520	7152	3167	1339
BN	1862	1360	465	222
CJ	5184	3904	1410	731
MM	2495	1934	331	203
SM	4362	3170	1684	969
SJ	3041	2710	919	406

Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [\[Online, Available: http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do\]](http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do) [March 30, 2013]

Maramureş records low values in all categories shown here. Insufficient equipment is one of the explanations for the low yields per hectare. In addition, there are areas where agriculture is practiced traditionally using rudimentary means.

Maramureş has large areas of pastures and grasslands (70.70% of the agricultural area in 2009), so that livestock production should be a more widespread activity in the county. Livestock situation is shown in Table 6.

Table 6: Livestock in late 2005 in the counties of the NW Region

- units -

Territory	Cattle	Swine	Sheep	Goats
NW Region	481008	1073294	1051341	63259
BH	106897	328533	159800	18692
BN	68253	113991	223167	11221
CJ	85303	227660	326071	7341
MM	98475	141692	128016	11675
SM	67484	162917	103354	6734
SJ	54596	98501	110933	7596

Source: Cluj Regional Department of Statistics (2013), *Regional Statistics*, [Online], Available: <http://www.cluj.insse.ro/cmscluj/rw/pages/statReg.ro.do> [March 30, 2013]

Maramureş ranks 2nd in both the number of cattle and goats and 4th in the number of swine and sheep.

If we consider the large areas of pastures and grasslands, livestock in Maramureş is reduced, the breeding potential being insufficiently exploited.

3. Conclusions

Traditional agriculture is gaining more ground today. Thus, the inhabitants of this county could take full advantage of this. However, we must not forget that for the people of Maramureş traditional agriculture is more a way of life and not a business. In Maramureş, agriculture is not an option. It is the result of the lack of jobs in other areas, which lead to the return of the population to rural areas. It is a way of making a living. This explains the fact that arable land is cultivated in such a large proportion (87.90% in 2009) compared to the rest of the counties in the Region. The people of Maramureş are too poor to afford the luxury of not working their lands, even if yields per hectare are lower than the regional average and even if their agriculture vehicles are few and outdated.

Regarding the future, agriculture in Maramureş should be directed mainly towards livestock production - due to the vast areas of pastures and grasslands-, fruit production, the cultivation of potatoes and corn, fields in which the results obtained so far have placed Maramureş in top positions within the Region, fields where there is still an untapped growth potential.

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HUMAN RESOURCE MANAGEMENT - FROM FUNCTION TO STRATEGIC PARTNER

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Abstract: *In most of the organizations, people are now recognized as the vital asset. Their knowledge, skills and abilities must be deployed to the maximum effect if the organization is to become successful. The intangible value of an organization relating to the people it employs and its human resource strategies is gaining recognition and it is generally accepted that this has implications for long-term sustained performance.*

The recent changes in the economy and the development of new technologies are creating the proper set for a series of other changes regarding the human resource management.

The first one refers to the need to respond to the challenges raised by the knowledge workers and the second one refers to the increasing role of human resource management in the strategic moves of the organizations.

Lately, because of the recent mentioned developments, strategic human resource management became a subject of ongoing discussion for academics. Its definition and relationships with other aspects of business planning and strategy vary, but the common agreement is that strategic human resource management is a complex process that is constantly evolving and that there is a need of understanding its usefulness. Having quality professional practices is a must, but this shouldn't be the only focus of the best human resource practitioners. They need to be able to combine their attention to basic administration with also making important strategic inputs that have a positive impact on the organization.

The purpose of this article is to present the current research state in the field of strategic human resource management. In order to achieve this, the factors that underline the importance of human resource management are assessed. The study has been accomplished using the methodology of bibliographic study and qualitative research.

Key words: *human resource management, knowledge society, chief executive officers, partnership*

JEL classification: *M12*

1. Introduction

Nowadays, the Human Resource (HR) function in the corporate world is going through two main changes. The first one relates to the rapid growth of the knowledge economy and the second one with the struggle of being more than just a function and becoming a strategic partner.

These two trends are reshaping the role of HR in the corporate world.

The first changes are generated by the new context of the knowledge society when a committed, appropriately skilled and prudently deployed workforce is critical in order to develop a competitive advantage.

The second change comes as an opportunity since many administrative functions that were formerly handled by HR departments, such as payroll and pensions, have now been outsourced, and specialists, unburdened by some of their former responsibilities, have a chance to transform their role, exploiting their image as experts in people to place themselves at the heart of the debate on a organization's strategic direction.

2. Human Resource Management in the knowledge society

Changing knowledge management practices and global convergence of technology has redefined the nature of work (Horwitz F., 2003). This statement is true when we think about the actual work of any employee and also when referring to the work done by human resource specialists. Knowledge as the main resource of the century poses a large series of changes, from the way the economy and its' forces work, to the need of developing new management systems, to the way in which a worker thinks. The new era could be far more productive than the previous one, but in the same time can lead to certain confusion in respect with the changes that need to take place in order to get to the necessary performance level that guarantees survival and success.

Peter Drucker considers the knowledge-based company as the organizational model of the XXIst century and draws its main characteristics: *composition dominated by professionals, small number of intermediate levels of hierarchical leadership and coordination ensured by means of non-authoritative style (standards, procedures, rules of cooperation and so on)*.

This new type of organization forces specialists to change the traditional personnel management by creating different strategies for the most important resources.

Also, the 2008 global recession and demands for sustainable performance have forced corporate leaders to examine and re-evaluate how they manage and operate. They are utilizing new technologies, changing their organizations' structures, redesigning work, relocating workforces and improving work processes. These changes have significant implications for how their human capital should be managed and how their HR functions should operate (Lawler E., Boudreau J. W., 2012). Now, more than ever, the effectiveness of an organization depends on its ability to address talent management issues such as knowledge management and change management.

Due to the immense importance of knowledge workers as the main resource of the modern society, the organizations must not only be designed to accept the knowledge worker but, more radically, be designed with the worker as the consideration around which the rest of the organization must fit (Paton S., 2013). Also, the processes of the organization must focus on communication and

coordination rather than command and control because direct supervision of knowledge workers is difficult, so implementing an organizational design that relies upon a vertical hierarchy is impractical.

The acknowledgement of the importance of a proper human resource management for knowledge workers is imperative for any organization that aspires progress. A successful management in this sense is a big challenge for organizations, and human resource experts need to channel their abilities in order to attract, motivate and retain the most important resources of the century.

3. Strategic Human Resource Management (SHRM)

The importance of the human resource department in an organization has been noticed ever since the early 1990s, at which time specialists developed a series of definition for strategic human resource management. SHRM was defined as “*the undertaking of all those activities affecting the behaviour of individuals in their efforts to formulate and implement the strategic needs of business*” (Schuler, R.S., 1992) and as “*the pattern of planned human resource deployments and activities intended to enable the organization to achieve its goals*” (Wright, P.M. and McMahnna, G.C., 1992).

More recent, the Chartered Institute of Personnel and Development (CIPD) defines SHRM as an approach to the management of human resources that provides a strategic framework to support long-term business goals and outcomes. The approach is concerned with longer-term people issues and macro-concerns about structure, quality, culture, values, commitment and matching resources to future need (Armstrong M., Baron A., 2002).

Lately, because of the recent mentioned developments, strategic human resource management became a subject of ongoing discussion for academics. Its definition and relationships with other aspects of business planning and strategy wary, but the common agreement is that SHRM is a complex process that is constantly evolving and that there is a need of understanding its usefulness.

HR department always had strategies like *to deliver fair and equitable rewards*, *to improve employee performance* or *to streamline organizational structure*, but these strategies are not testimonies of SHRM. Rather, SHRM is the overall framework that determines the shape and delivery of the individual strategies (Armstrong M., Baron A., 2002). A clear view over the difference between human resource strategy and SHRM is offered by Boxall and Purcell which assert that strategic HRM is concerned with explaining how HRM influences organizational performance. They also argue that strategy is not the same as strategic planning because: *strategic planning* is the formal process that takes place, usually in larger organizations, defining how things will be done, and, by contrast, *strategy* exists in all organizations - even though it may not be written down and articulated - and defines the organization's behavior and how it attempts to cope with its environment.

John Sullivan points out that human resources professionals often think they are being strategic when they are actually being tactical. He states that being strategic means having a business impact on the organization's corporate goals and objectives and that a certain program is strategic only if it meets the following criteria:

- It has a broad impact.

- It focuses on future needs.
- It has the potential to provide a sustainable competitive advantage.
- It has the potential to generate at least 1 percent of revenue or profits.
- It has a direct impact on long-term corporate goals.

The academics from at the Aston Centre for Human Resources in association with CIPD recently concluded that SHRM is about the integration of human resource management strategies into the corporate strategies and more specifically it means linking people with the organization.

In the new context, human resource management is not a concern just for the human resource department, rather it should be a main focus for the top management. The HR people are accountable to management for excellent human resource management processes, tools and coaching that work. They are responsible to energetically influence managers to effectively use the tools that have been designed.

HR Folks International has depicted a contrast between human resource management and the human resource department that explicitly shows areas of responsibility for managers and human resource professionals (figure no.1).

A good business strategy, one that is likely to succeed, is informed by people factors. This is one of the main reasons why human resource management should be strategic. So, if human resource management is a coherent approach to the management of people, SHRM implies that this is done in a planned way that integrates organizational goals with policies and action sequences (Armstrong M., Baron A., 2002).

Table 1: The contrast between human resource management and the human resource department

	Human Resource Management	Human Resource Department
Focus	Implementation of HR tools and practices	Development of HR tools and practices
Owner	Top management	HR department
Outcome	Creation of value through effective management of competencies	Effective HRM practice

Source: HR Folks International

It would be very simplistic to suggest that strategic human resource management just derives from the organization's business strategy. The relationship between the two should be mutually informative (Armstrong M., Baron A., 2002). Business strategy is also shaped by the way in which people are managed, motivated and deployed, and by their availability of sharing their skills and knowledge. In the new context, it should be impossible to find an organization that does not take into account the human resources, since they are the main asset. Individual human resource strategies are also shaped by the business strategy. For example, if the business strategy is about improving customer service this may be translated into discrete human resource strategies involving the use of training plans or

performance improvement plans. In this case, the purpose of the human resource department is one of active partner for the board because only by being part of the design of the strategy, it will be later able to create the perfect tools and to translate the strategy in objectives that can be easily understood and completed by the employees (figure no.2).

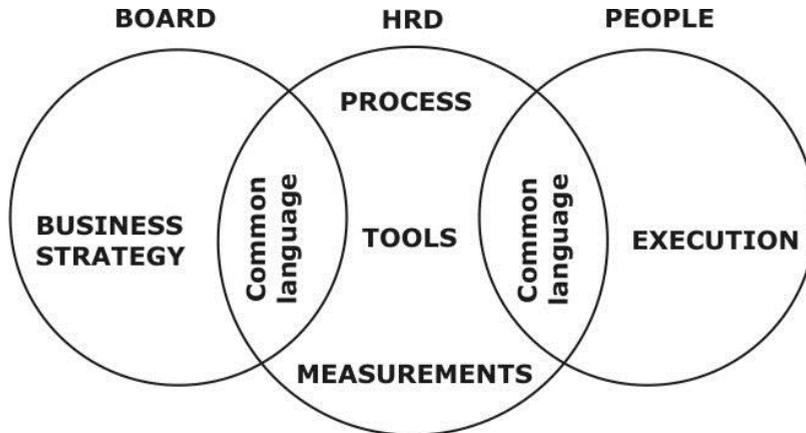


Figure 1: The complex role of the Human Resource Department
Source: own

Human resource strategy must be anchored to the business strategy and for this, HR professionals must understand the strategy and economic realities of the business it supports. HR people must “speak” the language of business and their activities must reflect the priorities of the business.

4. The HR manager –a new seat at the executive table

A global survey conducted in May 2012 on 235 executives by the Economist Intelligence Unit, Oracle and IBM, confirmed that chief executives are very concerned about the potential negative impact of certain human resource issues in the near future. A significant proportion of CEOs polled believe in the ability of their head of human resources to help the company to overcome these challenges.

Although the human resource function is believed to perform well within its own parameters, some doubts remain about its commercial understanding of the wider business. This indicates that heads of HR have not completed their transition from administrator to strategic partner although there is clearly a need for human resource professionals to assist in the vital people dimension of corporate strategy. However, a significantly proportion (70%) of CEOs want the head of HR to be a key player in future corporate strategy, but things have to change since many respondents believe that their heads of HR are overly preoccupied with a narrow HR agenda and 37% say that human resource people don’t “understand the business well enough”.

These findings suggest that top executive expect their HR managers to demonstrate business pragmatism and efficiency. Therefore, it is important for the HR department to deploy both HR specialists as well as managers who possess a business background.

HR professionals could become drivers of organizational effectiveness and business strategy, the key question is whether they will rise to the occasion.

HR professionals can add value by (Lawler E., Boudreau J. W., 2012):

- Providing administrative support services.
- Serving as business partners who help to implement business systems and practices.
- Becoming strategic partners who help corporate leaders develop business strategy.
- Measuring their performance against qualitative, quantitative and financial metrics

The last aspect is of extreme importance, especially when thinking about the need to attract bigger budgets for the human resource management. If HR professionals measure whether their programs are having a strategic impact and produce the desired results, they have more leverage when negotiating. The measurement can be either a detailed HR audit or a snapshot assessment that can be completed in a few days based on readily accessible data, such as financial performance measures, retention measures and recruiting measures (Sullivan J.,). Two of the most well-known methods of measuring performance are benchmarking and the Balanced Scorecard.

Benchmarking is a systematic process of measuring an organization's products, services, and practices against those of an organization that is a recognized as a leader in the studied area.

The Balanced Scorecard represents a set of indicators that assures a unitary presentation of the management vision regarding the performance control and supposes the relational approach on four dimensions: financial perspective, customers' perspective, internal business processes and organizational learning and growth perspective. A very useful improvement of the balanced scorecard is the total performance scorecard. The latter is defined as the systematic process of continuous, gradual, and routine improvement, development and learning, focused on a sustainable increase of personal and organizational performances. This framework tries to mark the common road of an individual's goals and the company's goals, in order to obtain maximum satisfaction for both parts involved. The Total performance Scorecard combines two separate balanced scorecards: the personal one (PBSC) and the organizational one (OBSC). Correlating the two of them is the perfect framework for improving the entire organization, as well as for the development of human potential.

Since these areas are critical determinants of organizational performance, HR leaders are missing a great opportunity to add value if they do not develop much better metrics and analytics. In high-performing HR departments they rely on data-driven practices and the organizations' business strategies. This allows them to make rigorous data-based decisions about human capital management and to engage in discussions with senior executives based on business strategy and data (Armstrong M., Baron A., 2002).

The human resource management is an integral part of how an organization is going to achieve its mission and only by integrating it into the organization's strategic plan one can keep people aligned with the objectives of the organization.

Human resources management alignment means to integrate decisions about people with decisions about the results an organization is trying to obtain and represents the last level in the the Hierarchy of Accountability (figure no.2).



Figure 2: The Hierarchy of Accountability

Having quality professional practices and services is a must, but this shouldn't be the only focus of the best HR practitioners. They are able to combine their attention to basic administration while also making important strategic inputs that have a positive impact on the future of the organization. This is obviously not an easy balance to maintain, but is definitely not impossible either.

5. Further research

The strategic human resource management is a very interesting subject that could be the source of many studies, but one of the most interesting is the relationship between CEOs and the heads of the human resource departments. This type of research conducted in Romanian organizations would help understand how human resource management is perceived in national organizations and could provide us with the necessary information for the steps needed in order to achieve better results when it comes to fulfilling strategic goals.

6. Conclusions

While individualization of employment practices and team-based work may provide personal and organizational flexibilities, aligning HR and organizational strategies for competitive advantage has become more prominent (Horwitz F., et al., 2003) and the perception of human resources management is changing, more and more organizations considering it a value-added business partner. SHRM can be regarded as a general approach to the strategic management of human resources in accordance with the intentions of the organization on the future direction it wants pursue.

The human resource management literature makes clear that HR is always involved in execution of an overall strategic plan, but infrequently involved in the initial development of that plan and this needs to change in the new economic context. CEOs recognize that human resource professionals have a role to play in

supporting and promoting the value of HR within the company, but are also looking for senior HR executives themselves to be more assertive in demonstrating their value.

Alignment between executives, the human resource department and employees is critical to ensuring that the HR team is designing and developing initiatives that drive business performance and enable people to achieve results.

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SUB – SECTION: MARKETING

CONSUMERS' ATTITUDE TOWARDS VIDEO GAMES AND THEIR USE AS AN ADVERTISING METHOD: A PRELIMINARY STUDY

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Abstract: *The development of new media changed radically the markets and made companies and brands to orientate toward new ways of promoting their products and services. Marketers are intensively investigating the potential of new advertising alternatives to better understand and use of the advantages offered by the interactive online environment. In the Internet context, studying consumers' perception of advertising with new media setup became very important for understanding the way that computer and video games are perceived and accepted by the public and in what ways they could be used for promotional purposes. The present paper investigates the basic elements that define opinions, feelings and attitude of consumers from Romania towards video games in general and advertising in online games in particular, trying to find and describe a series of aspects regarding consumers' grade of acceptance towards video games as an advertising tool and social acceptance of this practice. The lack of studies regarding Romanian consumers' opinions regarding video games and their use for advertising purposes justified the necessity of researches on this matter. These kinds of studies could help advertisers in choosing advergames as a communication tool, and to take in consideration video games as part of their promotional strategy. The present study used the qualitative method of semi-structured in-depth interview and represents a preliminary study for investigating the basic elements that help in defining consumers' attitude towards the use of video games as a promotional tool. The data analyze identified six dimensions which could be used for describing the Romanian consumers' attitude towards video games. Results illustrate the essence of interviews applied on ten volunteers and show that in general Romanian consumers have positive feelings towards advertisements in video games and they are willing to accept them as long as they are not intrusive, are not disturbing the game play or there are advantages at product acquisition.*

Keywords: *consumers' attitude, video games, advertising, Romanian market*

JEL Classification: *M37*

1. Introduction

Internet technology enhances consumers' interactive experience, allowing them more freedom in choosing the type of information they search and the moment when to receive it. The interactive communication eliminates physical, temporal and spatial barriers in a way that traditional media is unable to do. Authors defined interactivity in the marketing field, stating that this is an immediate iterative process that makes advertisers understand consumers' needs and help to learn, change, meet and satisfy these needs (Bezjian, 1998). In some opinions (Haeckel, 1998), interactive marketing focuses on exchange by managing and promoting interactivity as the essence of the process. In author's opinion, an exchange from person-to-person or person-to-technology aims to change the behavior or knowledge of at least one person (Haeckel, 1998). He considers there are in fact multiple dimensions which are representative for interactivity: degree of contingency, degree of sensory involvement, number and types of entities involved, frequency of exchange, degree of cognitive involvement, degree of synchronicity, types of media involved and content being exchanged.

Today, advertisers use Internet technology to establish new ways of reaching and communicating with their actual and potential clients. A relatively new direction was taken by advertising which uses video game technologies, like advergimes and in-game insertions. Advergimes are video games constructed around a brand which commissions this game, while in-game insertions represent a technique of placing brand information in a video game already created.

Online video games with advertising content have in fact multiple characteristics of online web advertising. In general, interactivity is considered an additional criterion for positive evaluation of web advertising with advantages that include the potential of consumers to perceive the information with click – through systems and the possibility to act in consensus with consumers' immediately interests. This attributes of the online environment, available also for video games, make them to be easy to accept by the general public. Players can control the amount of advertising exposure and can decide about the ads they want to watch, when to do this and for how much time, by choosing the advergime they want to play.

When a consumer interacts with an advertisement incorporated into a video game, the relevance of the ad, the importance of information and current needs will influence the consumers' general involvement with the ad. This personal implication will affect the way that consumer will perceive the value of that ad, according to his affective of cognitive needs as entertainment, informational learning, social interaction, personal identity, escape or companionship (Blumler, 1979; Katz et al, 1974; Rubin, 1981; 1983).

Studying consumers' perception of advertising with new media sets become very important for understanding the way that new media like computer and video games are perceived and accepted by the public and in what manners they could be used for promotional purposes.

2. Background

2.1 Consumer's attitude towards advertising

Today advertising is a complex business and with the improvement of Internet technology, the environment and landscape of business suffered various changes. New techniques in communication and public targeting requested studies for understanding consumers' behavioral characteristics and new approaches for satisfying consumers' needs.

In general, advertising helps in developing a strong brand image and is used to persuade, inform or remind consumers about a certain product or service. It is considered a non-personal communication in the structure of information, usually paid for and generally persuasive, regarding products, services or ideas, ordered by sponsors that use a variety of media (Bovee and Arens, 1992).

Consumer behavior studies focus on decision-making processes and actions that people use for obtaining their resources, consuming them and getting products and services they need (Blackwell et al, 2001; Schiffman and Kanuk, 1991). The origins of these disciplines are in psychology science mixed with sociology, economy and different behavioral sciences (Grunert, 1988).

More scholars and researchers become interested in understanding consumers set of actions, and become an aspect very large studies including development of efficient strategies used in influencing decisions made by consumers (Blackwell et al, 2001).

Authors (Rossiter and Percy, 1997) consider that a good communication strategy have to include three major objectives concerning consumers behavior. A marketer should not only encourage purchase, which is the main goal of a promotional campaign, but also to increase brand awareness and generate positive attitude. This three combined elements helps advertisers to conduct their public from the state of knowing about the product to a positive predisposition which helps in generate purchase (Belch and Belch, 2001).

An important attention received studies concerning consumer's attitude (Kanso and Nelson, 2007), considered the main determinant element for understanding the consumers' decision making process.

Referring to advertising industry, some authors (Bauer and Greyser, 1968) considered attitude as the audience behavior towards advertising in general. This general attitude can be described through a favorable or unfavorable response to a particular advertisement.

Mehta (2000) thinks that one of the influential indicators of advertising efficiency is consumers' attitude, as consumers' cognitive ability of decoding an advertisement message is reflected in the feelings and thought and it will influence in this way the consumers' attitude about an advertisement (Mackenzie and Lutz, 1989).

Previous studies about consumers' attitude towards advertising had mixed results. The economic context of internationalization extended the dimensions which could be investigated for helping researchers to explore the role of advertising in measuring the performance of product and services. New technologies allow consumers to access faster and easier the marketing information they are interested in (Tai, 2007).

2.2 Public acceptance of video games in the new media context

New media is a concept which includes the many forms of electronic communication that become possible due to computer technology, including informational, recreational, cultural, social, educational and commercial applications. Examples of new media include computer and video games, social networks, virtual reality environments, web sites, blogs and mobile devices. All these media are characterized by interactivity, the most important characteristic of these environments.

The industry of computer and online video games become in the last years one of the most powerful markets, overcoming the economic problems that affected other industry over time. The changes in the new markets made video games become an influential instrument for entertainment (Souri, 2007; Squire, 2003). The increasing popularity of this industry determined researchers to investigate the effects that it has over people.

Numerous authors studied video games under different aspects. Some of them analyzed the positive aspects as civic games (Kahn et al., 2008), serious games (Michael and Chen, 2006; Wong et al., 2007) and persuasive games (Bogost, 2006; 2007; 2008; O'Lunaigh, 2006; Smith and Just, 2009). Others (Anderson and Dill, 2000; Barlett et al., 2008; Smith et al., 2003; Williams, 2006) studied the negative effect over consumers, focusing on violent feelings and aggressive behavior.

Authors (Roig et al, 2009) explained that the impact of video games can be understood through the general media practices, considering the cultural aspect in which video games evolve. The particular structure and content features of video games made them useful for learning process, which could become more appealing and goal-oriented (Mitchell, 2004; Souri, 2007; Squire, 2003; Wong et al., 2007). In addition, these qualities could be used for political or social reasons. A good example of this is the video game U.S. Army which was successfully used for soldier recruitments (Reiss, 2009).

Some marketers used video games for integrating products and advertising messages into virtual environment (Bailey, Wise, & Bolls, 2009; Smith & Just, 2009; Wise, Bolls, Kim, Venkataraman, & Meyer, 2008). As this practice become more common, it started to be used as a persuasive tool. Even if video games belong to different groups, depending on their purpose – educative, entertainment, politic, social – they were adapted and orientated into persuading the players.

An author that largely studied video games (Bogost, 2006; 2007) explained persuasive games through “procedural rhetoric”, meaning that video games provide players with an environment defined by a set of rules and procedures, rather than presenting direct persuasive messages. Consequently, players become involved in the persuasion process by simply following the game rules and developing arguments by trying to accomplish the game's goals. Other authors (Smith and Just, 2009) also supported these findings, noticing that playing certain video games types implies a persuasive player. They presented three factors that influence the level of self-persuasion in video games: integration, message autonomy and goals.

Two important research papers studied the influence that the presence of brand in online video games has on consumer attitude (Nelson et al, 2006; Bambauer, 2006). They showed that the placement of a brand into a video game evaluated

positive will lead to a positive change of attitude regarding that brand. Other authors (Mallinckrodt and Mizerski, 2007) inquired these findings, showing there is no positive effect on attitude for brands included in advergames.

3. Methodology

3.1 Research objectives

The use of video games for advertising purposes is a practice relative new. Even if previous studies showed it is efficient for promotional campaigns, in Romania this practice is poorly used by advertisers, the general tendency remaining the use of traditional media.

One important aspect that rises is not necessarily if advertisers tend to ignore this new advertising method, by using media as television, radio, billboards or magazines, but rather if this approach is dictated by the fact that Romanian public is reticent to this kind of promotion and the use of video games for other purposes beside entertainment. Even more, it is important to know in what way video games are perceived and accepted from the social perspective.

Some authors (Ducoffe, 1996) consider that the attitude towards an advertisement can be related to the attitude towards the environment that contains it and the consumers perceived value towards the advertising. Consequently, a negative opinion about video games in general will reflect on public's acceptance of them as an advertising tool, investigating this aspect is important for understanding the success rate of implementing this advertising method. The research questions gravitate around a series of aspect regarding consumers' grade of acceptance towards video games as an advertising tool, starting from the general opinions about video games as an entertaining media and the way they are perceived and accepted from a social point of view.

The lack of fundamental studies in Romania concerning advertising through online video games imposed a basic study for shaping those elements that are specific for public on this market. Therefore, this study looks to gather information of qualitative nature with the purpose of finding about respondents' feelings, thoughts and attitude towards video games in general, brand that use online games for promoting themselves and consumers' purchase intentions regarding a product or service advertised in this way. In the same time, the study is looking to determine the degree of respondent acquaintance with this advertising practice, as well as the knowledge about the basic advertising games, as advergames and in-games.

3.2 Research process

Exploring the consumers' opinions about video games in general, and their advertising potential, as well as the acceptance of using them for advertising purposes implied the use of the qualitative method of in-depth interview.

In general, in-depth interview are a good tool for obtaining detailed information about consumer's thoughts and for exploring new issues, and can be used for obtaining a complete picture about what happens in the market, providing in the same time context for other data. An important advantage of using this method instead of other qualitative methods as the focus group, is that helps the interviewer obtaining more detailed information and gain insights about people opinions, behaviors and thought in a relaxed and friendly atmosphere.

Romanian consumers' opinion regarding video games and their potential use for advertising purposes is a matter very little studied; therefore the use of this qualitative method is a good approach for gathering primary information about this subject.

The selection of the respondents was based on an advert posted to an online social page. The advert contained a pre-interview of three questions with the purpose of selecting the participant for the in-depth interview based on their opinion about new media advertising and video games in general (according to table 1).

Table 1: Screening questions for participants' selection in the in-depth interview

	Question	Type of answer
1.	What is your opinion about new media advertising (social networks, virtual reality environments, web sites, blogs and mobile devices) compared to traditional advertising (television, radio, magazines)?	Free answer
2.	Have you played any video game in the last three months?	Yes/No
3.	What is your opinion about video games in general?	Free answer

The first question was designed to observe the consumers' predisposition to use new media and the preference for Internet based advertising messages. The respondents who manifested positive preferences towards this environment were considered more adequate for the in-depth interview. Those who seemed more likely to prefer traditional media weren't selected and the next two questions weren't taken in consideration for these respondents.

The second question was designed to select those who play video games, casual and passionate gamers, from those who don't have this kind of activity in their free time. A person who plays less than one time in three months can be considered a non-player, or a person who just does not like games. Consequently, those who answered with "no" at this question were considered unsuitable for the in-depth interview and weren't considered for the next question.

The third question had the purpose to separate those with strong negative opinions about video games from others with more favorable opinions. The selection based on this criterion was relevant as persons with strong conviction on a matter could be uncooperative and investigating deeper insights of these consumers would have been unreasonable for this study.

Based on the screening questions, were recruited ten volunteers which were contacted by the interviewer through the e-mail made available by the participants when they registered for the study.

The work stages included the formulation of the questions based on previous literature, the making of the interview guide and the administration of the interview with consumers. The study used secondary research to build the interview guide, which included 20 questions, divided in three categories: three demographic questions about the respondent, including the gender, age and occupation; seven

questions about video games in general and ten questions about advertising in video games.

In the recent years, the way people perceive games transformed. While in the past playing video games was thought to be an occupation specific to young males, and games were in general addressing this target, now developers extended the public segment they address. Internationally, today's gamers consist in male, females, parents and seniors who enjoy playing. Consequently, the sample chosen included a larger category of respondents, with ages between 17 to 55 years (according to table 2).

Table 2: In-depth interview respondents' demographics

Respondent	Gender	Age	Occupation
1	male	24	student
2	male	26	freelancer
3	female	23	student
4	male	55	teacher
5	male	17	high school pupil
6	female	36	secretary
7	male	34	sells agent
8	female	18	High school pupil
9	female	27	public relations manager
10	male	19	student

With every individual volunteer was established a separate meeting, during two weeks period (7.01 – 21.01.2013). The meetings with the volunteers took place in a location choose by the respondents in Cluj-Napoca city, allowing in this way a relaxing atmosphere, good for free discussions on the main theme. The meetings were recorded, the interviewer taking also notes during the discussions. For their participation, the volunteers were rewarded with a free lunch at a restaurant.

The data analyze included several stages. First was the careful hearing of the recordings from the interviews and the transcription on paper of the entire dialogues with every participant. The second stage included the organizing of the information according to resembling of answers and similitude, as well as noting the key elements. The third stage included summarize of the answers and the information systemization in two main categories: information regarding the impressions about video games in general, and information about the attitude towards advertising in video games.

3.3 Results

Analyze of the interviews revealed common aspects to all the respondents, as well as particular elements. In general, the interviews showed a series of important aspect about the Romanian consumer's perceptions about video games and advertising.

Answers revealed that most of the volunteers think video games are funny, interesting and can be a pleasant method for relaxation and spending free time, during evenings or weekends.

What concerns the preference for a certain game genre, the females declared they prefer casual games such as logic games, puzzles or electronic versions of game-board like cards, dice, Monopoly or Rummy, while male declared they prefer action games, shooters, sports or race competitions.

The participants who consider themselves as being passionate gamers think that this kind of media is more fun than any other mass-media as television, radio or magazines, while those who are occasional players prefer traditional media for relaxing, in particular television.

The social aspects involving video games suffered great dynamic changes. Respondents had very diversified opinions. Some respondents think video games are harmless, particularly if they are game-boards, other think they are dangerous for children, can induce violent behavior and could make people lazier or disconnected with reality. Some consider that video games are relaxing and fun, while others considered that video games could make people antisocial, can distract them from important activities, especially the children, and could cause dependence.

Players had in general a good opinion about video games with concern to the content and the design of the game, the actual technologies offer possibility for virtual constructions very pleasant. This opinion was common to passionate and occasional players.

The viral component proved to be very poor represented, as volunteers declared they usually do not recommend games to their friends and family. Only a few, in special the young ones, said they share the game experience for attracting their friends into playing with them or challenging them into competing.

The expressed opinions about advertising in video games proved to be positive in general, as respondents tend to have positive feelings about brands that use video games for promotion.

An important aspect of this study was to investigate the publics' acceptance of video games as advertising tools and implicitly the potential that the use of this practice at national scale has for implementing promotional campaigns and establishing efficient brand communication.

A first and important aspect was to establish from the start the degree of respondents' familiarization with the concepts of advergaming and in-gaming, the two major types of video games with advertising content. The majority of those who heard about the use of video games for advertising purposes found on their own about this from the Internet, and think though these methods are adequate for promotional presentation. Majority said they have knowledge about adverts in games, but they didn't know to give exact examples.

Most respondents think they will be annoyed if the level of adverts they see in the video games they play would increase, and will prefer to play something else. In the same time, they said they would play a game with advertising content only if that game would be very interesting, the commercials will not interrupt the game story and will not disturb them in any way. Also, they are prepared to accept the presence of advertisements in their favorite games, if this would lead to price reduction of the game or becoming free, also if they would offer advantages at the acquisition on the product in markets, reduction coupons, vouchers and discounts. Regarding the declared purchase intention of a product advertised in a video game, only a few said they would buy such a product or service, while most of

them declared they will not make such an acquisition or they are not sure yet about this.

The findings of this exploratory research revealed several aspects related to Romanian consumer opinions and attitudes about video games. These aspects can be regarded into six dimensions:

- *Entertainment dimension*: consumers consider that video games are a good modality for spending free time, for fun and relaxing, but this does not exclude traditional media, as television, radio or reading magazines;
- *Advertising dimension*: video games seem to be accepted as an alternative to traditional media and online banner ads. This acceptance is conditioned by the advertisements volume, the presence of adverts in the favorite games and the way they are integrated in the video game design;
- *Price dimension*: consumers are expected to obtain advantages as discounts and price reductions, for accepting advertisements in the video games they play;
- *Social dimension*: consumers' opinions about this aspect were found to be oscillating between considering games as fun, relaxing, and a harmless occupational hazard, and a dangerous activity which could cause antisocial behavior, distraction from important activities or dependence;
- *Viral dimension*: the coordinated of this component were very poor represented -Romanian consumers do not use to share game experience with friends.
- *Purchase intention dimension*: consumers are not willing to purchase a product seen in a video game.

4. Conclusions and further research

The present study is an exploratory research designed for obtaining qualitative information regarding the Romanian consumers' attitude and opinion about video games and their use for advertising purposes.

The six dimensions identified and explained above could be used for explaining consumers' opinions and acceptance of video games as an entertainment and advertising tool in Romanian market. The limitations of this study are given by the reduced number of interviews which provided a small amount of data on this subject. The study identified the dimensions that are important for consumers on this market, but does not offer details on how and in what conditions they could be used or improved. This study underlines the most relevant elements that have to be considered by marketers when they are planning a campaign based on video games for Romanian market. Further researches could focus on ways to find the statistical representativeness of the dimensions found, and to provide more information on ways to efficiently use this dimension when designing an advergame for promotional campaigns on this market.

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MISSION STATEMENTS IN HIGHER EDUCATION: CONTEXT ANALYSIS AND RESEARCH PROPOSITIONS

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Abstract: *The purpose of this paper is to discuss the main issues that deal with higher education institutions' mission statements, from a marketing perspective. It has long been argued in the literature that missions represent the foundation upon which institutions build their strategic plans, and that they should be the first step any institution takes before designing its strategy. Mission statements have also been linked to the institutions' performance, and to the successful implementation of their strategies. Based on a review of the most recent literature in the field of higher education, the paper explains why missions appear as a relevant tool for the activity of higher education institutions, and provides insights into the way in which these institutions should engage in mission development. The main problems surrounding the development and implementation of missions are also discussed, with emphasis on their contribution in providing educational institutions with a clear direction when faced with the changing environment. Furthermore, given the fact that some authors argue the ineffectiveness of mission statements, the paper sets to establish whether they should still be given the same importance within higher education institutions, or should they be cast aside. Considering the contribution of higher education to society, we also discuss the topic of universities' third mission, service to society, which is beginning to be more and more embraced and implemented by higher education institutions. Throughout the paper, we argue that missions hold a significant role, and that is to provide universities with a course of action, and to guide them towards fulfilling their purpose within society. The authors complete the discussion by suggesting a number of research directions in the final sections of the paper, that show a large potential both for helping educational managers to improve their institutions' activity, and for building richer theories of marketing management.*

Key words: *higher education; mission statements; mission development; education marketing; strategy; education management.*

JEL classification: *M31, I23*

1. Introduction

Higher education today is marked by a series of changes and transformations that bring both opportunities, and threats to educational institutions. While the opportunities come from the economic and technological development, and can result in many great ways for these institutions to improve their activities, the challenges that universities face, force them to adapt their resources, academic programs, the investments they make in research, and other items, so that they may be able to continue to operate within the environment. All the elements mentioned above stand for the mission of a higher education institution (de Jager, 2001), and are supposed to be taken into account when designing the mission statement, so that they become part of the organizational culture of the institution, and be embraced and implemented by its employees.

Most higher education institutions have built a mission statement, and are constantly sharing it through their web-sites, flyers or other promotional materials. Generally, missions focus on the teaching and research activities, but a third mission is more and more beginning to be addressed by universities. The not-for-profit nature of educational institutions leads them to develop relationships with many stakeholders that need to be taken into account within the institutions' activities. Therefore, the service to the universities' communities is beginning to emerge as the third mission of education.

Marketing and management theory stress the importance of missions for strategic planning, as being the first step to be taken when designing an institution's strategy. Moreover, studies have shown that mission statements have a positive, though weak, influence on performance (Sidhu, 2003). Considering both the importance that organizational theory and practice have given to mission statements, and the rapidly changing environment in which universities are operating today, we believe it could be beneficial for universities to form a clear vision that incorporates future developments, and to consequently adapt their missions to fit that future.

The purpose of this paper is to review the main issues surrounding mission statements. We base our discussion on the most recent research on the topic, and provide some insights into the way in which educational institutions should engage in mission development. Furthermore, given the fact that some authors argue the ineffectiveness of mission statements, we set to establish whether they should still be given the same importance within higher education institutions, or should they be cast aside. The paper begins with a review of the concept, and its main features, but also addresses the concerns of those who do not believe in it, or think it should take on a different form. We continue by discussing the process of designing and communicating the mission to the public, and also the universities' third mission, service to society, which is beginning to be more and more embraced by higher education. In the final sections of the paper we discuss the appropriateness of mission statements for higher education institutions, and offer future directions for universities, in order to better understand the concept and the way in which they can benefit from incorporating missions into their culture.

2. The Mission Concept

The mission of a higher education institution is seen as its main purpose, its *raison d'être* or the reason why the institution exists within a society (Paina and Băcilă, 2004; Bonewits Feldner, 2006; Woodrow, 2006). It is considered to be the foundation upon which the institution builds its vision or its strategic plans (Velcoff and Ferrari, 2006). Mission statements originate in the institution's internal environment, considering the needs of internal stakeholders, and are also shaped by environmental pressures and challenges that may affect the institution (James and Huisman, 2009). By creating an effective mission statement, the university communicates its philosophy, and the core competencies that will help achieve its purpose (Sidhu, 2003). Woodrow (2006: 316) suggests that an effective mission statement "should describe an organization's reason for existence by highlighting its priorities in a capacity that motivates all organizational constituents to embrace it and live it". Furthermore, a university's mission will communicate the institution's identity (Kosmützky, 2012), and what exactly the institution wants to accomplish within the society. This allows all the institution's stakeholders to fully understand its purpose, and also motivates them to embrace the mission, and to engage in activities that will lead towards the achievement of the institution's goals (Woodrow, 2006).

Moreover, a university's mission allows the institution to define its core activities, helps set priorities and reflects the institution's self-image and position in the educational market (Kosmützky, 2012). Morphew and Hartley (2006) suggest that mission statements can be a way of establishing institutional uniqueness, and for that matter could be used as a tool in institutional decision-making. A well-designed mission statement can significantly differentiate the institution from its competitors, and will lead to the optimization of the resources used in customer satisfaction (Finley, Rogers and Galloway, 2001). However, in order to have a positive impact on the institution's performance, mission statements must be carefully designed, and must clearly communicate the goals and standards (Fugazotto, 2009).

Although there is much support for the importance of a university's mission, its necessity and its role, the literature is also abundant in controversy regarding the usefulness of missions and mission statements. Many authors believe that universities today are building similar mission statements, which fail to identify an institution's particular strengths, and fail to differentiate or position the institution within the marketplace (Finley, Rogers and Galloway, 2001; Özdem, 2011; Kosmützky, 2012). Mission statements are believed to be long and complex, becoming too common to indicate what the institution really wishes to achieve. Furthermore, the language in mission statements is many times fairly general or vague, and is intended to evoke an all-purpose purpose (Morphew and Hartley, 2006), making it impossible to tell whether an institution actually achieves its goals or not. Moreover, critics argue that although missions should facilitate change and innovation within a university, many times there is no clear connection between the mission and the actions and decisions of the management (Weingart and Maasen, 2009). Sometimes universities all seem to follow the same strategy or their individual mission statement fails to define the institution's strategy (Finley, Rogers and Galloway, 2001). Jongbloed, Enders and Salerno (2008) argue that many higher education institutions tend to take on similar visions or ideals, and suggest

the need for a greater responsibility on their part, being that every action they undertake will impact the institutions' stakeholders.

Whether they actually bring value to an organization or they are just a few lines that don't really say anything, for now, mission statements are still present within higher education institutions, and should not be cast aside. At least theoretically, missions hold a significant role, and that is to provide universities with a course of action, and to guide them towards fulfilling their purpose within society. Therefore, we believe it is important for universities to understand and accept that a well-designed mission forms the basis for any activity they may undertake.

3. Crafting and Sharing the Mission

Designing and formulating the mission statement falls into the task of the institution's management, and implies assessing the stakeholders' expectations, while considering the institution's current position and resources. The main issues for any university to consider when shaping its mission are the unique nature of educational institutions as not-for-profit organizations, the dynamic aspects of the environment and its impact on the institution, the process by which a mission emerges, and the role of the mission statement in the strategic planning process (Bingham, Quigley and Murray, 2001).

Generally, mission statements integrate three specific components: teaching, research and public service (Scott, 2006), which taken together should define the institution's structure, the expected outcomes and the terms for judging effectiveness, while also contributing to building organizational identity (Fugazzotto, 2009). A well articulated mission of any higher education institution should encompass four important elements (Brătianu, 2005; Peters and Waterman in Brătianu and Jianu, 2007): (1) general statement of the vision; (2) designation of the fundamental values of the university's management; (3) formulation of the institution's primary and strategic objectives; (4) consideration of the main stakeholders' interests and potential.

The university's vision refers to the ability of management to build the desired future (Kibuuka, 2001). It virtually conveys an ideal condition for the organization (Paina and Băcilă, 2004), captures its future perspectives, involves the institution's long term goals, as well as its desired market position (Özdem, 2011). Values represent a set of principles and beliefs that guide the way in which the institution aims to accomplish its mission (Kuenssberg, 2011). Based on a clear vision and strong values, a university can subsequently define its strategic objectives, which integrate the institution's growing potential and resources, while seeking to develop a competitive advantage (Paina and Băcilă, 2004).

Woodrow (2006: 317) identified a set of essential components that a higher education institution must take into account when designing its mission statement, in order to maximize the mission's impact:

- History – the institution must respect and appreciate its past, in order to be able to set out future goals;
- Educational philosophy – constituents should be able to read their institution's mission, and, as a result, understand its educational philosophy;
- Constituency – the university depends on its stakeholders, therefore they should be reflected in the mission statement. When an institution's

stakeholders are unified behind its mission, they are more likely to embrace it, and live it;

- Institutional strength – mission statements should reflect an institution's strengths, those items that differentiate it, and the activities that the institution carries out well;
- Uniqueness – the mission should differentiate the institution, build a strong image and a competitive advantage;
- Statement brevity – for mission statements to have an impact, they must be short and simple, and focus on what the institution wants to communicate;
- Precise words – language can be a powerful tool in highlighting an institution's mission;
- Statements that endure – even though they can be subjected to reviews, mission statements should be designed in such a way so that they can serve the institution for a number of years;
- Breadth of communication – mission statements should be properly delivered to all the institution's stakeholders.

Morphew and Hartley (2006) identified two potential benefits discussed in the literature for a clearly defined mission. First of all, it is instructional, helping organizational members to distinguish between activities that are instrumental to the institution, and others that are not. Second, it provides a shared sense of purpose, motivating the employees and other internal constituents to communicate the institution's values to key external stakeholders. Therefore, educational institutions must pay great attention to the process of developing their mission, in order to accomplish the desired outcome, both internally, and externally.

After carefully crafting the mission statements, educational institutions must take the next step towards communicating their missions and sharing their values and goals with their publics. Only when the stakeholders become familiar with the institution's values will they be able to share and support them, in this way contributing to achieving the institution's goals. Acting as a communication tool, the mission reflects management's vision of what the institution actually stands for, and impacts the institution's employees (Desmidt and Prinzie, 2009), providing clear directions that define the appropriate course of action (Denison and Mishra, 1995). The employees must be familiar with the mission, understand why it is important, and how it will be applied (Paina and Băcilă, 2004), in order to be able to embrace it and to implement it in daily operations (Fugazzotto, 2009). For that matter, a connection can be established between an educational institution's mission statement and its organizational performance (Desmidt and Prinzie, 2009; Fugazzotto, 2009).

The process of communicating the mission must be carried out both internally, and externally (Paina and Băcilă, 2004), towards all parties connected or involved with the institution's activity. By presenting a well-defined mission, and sharing it with all stakeholders, higher education institutions are one step closer to achieving the desired position within the marketplace, and also to building lasting relationships and achieving institutional goals.

4. The Emerging Third Mission

Higher education institutions are generally defined as being not-for-profit organizations, which leads them to be involved and develop relationships with many more constituents than commercial organizations (Bingham, Quigley and Murray, 2001). Those constituents require a greater commitment that extends beyond financial relations or fiscal responsiveness (Jongbloed, Enders and Salerno, 2008). The role that universities take on within a society is a significant one; therefore, mission statements increasingly emphasize their third dimension – service to society (Laredo, 2007; Jongbloed, Enders and Salerno, 2008; Montesinos *et. al.*, 2008). The basic function of this third dimension of any mission refers to the knowledge transfer from the academic environment to the whole society, and it covers everything besides traditional teaching and research (Jongbloed, Enders and Salerno, 2008), from workshops, professional development courses, to establishing partnerships between educational institutions and the business community (Montesinos *et. al.*, 2008).

Jongbloed, Enders and Salerno (2008: 307) view a university's mission as a reflection of how the institution outlines its contribution to society. In this regard, the authors suggest defining an institution's mission and vision by answering some existential questions:

- What is our business? – What should be our business?
- Who are our students? – Who should be our students?
- What is our environment? – What opportunities are there?
- What are our resources? – How should we deploy our assets?

These issues should be incorporated into the institution's activities and applied to the relationships that the institution has developed with its constituents, so that it can fulfill its role, and make a significant contribution to society (Alves, Mainardes and Raposo, 2010). Even the teaching and research activities are increasingly being asked to prove their contribution to the knowledge society (Jongbloed, Enders and Salerno, 2008), to the economic and social development.

Jongbloed, Enders and Salerno (2008) suggest that universities' third mission refers both to the knowledge transfer, and to the significant role that higher education institutions play within the community. The authors argue that universities are currently being evaluated by their constituents based on the commitment that they manifest in any relationship, and based on actions that attest to the institution's accountability. They also point out that the institution's involvement in society must be done through teaching and research, and not independent of these activities. Therefore, the third mission should ideally give rise to a wide variety of principles and strategies for economic and social development (Jongbloed, Enders and Salerno, 2008).

5. Discussion

Based on the topics approached in the sections above, we can argue that missions and mission statements are being regarded as an essential component of a university's strategy. Even though there are voices that look upon missions as being a waste of resources or simply not necessary, the fact that they are being used by education institutions everywhere, and also the attention paid to the mission concept by the literature supports the idea that there is more to missions than a simple succession of words and phrases. While it is true that many higher

education institutions tend to develop similar missions, showing little diversity or distinctiveness, we believe that this is not a good enough reason to drop them, and just move on to strategy, as if they were never there.

Developing the strategy falls into the task of the institution's leadership, and the persons responsible for all the ongoing activities. In this process, they must consider a great deal of issues and constituents involved. Being a complex process, they tend to become overwhelmed with these issues, and pay little attention to crafting a strong mission statement, forgetting that it is the first essential step for a strategy to achieve its purpose. We support Bingham, Quigley and Murray (2001: 21), who argue that "properly conceived, mission driven strategic planning is contingency-based and externally driven". Mission statements reflect an institution's values, and what the institution actually stands for. If they are properly incorporated into the institution's strategy, they can provide a clear direction to approach the future and any changes that may occur, and also the means to deal with these changes.

Moreover, being that higher education institutions are by definition not-for-profit, they develop relationships with a great number of stakeholders. When carrying out their activities, they must consider for example also students' parents, alumni, local administrations, and others that may have a stake in the institutions' outcomes. It can be hard for universities to consider all these stakeholders when establishing their strategy and to acknowledge the fact that both the objectives they set, and the end results that they deliver must take into account stakeholders' interests. However, mission statements can provide a functional solution to this issue. If universities start by creating a culture and defining values that are community-oriented and incorporate these values into their mission statements, they will have a solid foundation upon which objectives can be built, and processes can be set in motion.

The universities' employees must become familiar with the mission, so that they can further communicate it, and implement it in daily activities. In this regard, Desmidt and Prinzie (2009) argued that mission statements can be successful if they stimulate organizational members to (1) process the information embedded in the statement, and (2) to reach a joint understanding about the meaning of the information embedded in the mission statement. When this happens, and once all stakeholders get to know the institution's values, they will begin to share the mission as a common goal, and support its activities, in this way contributing to achieving institutional objectives.

It has long been argued in the literature that missions represent the foundation upon which institutions build their strategic plans, and that they should be the first step any institution takes before designing its strategy. From a marketing perspective, strategy refers to the guidelines that have been established for the marketing activity, and to the tools used by the organization to achieve its objectives (McDonald, 1998). The main purpose of any institution's strategy is to differentiate the institution, in this way acquiring and maintaining a favorable market position, compared to the competition (Gilligan and Wilson, 2009). To accomplish this, higher education institutions can start by carefully designing their mission, in order to build a strong identity, and to convey a well defined set of values to their publics (Paina and Băcilă, 2004). This can be a good way to differentiate the institution and establish a strong market position.

Moreover, if we explore even further the relationship between mission and strategy, we can positively account for a link between these concepts and the institution's performance. By creating a competitive advantage, marketing strategy will lead to increased performance and superior outcomes of the institution. Based on this, we argue that a well designed and conceived mission statement will lead to superior performance, by guiding the implementation of strategy, and motivating all stakeholders to work towards the accomplishment of a common goal.

Considering the issues discussed above, we believe that missions and mission statements still represent an important component for any higher education institution, influencing strategy, and offering a proper course of action for institutions when faced with change. If the mission statement has been properly conceived, the institution should always find in it a clear direction for future times. University management holds the responsibility and important task of developing both the mission, and strategy of the institution; therefore, we support greater involvement in this process, given the great benefits that could be obtained. It may not always be an easy task, due to time and resources necessary, be they material, financial or human. Nevertheless, missions should not be ignored, and just stated so that they exist, they should clearly express the institution's values, and what it wants to accomplish. The institution's employees are the second group that holds a lot of responsibility in making sure the mission is successful. They need to make an effort to understand the mission, implement it in their daily activities, and communicate it further to the public. All this will lead to a common involvement from all stakeholders in the institution's plans, a strong and competitive market position, and superior performance for the institution.

6. Future Lines of Research

We have argued in this paper that mission statements hold the foundation for effectively designing and implementing an institution's strategy, which will lead to the achievement of institutional goals, and thus superior performance. In this regard, we believe it would be beneficial to examine more closely the link between mission, strategy, and performance. Missions are defined in the literature according to dimensions like teaching, research, and community service. Other approaches consider the vision, values, and objectives components. One way to explain this link would be to encompass the aspects mentioned above into a scale that defines an institution's mission, in order to analyze the impact of these components on the institution's strategy and performance. We believe that by offering a model that explains this link, educational managers would be provided with evidence that supports the importance of mission statements, and the benefits that could be gained by addressing this aspect thoroughly.

Another avenue for future research would be to examine mission statements, and the conformity of a university's actions with the stated guidelines. It would be interesting to investigate whether differences exist between types of institutions, be they business or non-business, public or private, vocational or traditional.

We acknowledge the fact that different aspects of the environment, both internal, and external, can have a powerful influence over the formulation and implementation of mission statements. Identifying these aspects could prove to be valuable, and could offer guidelines in understanding the whole process of crafting a mission. We support both the analysis of factors that may hinder mission

formulation and implementation, and of those that facilitate these processes, in order to give a complete picture of the influence of environmental aspects on the application of mission statements in universities, and maybe even on their strategy and performance.

The avenues for future research suggested so far fail to address the sharing of the mission with the institution's stakeholders. This comes as a result of the fact that the majority of studies on organizational mission emphasize the communication of mission statements (Bonewits Feldner, 2006). We fully support the importance of communicating and delivering the mission to the institution's public, but we believe that addressing other steps of the process would also prove to be useful. Research could begin with the formulation of mission statements. Who is actually involved during this stage? How exactly does the mission statement arise? Is it following a brainstorming or is it something typed up in a hurry by managers or by somebody else? Do the persons that draft the mission statement follow any guidelines, go through specific steps, or do they just write a sequence of words and hope they sound good enough? Are the dimensions that define mission statements (i.e. vision, values, and institutional objectives) fully integrated or the institution does not quite consider this?

Not casting the communication process fully aside, we believe it could be useful to establish whether the communication of the mission statements achieves its purpose among the institution's stakeholders. Their perceptions of the institution through the mission statement could provide managers with great insights, and could offer potential for future improvement. Addressing all the above-mentioned issues would form a solid basis for further research. In theory, we always assume that things are being done a certain way, and proceed to prospective research accordingly. Actually knowing how things are done would help researchers in finding the best way to approach specific topics, and would provide the results with greater value.

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MARKETING PERFORMANCE IN ROMANIAN SMALL AND MEDIUM-SIZED ENTERPRISES - A QUALITATIVE STUDY

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Abstract: *Marketing performance management has been one of the most prominent streams in recent marketing research and practice. Concepts such as marketing accountability, marketing metrics and marketing performance management systems have been advanced, together with holistic models to measuring and managing performance of the marketing process. Nevertheless, these contributions envisage predominantly large organizations, which can have the strategic approach and the dedicated resources needed to conduct a proper marketing performance management. Our paper focuses on the small and medium-sized enterprises (SMEs), aiming to explore how knowledgeable are Romanian SMEs with regards to marketing performance management, how they perceive it and if and how they practice it. Thus, we conduct an empirical study using a qualitative research method. The research instrument is the in-depth interview, which we conducted with 18 marketing professionals from SMEs in Romania, in order to explore their perceptions, practices and intentions related to measuring and managing marketing performance. Our paper starts with an introduction to the topic of marketing performance management and a review of the most relevant and recent contributions in this stream of marketing literature. Further on, the qualitative research methodology is described and continued with the presentation of the findings of the qualitative interviews. We found that there is an incipient stage of marketing performance measurement practices in Romanian SMEs, but there is a high level of awareness and knowledge related to this domain. Nevertheless, challenges such as the possibility to allocate dedicated resources to the measurement process (people, time and tools) or challenges related to data (whether there is the access to the data and the data is reliable and accurate) and to internal collaboration (how the other organizational actors support the measurement process) are still to overcome. Overall, our study shows that while at a very early stage of adoption, marketing performance measurement seems to be a declared preoccupation of marketing professionals in Romania. Thus, directions for further research are outlined.*

Keywords: marketing performance, performance measurement, qualitative study, small and medium-sized enterprises, Romania.

JEL classification: M31.

1. Introduction

The Marketing Science Institute has ranked marketing accountability, return on marketing investments and marketing performance management systems among the top 10 research priorities after 2002 and top priority for 2008-2010 (Lamberti and Noci, 2010). Many contributions have been brought to this field of research, with concepts such as marketing metrics (Gupta and Zeithaml, 2006; Reibstein *et al.*, 2006; Kotler *et al.*, 2009), marketing dashboards (Pauwels *et al.*, 2008), marketing performance management systems (Ambler, 2003; Lamberti and Noci, 2010) and marketing productivity (Rust *et al.*, 2004a) being proposed and analysed.

However, few research efforts have focused on exploring these concepts in the specific case of small and medium-sized enterprises, which have several particularities that can make marketing performance measurement a more challenging process. The main ideas which are highlighted in connection to SME marketing are the following:

- It is inherent and intuitive, but in the same time it is “pragmatic, practical and relevant to the individual SME” (Carson & Gilmore, 2000).
- It is derived from small and medium business characteristics, such as: limited customer base; limited activity, expertise and impact; dependency on the owner’s marketing skills; intuitive and reactive approach; variability of marketing efforts and the development and defend of niches (Stokes & Wilson, 2006).
- It is seen by SME owners/managers much more as tactical techniques and activities (the goal being that of winning customers and furthermore the development of their business) and less as customer orientation, marketing strategy and intelligence gathering (Stokes & Wilson, 2006).

In this context, we aim to explore marketing performance measurement in small and medium-sized enterprises, focusing on several such organizations from Romania.

2. Research methodology

This being an exploratory research in an area where previous knowledge is limited, it has been decided to conduct qualitative interviews (Creswell 2009; Miles and Huberman 1994).

2.1. Profile of the respondents

In order for the collected data to be appropriate for the objectives of the research (Richards, 2009), we tried to collect information from qualified respondents - marketing professionals (specialists, managers and marketing consultants) working in Romanian SME organizations.

There are a total number of 18 participants in the qualitative interviews, of whom 8 respondents have over 5 years of experience in marketing, 5 respondents have an experience of 3 to 5 years and 5 respondents have experience between 1 and 3 years. The fields of work or areas of action of the respondents are diverse: communication & PR, social media marketing, product management and marketing, market research, lead generation and sales support, etc.

In terms of industries, the respondents activate in organizations with activities in the following sectors: trade, production and services (education, healthcare, banking, tourism, media, IT).

2.2. Data collection

The semi-structured interviews were conducted between May 2012 - January 2013, either face-to-face or by electronic means (e-mail, online form). Qualitative interviews are usually (and preferably) conducted face-to-face, to allow in-depth exploration of the respondents' opinions, however, due to the limited time available, the respondents were offered the opportunity to participate in the study by electronic means – this may be considered a limitation of the research. Nevertheless, in some cases the answers of the respondents have been further analysed, keeping in contact with them after the completion of the interview.

The interview guide consisted of questions concerning aspects of how Romanian professionals perceive performance in marketing (how they define it, concepts and tools they know etc.) and how they measure and manage performance in marketing (what aspects are measured, with what purpose, how indicators and results of performance in marketing are selected, measured, communicated and exploited).

The research context was presented to the respondents within a short presentation (briefing) before the initiation of the interview (Kvale, 1996). The interview guide was adapted during the period in which the interviews took place, based on the information learned, from each newly identified aspect, and the improved version was used in the subsequent situations. The discussions lasted between 30 minutes and one hour, were audio recorded and transcribed verbatim.

2.3. Analysis and interpretation of data

Data have been analysed using manual coding. To ensure data integrity, we continuously checked textual transcripts and coding, and triangulated the results with data from the specialist literature.

3. Findings and discussion

At a conceptual level, interviewed marketing professionals perceive performance in marketing as related to aspects such as:

- Objectives - fulfilling marketing objectives as well as the contribution of these to the overall objectives of the organization:
[I see performance in marketing as] „the contribution of marketing to the achievement of objectives of the organization; achievement of marketing objectives as planned“;
“Achievement of company objectives efficiently and effectively“;
“Generation of positive effects on the business, by means of specific marketing activities OR the contribution of marketing to the achievement of the company’s objectives“;
“Achieve / exceed predefined marketing goals (correlating corporate objectives and marketing audit results)“.
- Measurable results:

“Efficient marketing brings a measurable contribution to business results. This means turnover, profit, etc., not just likes, number of unique visitors per day, etc.”

In some cases, respondents refer to specific aspects related to the objectives and results of marketing activity:

- “- The degree to which marketing activities provide leads for sales, quality and quantity of the leads provided;*
- The degree of the company’s market awareness;*
- Customer satisfaction with products and services of the company”*

“Depending on the characteristics of the activity, performance can be measured by the number of sales, clients attracted by campaigns / projects / actions of marketing, retention of customers, brand awareness and customer satisfaction.”

Regarding the concepts and tools of marketing performance measurement known by the respondents, the following have been mentioned: *scorecards, dashboards, balanced scorecard, performance indicators, KPIs, performance evaluations, Google Analytics, Facebook Insights, A / B testing, SMART objectives, quantitative and qualitative marketing research.* This result reflects a high degree of familiarity of the respondents with the tools that can be used in marketing performance measurement, including tools dedicated to this process (scorecards or dashboards and performance indicators).

In relation with aspects or components of marketing that respondents believe should be subject to measurement, the most often mentioned are:

Table 1: Areas of marketing targeted by performance measurement

Area	Illustrative quotes from interviews
Clients	<i>“Customer Care”</i> <i>“Customer relations”</i> <i>“Based on my experience, I can say that not the elaborate message and not the transmitted broadcasted message are relevant, but the message perceived by the customer, so I would focus on monitoring how customers perceive the company and the product.”</i>
Image and brand	<i>“The image & brand perception among stakeholders”</i> <i>“Awareness”</i> <i>“Brand indicators (awareness, trial, loyalty)”</i>
Market	<i>“Positioning (both on the market and in the consumer's mind) of brands / products / services of the company as compared to competitors”</i> <i>“The market position as compared to competitors”</i> <i>“Market share”</i> <i>“Competition”</i>
Financial aspects	<i>“Financial impact”</i> <i>“Expenses on marketing campaigns and processes”</i> <i>“Financial results of marketing campaigns”</i>
Efficiency	<i>“Efficiency of resource utilization, budget”</i> <i>“Working time”</i>

Source: Authors (2013)

We can conclude that these results reflect some aspects referring to how the interviewed marketers perceive marketing performance:

- Marketing performance is seen as a strategic concept for the organization;
- Managing marketing performance should be done in alignment with overall organizational strategy;
- The quantifiable, measurable nature of marketing performance - marketing objectives and results should be quantifiable;
- The use of specific tools (instruments) to manage marketing performance;
- The use both financial indicators (including the contribution of marketing to overall financial results) and non-financial indicators, generally more difficult to measure and possibly a predictive component.

Regarding the actual adoption of performance measurement practices in the marketing of organizations the respondents in this study belong to, the following may be noted:

The process or system for the measurement of marketing performance varies in complexity or level of articulation, but also in terms of expansion within the organization. In some cases, marketing performance is an articulated process closely integrated into the organization-wide performance system:

"The marketing department where I work uses the BSC system with KPI. Objectives and strategy have been defined at organizational level. These were then transposed at department level, by creating a strategic map. Therefore strategic objectives have been established for each perspective for the marketing department. For each strategic objective the performance indicators have been defined (KPIs) - as well as how they are calculated, responsible persons, the unit of measurement, methodology, target, classification, current status, trends, frequency of reporting etc."

In other situations:

"Decisions are made ad hoc, with little planning, and a process of performance measurement cannot be considered yet."

In general, the focus is on measurement in the online activities area; an explanation is probably that the available tools allow easy measurement and data automation:

"At a minimal level, the results of Ad Words and Facebook ads campaigns are followed and data from analytics are analyzed."

"In terms of offline materials, not much is measured."

Regarding the purpose for which respondents state that performance is measured within their organizations, it is encouraging to note that the emphasis is on improvement, not primarily on control.

"The determination of the efficiency of actions taken and of the fulfillment ratio of marketing objectives."

"Improvement of marketing campaigns. Improvement of processes carried out by team members."

Regarding the sub-processes in marketing performance measurement, we can conclude the followings:

The selection of performance indicators is mostly carried out starting from the defined objectives, the role of indicators being to measure the degree to which targets are achieved:

[Marketing indicator selection is done] "based on marketing and business objectives"

Performance measurement frequency varies depending on the type of the indicators; most commonly the measurement takes place weekly, monthly and annually. In some cases it is even carried out daily, or, for marketing campaigns, at the end of these:

"Depends on indicator ... weekly, monthly, yearly."

"Some indicators monthly, others after completion of marketing activities."

The communication of performance results is done towards the following actors from the organizations: shareholders, top management (Managing Director, Marketing Director, Finance Director, Operations Director, Sales Director have been mentioned), product managers, human resources (regarding individual performance evaluations), investors, marketing team and, in two cases, to all employees of the company. A well-articulated and consistent process of communication is an important premise for the successful usage of performance indicators and results, in order to take decisions and actions for improvement in due time.

Thus, the following can be summarized:

- The performance measurement process or system varies as level of articulation or level of sophistication, from the actual inexistence of such a system (ad hoc decisions and lack of measurement or assessment), to the emphasis of a well-defined process, which starts at the strategic level, is then cascaded to the marketing department, and includes tools, documented processes and a certain routine;
- The purpose of performance measurement, where there is such a process, is often improvement (the measurement providing a basis for informed decisions and actions);
- Key processes - planning and selection of performance indicators, measurement (and the frequency of its occurrence) and the communication of performance results are also more or less articulated.

Interviews allow the identification of challenges or shortcomings that Romanian professionals are facing in the measurement and management of performance in marketing, challenges related to:

- Data - data access is difficult or the data themselves are not adequate enough:

"Insufficient data, data collection"

"[The selection of marketing indicators is conducted according to] the level of accessibility of data."

"Some indicators are difficult to measure, the methodology being complicated; furthermore there are situations where the processing time is long and the data source involves a high degree of subjectivity."

- Resources - human, time, technological and financial - that can be dedicated to the marketing performance measurement process:
“Infrastructure / lack of appropriate monitoring solutions”
“Lack of funds dedicated to this process”
“The time that can be assigned by the marketing team to tracking indicators”
- Internal collaboration and participation of all factors influencing the process:
“[The performance measurement process] is difficult for various reasons: lack of support from the sales department and senior management, slow administration program.”
“Sometimes the lack of visibility between departments (e.g. the sales team does not always communicate the lead sources).”

Thus, factors for an optimal performance measurement process may refer to:

- Use of indicators for which data are available and adequate;
- Existence of necessary resources (responsible persons, technological solutions);
- Support and legitimacy from top management;
- The necessary support from other departments which may affect the process (e.g. sales department)

5. Conclusions and further research

To the best of our knowledge, this may be the first primary research to address marketing performance measurement in Romanian SMEs. The major findings reveal a rather incipient stage of marketing performance measurement practices, but awareness and knowledge related to this domain. Respondents seemed to be very familiar with concepts such as performance indicators, dashboards, scorecards and even specific measurement technics. Also, they seem to acknowledge the strategic dimension of measuring performance and have a good attitude towards it; a possible explanation may be the fact that measuring marketing performance is associated with improvement, less than with control and accountability. In terms of practices, we have found that implementing marketing performance measurement varies in terms of complexity and level of sophistication, most likely based on the level of maturity the organization has overall. One respondent presented a very well-articulated measurement system, where the marketing performance measurement system was a component of a larger organization system and emerged from the organizational strategy. On the other hand, in other cases, decisions are still ad-hoc, with no planning, measurement and improvement processes in place.

Another aspect that emerged refers to challenges that Romanian SMEs face when considering the adoption of a marketing performance measurement process. One such challenge is what makes the difference between small organizations and large organizations: the possibility to allocate dedicated resources to the measurement process, meaning people, time and tools. Also, challenges related to data - whether it is the access to the data or the reliability and accuracy of the data - and to internal collaboration (how the other organizational actors support the measurement process) emerged.

Although limited to a number of 18 respondents, our study brings some evidence in an area that has been limitedly explored, showing that while at a very early stage of adoption, marketing performance measurement seems to be a declared preoccupation of marketing professionals in Romania. Thus, further studies exploring this topic would add great value. In the case of our particular research, the direction will continue with the development of an evaluation tool for the level of maturity of marketing performance measurement practices in Romanian SMEs. Based on the findings of this exploratory study, we propose to define critical success factors for a mature marketing performance measurement process and develop an instrument that enables the identification of the level of maturity of a particular organization as related to these factors.

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THE IMPACT OF GLOBALIZATION IN THE INDUSTRY OF COSMETICS

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Abstract: *I would like to point out that this paper focuses on the skincare product market, because of the amplitude that it holds in the global cosmetic industry.*

The aim of this paper is to compare the dominant cosmetic consumer's market (i.e. France, Germany, U.S.A.) to the ones that are just now emerging(China, Republic of Korea, India).

In the progressive manner I tried to highlight the importance of Asiatic skincare cosmetic market in the context of global skincare market.

The products on the cosmetics market like skincare products amounted in 2012 to 288 billion \$, make-up products to 20,92 billion \$, hair care products to sums equaling 45,69 billion \$, while the perfumes market got to 8,44 billion \$.

The skincare products industry is today more productive than ever. The market of these products was performant between 2011 and 2012 and registered a great development in countries like France, Germany, Italy, Spain and Great Britain. It meant in 2011, 6,8 percentages more than the year before.

In 2012, the European sector of skin care products registered an important increase, regarding the value, especially in France and Germany. By comparison with the American one, the difference of sales volume value between the two sectors (European and American) is relatively little. The biggest increases of sales volume, expressed in percentages, were registered in France and Spain.

The well-known competitors and experts concentrate their attention upon the Asian continent, that has become day by day more interesting for the cosmetics companies all over the world. On the entire Asian continent, companies try to discover skin care formulas that are more and more sophisticated. The high-quality products, once available only in Japan, are now reachable also in Korea and China, thing showing that the Korean market finds itself into a permanent transformation.

Key words: world-wide cosmetic industry, European cosmetics market, Asiatic cosmetics market , Korean cosmetics market, Chinese cosmetic market, Japanese cosmetic market

JEL classifications: *M 31*

The „Cossmagazine“ reported in („Global cosmetics and toiletries market size 2010-2016„ 2012:76) that the products on the cosmetics market like skin care products amounted in 2012 to 288 billion \$, make-up products to 20,92 billion \$, hair care products to sums equaling 45,69 billion \$, while the perfumes market got to 8,44 billion \$.

The skin care products industry is today more productive than ever. The market of these products was very performant between 2011 and 2012 and registered a great development in countries like France, Germany, Italy, Spain and Great Britain. It meant in 2011, 6,8 percentages more than the year before („*World Cosmetics & Toiletries*“, Euromonitor International, 2012:175).

According to Freedonia Group (in „Global Cosmetic Industry“, „Global Report / Skin Care“, Veille Corporate & Business, 2012:41), until 2016, the anti-aging products will register, only in the USA, sales of 29 billion \$. Because of the nowadays men, that have become more and more interested in their appearance, the Hollywood stars that promote anti-aging products, the possibly of great sales of these products is about to increase. The fact that the demand for anti-aging products, that would bring quick and better benefits, increases, while the cosmetic and pharmaceutical (cosmeceutical) industry doubles in comparison to the cosmetic products industry, is not a coincidence. Nevertheless, the more the world more and more occidentalised becomes, the merrier the skin care products market develops. Because of more revelations regarding the skin and its functions, and also new ingredients, the companies create specialized products, that function together with the new discoveries for bringing efficient solutions. A more aggressive penetration of the companies with their products in the suburban and rural areas, the frequent launching of new products and also a greater interest for personal hygiene, especially among young people, will certainly lead to sales increases. Due to incomes growth, especially the teenagers have become more practical and more active consumers on the skin care products market. Equipped with information on skin cancer risks provoked by excessive sunbath and by the unhealthy risks of the sun, they seek for solar protection and vitamins, to the prejudice of those that contain chemicals and additives. If the companies do not support them, offering them information on the importance and the necessity of skin care, they will not reach their goals.

The cosmetic products consumers have already chosen to inform themselves about skin care, and, consequently, the companies should maintain their marketing strategies fresh and continue launching products containing innovative ingredients. It is important, in the context of global market of skincare products, highlighting *partial key indicators of market capacity, and the position on market (market share of the company)*, but also the company's competitive position on the market (relative market share).

- a) *Position on market (market share)* represents the share of company's sales, in the total sales of a market product. The calculation is:

$$P_{ijk} = C_{f_{ijk}} / C_{ijk}$$
; where : i represents product index ;
 j represents market index ;
 k represents timing index.
- b) *Company's competitive position on the market (relative market share)* shows the ratio between position on market and the market position of the main competitor (leader of market). The calculation is :

$$P_{cf} = P_f / P_{cp}$$
; where : P_f represents the market position of the company ;
 P_{cp} represents the market position of the main competitor.

Table 1: The amplitude of the global market of skincare products, on segments, in 2012

Segment	Value (mil. dollars)	% - / - 2011 / 2012
Facial care	35.884,3	14,6
Body care	8.659,5	13,3
Hand care	1.633,8	13,9
Total sector of skincare	46.177,6	13,93

Source : Euromonitor International” reported in („World Cosmetics& Toiletries Marketing Directory- 2009-2010- Major Cosmetics& Toiletries Multinationals, Multinational market share table”, 2012:7-10)

a) The calculation of market shares:

P_P of facial care = $35.884,3 / 46.177,6 = 0,777 = 77,7\%$

P_P of body care = $8.659,5 / 46.177,6 = 0,187 = 18,7\%$

P_P of hand care = $1.633,8 / 46.177,6 = 0,035 = 3,5\%$

b) The calculation of competitive positions:

P_c of facial care = $0,777 / 0,187 = 4,15 \rightarrow$ supraunit report (leader);

P_c of body care = $0,187 / 0,777 = 0,24 \rightarrow$ subunit report (challenger);

P_c of hand care = $0,035 / 0,777 = 0,04 \rightarrow$ subunitar report.

Indicators interpretation: the companies which sales the skincare products, are leaders in the total segment of skincare products, with a market share of 77,7%, followed by challengers who activates the segment of body care products (with a market share of 18,7%). The biggest competitive position (4,15), is held by facial care companies, followed by body care companies.

We can notice that the facial care products reached the highest value (14,6%) on the global market, followed by the hand and body care products. As a value and percent the biggest sales were obtained in facial care sector.

Table 2 : The amplitude of the global market of skincare products, delimited by regions, in U.S. dollars in 2012:

Western Europe	2.692,2
Eastern Europe	352,2
North America	1.808,0
Latin America	819,6
Asia Pacific	1.024,9
Australasia	21,6
Africa și Middle East	7.216,0

Source : „Global Cosmetic of Toiletries Market Analysis and forecast- Cosmetics and Toiletries Market by Geography, 2010-2016” [online], Available: <http://transparencymarketresearch.com> [2 August 2011: 276]

a) The calculation of market shares:

$$P_P \text{ of Africa \& Middle East} = 7.216,0 / 13.934,5 = 0,517 = 51,7\%$$

$$P_P \text{ Western Europe} = 2.692,2 / 13.934,5 = 0,193 = 19,3 \%$$

$$P_P \text{ North America} = 1.808,0 / 13.934,5 = 0,129 = 12,9\%$$

b) The calculation of competitive positions:

$$P_c \text{ of Africa \& Middle East} = 0,517 / 0,193 = 2,67 \rightarrow \text{supraunit report (leader);}$$

$$P_c \text{ of Western Europe} = 0,193 / 0,517 = 0,37 \rightarrow \text{subunit report (challenger);}$$

$$P_c \text{ of North America} = 0,129 / 0,517 = 0,24 \rightarrow \text{subunitar report.}$$

Indicators interpretation: The global market of the skincare products from Africa and Middle East is leader on the global market of the skincare products, with a market share of 51,7% and competitive positions of 2,67, followed by the challenger market of Western Europe with a market share of 19,3 % and competitive position of 0,37, and North America which has a market share of 12,9% and a competitive position of 0,24%.

Table 3: The value of retail marketplace of skincare products in 2012

Country	Value (mil. dollars)	% - / - 2011 / 2012
France	2.873,0	7,2
Germany	2.361,9	1,2
Italy	1.749,6	1,3
Spain	800,7	6,4
Great Britain	1.409,7	6,3

S.U.A.	6.881,2	3,2
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Source: „Global Cosmetic of Toiletries Market Analysis and forecast- Cosmetics and Toiletries Market by Product, 2010-2016” [online], Available: <http://transparencymarketresearch.com> [2 August 2011:300]

a) The calculation of market share:

$$P_P \text{ of S.U.A.} = 6.881,2 / 16.076,1 = 0,428 = 42,8\%$$

$$P_P \text{ of France} = 2.873,0 / 16.076,1 = 0,178 = 17,8 \%$$

$$P_P \text{ of Germany} = 2.361,9 / 16.076,1 = 0,146 = 14,6\%$$

b) The calculation of competitive positions:

$$P_c \text{ of S.U.A.} = 0,428 / 0,178 = 2,40 \rightarrow \text{supraunit report (leader);}$$

$$P_c \text{ of France} = 0,178 / 0,428 = 0,41 \rightarrow \text{subunit report (challenger);}$$

$$P_c \text{ of Germany} = 0,146 / 0,428 = 0,34 \rightarrow \text{subunitar report.}$$

Indicators interpretation: the market of the skincare retail marketplace from U.S.A. is leader on the global market of the skincare products, with a market share of 42,8% and competitive positions of 2,40, followed by the challenger market represented by France, which has a market share of 17,8 % and competitive positions of 0,41 and followed by the market of Germany, with a market share of 14,6% and competitive positions of 0,34.

In 2012, the European sector of skin care products registered an important increase, *regarding the value*, especially in France and Germany. By comparison with the American one, the difference of sales volume value between the two sectors (European and American) is relatively little. The biggest increases of sales volume, *expressed in percentages*, were registered in France and Spain.

THE ASIAN MARKET OF SKINCARE PRODUCTS

The well-known competitors and experts on markets concentrate their attention upon the Asian continent, that has become day by day more interesting for the cosmetics companies all over the world. On the entire Asian continent, companies try to discover skin care formulas that are more and more sophisticated. The high-quality products, once available only in Japan, are now reachable also in Korea and China, thing showing that the Korean market finds itself into a permanent transformation (Chandler, M. Technical Manager at Uniqema Personal Care, in Cossma, „The trend of Asian Market”, 2012:15).

In Asia, the creams that whiten the skin dominate the cosmetics market: while the Western women spend fortunes for getting tanned, the sales of „whitening” creams reach here stunning quotas. In this area of the planet, the „snow-white” skin was and will always be a beauty canon and the market is continually increasing. Almost half of the women in Hong Kong bought such creams last year, by comparison with only 38% in 2011. In Indonesia, Malaysia and Taiwan, over a third of the feminine population uses a miraculous product, that it is said to attenuate the skin pigmentation. In Thailand, „the whitenings” monopolize over 60% from the face creams market. According to the Japanese giant of cosmetics, Shiseido Company,

the whitening creams sales increased by 20% between 2007 and 2012, now representing 23% from the total sales of this company in Asia(„Japan: Shiseido Enters Natural Cosmetics Market”, in „Research news”, *Organic Monitor*, 2012:187.]

A market study of the Synovate Company shows that most of the men and women in Asia prefer the pale skin, confirming the fact that the ancient beauty canons have not changed at all.

The beauty definition in Asia is totally different from the one in the West. The Asian women do not like freckles, nor the yellow colour of their skin, the white being here a king. So, beginning with 2000, the beauty products departments are full of whitening masks, double-whitening pencils and even whitening deodorants.

Other tendencies that are to be found on the Asian market are represented by red lips in China, very soft skin in Korea, the world of make-ups and skin care products becoming a kaleidoscope of the new technology.

The Korean Market of Skincare Cosmetic Products

In the Republic of Korea, the products that create a natural aspect dominate the market. The Korean woman is not in search of a new appearance that should stress the eyes and the lips anymore. She wants to obtain an appearance that should mirror the natural beauty. At the same time, the products that provide solar protection, improve health, improve the aspect of the skin and reduce the aging signs are appreciated.

The natural ingredients are also important for the Korean consumer. Regarding the analysts' report from Euromonitor International (“Market research for the beauty and personal care industry- Beauty and personal care in Korea “2012-2014), with the consent of the natural tendency, many brands stress the importance of plant- and aloe-based medicine. The main goal of these functional brands is the middle-aged women. The attention centered on health and vitality and also on the transfer of the concepts from food to cosmetic products, determines the consumers to search for natural ingredients. On the Korean market, the Oriental or Chinese medicine uses cosmetics that have as main ingredients extracts from Oriental herbs, products that are locally named “hanbang” and whose market quote is increasing because of the consumers that want to go back to the natural way of life.

The domestic producers are the leaders on the Korean cosmetics market, the harsh competition being among the companies that hold the hegemony on the market: Pacific Pharmaceutical, LG Household & Healthcare (Euromonitor International -“Market research for the beauty and personal care industry- Beauty and personal care in Korea “ 2012:232).

The Chinese Market Of Skincare Products

The cosmetics industry in China was competitive in 2012, registering an increasing rate of the sales volume of 15 percentages by comparison with the former year(Euromonitor International -“Market research for the beauty and personal care industry- Beauty and personal care in China “ 2012:257).

Like the Korean women, the women from China seek for functional, hydrating cosmetics that should provide solar protection, improve health and the aspect of the skin, eliminate the spots and reduce the aging signs.

Beginning with 2001, the hydrating products and those against aging have known a faster development than any other segment of the care products from China. Promoting the skin rejuvenation ability and the reduction of the wrinkles, the increase was impressive, while many Chinese women are willing to spend more for maintaining their appearance.

Jason Wu, Commercial Manager commercial of PCBIO Greater China, Eastman Chemicals Ltd. (Chemical products Company Eastman), supposes that the products with natural plant extracts will become more popular in the next decade. Lately, the producers gave a growing importance to plants, because of the great interest of the consumers towards the natural products.

The lipsticks producing subsegment had the biggest market quote within the make-up products segments, registering a growth of 55,2 percentages for the period between 2007 and 2012 (Pitman, S, „China cosmetic sales growth powers ahead, but rate slows”, 2011:53). Being one of the cheaper and visible ways of beautification, the lipsticks are popular, not only in the urban areas, but also in the rural ones, the Chinese women preferring shiny colours, especially red, that is traditionally associated with luck and happiness.

The Japanese Market of Skincare Cosmetic Products

The Japanese economy has crossed a descending phase in the last years. However, the cosmetic products with whitening and anti-aging capacity and also the special ones, that allow the Japanese women follow the tendencies of the international fashion, will maintain the Japanese market of skin care products and toiletries on the increase.

The products addressed to the premium segment (luxury), made by both domestic and foreign producers, have determined the unparalleled sales growth especially of skin care products, but also of cosmetic products in general.

Wanla Cheng, President of Asia Link Consulting Group, said in Euromonitor International,(„Cosmetics and toiletries in Japan”, 2012:67), that the segment of whitening has the supremacy within the skin care segment, registering the biggest sales volume on the market.

In Japan, the behavior of the female consumers is influenced by the international fashion tendencies, thing that will continually be the most important force of gravity for the cosmetic industry. The best sold cosmetic products are the glosses, mascara and lipsticks.

The most important competitors on the cosmetic products and skin care market from Japan are the domestic ones. Companies like Shiseido, Kanebo, Kose and Kao have registered a market quote of 49 percentages from the total amount of sales in 2012. Regarding the skin care products, successful domestic brands have introduces lines like Shiseido, Kanebo and Kao, the only successful international brand being Max Factor KK of the Maybelline Company(Euromonitor International -“Market research for the beauty and personal care industry- Beauty and personal care in Japan “ 2012:285).

The Indian Market of Skincare Cosmetic Products

Although the population outnumbered 1 billion, the sums of money that India assings for cosmetics and toiletries are relatively little, the rural and suburban areas being incapable of surpassing the level of basic use of cosmetics and

toiletries. Nevertheless, while other countries of the world use the traditional Indian products made of herbs and ayurvedic as beautification solutions, more and more Indian consumers consider the international brands of personal care, products that improve the way of life, being convinced that their association, like individuals, with the use of these successful international brands, represents the symbol of the superior, sophisticated class. International names like Estée Lauder, Elizabeth Arden, Nina Ricci, Yves Saint Laurent and Shiseido, among others, win more and more prestige among the consumers in the key cities, like Mumbai and Hyderabad. Along with the development of the Indian en-gross trade, these premium brands offer various types being supported by a well substantiated marketing activity. The opening of the Indian economy, the acceptance of this country as a member of the International Trade Organization, made India a productive and efficient market for the international cosmetics and toiletries production.

The cosmetics and toiletries market increased by 5 percentages in 2012, the sales value reaching 146 billion rupies (Cosma Magazine" reported in („Global cosmetics and toiletries market size 2010-2016,, 2012:132). The more powerful entrance of the products in the suburban and rural areas, the frequent products launching and the increasing interest in personal hygiene, especially among young people, led to the growth of the sales on the market. The higher levels of pays and lower prices of products, with the help of smaller packages and sizes, made the cosmetics and toiletries accessible for a bigger number of buyers. The habit of buying products for personal care already represents a modus-vivendi in India, outliving all the economical crisis that existed along the decades.

The basic toiletries (bath and shower) dominates the Indian market, representing 39,1% of the total sales of cosmetics and toiletries in 2012, while the hair care products and oral hygiene are on the second and third place(Euromonitor International -"Market research for the beauty and personal care industry- Beauty and personal care in India " 2012:267).

The West India remains the biggest outlet of cosmetics and toiletries in the country, relying on the increasing level of awareness of the products by the consumers, on lower prices on a competitive market and on bigger personal incomes, and also on the desire to spend more for obtaining some registered mark products. The region represented 28% from the total amount of cosmetics and toiletries in India in 2012, followed by South India.

Hindustan Lever Ltd. (Private Limited Company) kept its top position on the Indian market of products for personal care in 2012, with a market quote of 40,7 percentages, about 32 percentages more than the next competitor Colgate-Palmolive (India) Ltd.. Hindustan Lever's domination results from a various range of products, many of them being well quoted and sold brands. Due to rich resources and superior budget, the company may perform a marketing activity that can offer it a competitive advantage concerning the mixed marketing strategy("Indian Cosmetic Sector Analysis(2009-2012)- Indian Cosmetic Market Performance", in RNCOS Industry Research Solution, 2011:87).

While the toiletries market is well developed and dominated by important multinational companies and a hand of Indian competitors, the skin care cosmetic products knew a recent development for the consumers in towns, but also for those in the rural areas.

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MARKETING REQUIREMENTS FOR DEVELOP A BRAND IN AUTOMOTIVE INDUSTRY

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Abstract: *The Umbrella Brand can be defined to be the mother brand which is not usually model specific which houses the family of brands. It is a trustworthy, relevant, and distinctive promise to the consumer. In our case of General Motors Europe, Opel/Vauxhall is the Umbrella Brand. To develop and maintain on the automotive market a strong brand there are some marketing and management requirements to be applied. This document summarizes the Marketing requirements for the Gamma Monocab program. The Gamma Monocab will be branded as a Corsa, considering that it strongly relates to the other 4300 bodystyles in terms of exterior and interior styling, and that would benefit from the Corsa brand equity, requiring lower investment in brand awareness. It is very important at the beginning to follow for example the Corsa Product Compendium. This Product Compendium consists of thirteen parts which are: the Foreword, the Executive Summary, The Marketing positioning, the Exterior Design, the Interior Design, the Drive ability Chassis, the Powertrain, the Functionality Features, the Safety and security, the Aftersales, the Infotainment, the Quality and the environment. The essence of Opel/Vauxhall in terms of Umbrella Brand Mission that Opel challenges the market with innovative German-engineered products and services that exceed customers expectations by delivering best-in-class quality and superior value. The research was practical because I had a practical degree practice at Adam Opel AG especially at European Business Team and at the Department of markets research and I had a specific field of activity at Corsa Brand Team. The Brand Strategic Objectives are Quality Leadership, Affordable High Technology, Superior Value, Environmental responsibility, Mature driving Pleasure, Harmonious Distinctive Styling. In the Gamma Monocab Opel Zafira and Meriva are the top brands and in this study I tried to make a good compare between these brands and the competitors brands. Market research indicates a high positive correlation between the number of problems a vehicle sustains during its operational life and the overall level of customers satisfaction with vehicle in turn directly impacts willingness to repurchase. Price and packaging will challenge competition making Gamma Monocab a logical decision for customers looking for an ideal compromise between interior space and flexibility for passengers and luggage, with an expressive styling in a vehicle that they can afford. The General Motors Europe product – base car segmentation includes four major segments which are: larger, smaller, family / functional and sporty/ personal.*

Key words: umbrella brand, brand strategic objectives, segmentation

JEL classification: M31

1. Introduction

General Motor's Europe (GME) designs, manufactures and markets vehicles for the European market, having a market share of 9,8% for Western and Central Europe and 0,55 for eastern Europe. The number of employees is about 81.000 and the major customers are individuals, rental car agencies, corporate and government fleet accounts. The major competitors are Volkswagen, Fiat, Toyota, Ford, Renault. In 1999 became the first European brand selling vehicles on the Internet which was Vauxhall. The highlights for previous year were achieved record production level of 1.894.000 units excludes Saab, achieved top selling wagon ranking in Europe- Astra Wagon, and volume of sales of 1.968.000 units. The business objectives for the future period are reduce costs, strengthen products and brands, improve quality and service, increase profits. The growth opportunities for General Motor' s Europe are the high volume and niche car models, growing demand for diesel engines in passenger car and light- commercial vehicle markets, internet purchasing and e- commerce opportunities. GM Europe consists of Vauxhall, Adam Opel AG and Saab (General Motors, 2005 : 11-63) .

The organizational structure of Adam Opel AG is very complex and includes specialized entities such as Planning, Personal, Technical Design Center (TDC) Material Forecasting Purchasing, Finance, Manufacturing, Public Relations European Sales Operations, National Sales Organization GA and European Business Team(Adam Opel : 2000)

This document summarizes the Marketing requirements for the Gamma Monocab program. The requirements in this document apply as a substitute to or in addition to the requirements of the base car S-Gamma Mss. All new 5-seater Gamma Monocab replaces the Wagon bodystyle in the Gamma Product Portfolio.

It will be badged as Chevrolet for most GM Latin America, Africa, Mid-East - LAAMO countries, except Africa and Middle-East, which require Opel badging. LAAMO manufactures, markets and distributes vehicles in this large region, having a market share of 16.6% (Latin America: 20%; Africa 13,8%; mid-East: 8,6%) and 23.000 employees. The

Business objectives for next period are to increase customer satisfaction, reduce warranty costs, grow market share and focus on quality improvements. The major customers for LAMOO are: individuals, rental car agencies, corporate and government fleet accounts and the major competitors are: Volkswagen, Fiat, Toyota, Ford. The major brands of LAAMO are Chevrolet, Opel, Isuzu, Saab, Cadillac, Suzuki and GMC. The highlights for past period were: increased market share, led truck sales in South America for 11th consecutive year and in LAAM region for 5th consecutive year, continued as sales leader in Chile, Colombia, Ecuador and Venezuela, returned to positive net income, launched eight new models, sales 523.000 units. The growth opportunities for LAAMO for next period are to launch a new assembly plant in Brasil, e-business opportunities, aggressive selling, improve customer service (General Motor's Europe : 2011).

Opel will also be the primary for Europe and Asia Pacific. Vauxhall is required for UK, and Holden badging is under consideration for Australia & New Zealand GM Asia Pacific (to be confirmed with APO). GM Asia Pacific designs, manufactures and markets vehicles in a region organized around five groups: Japan, Korea, China, the ASEAN nations, and India, Australia, and New Zealand having a market share of 3,9% and 10.000 employees. The major competitors are: Toyota/

Daihatsu, Nissan, Mitsubishi, Honda. The major brands of GMAPO are: Chevrolet, Opel, Isuzu, Saab, Cadillac, Suzuki, Holden, Buick, Saturn, Subaru. The highlights for previous period were: continued record-setting sales pace in Australia, achieved profitability at Shanghai GM plant, exceeded Buick GL8 sales target in China, launched Zafira production at new Rayong Plant in Thailand, sales 421.000 units. The business objectives for next period are: focus on growth, on profitability and on strategic alliance partner relationships. The next opportunities for GMAPO are: increased sales volume, production capacity to offset any weakness in local economies, promote Asian based core product portfolio, make stronger brands and distribution network.

It is very likely that the Gamma Monocab will be branded as a Corsa, considering that it strongly relates to the other 4300 bodystyles in terms of exterior/interior styling, and that it would benefit from the Corsa brand equity, requiring lower investment in brand awareness.

However, a specific consumer research study is strongly recommended to define the final position/naming strategy for this vehicle. Gamma Monocab is the program's code name and should not be misunderstood as the vehicle's brand or commercial name.

2. The Research

In this research I studied Umbrella Brand Character regarding the three core themes of the Umbrella Brand Message which are challenging the market, innovative products and services and exceeding customer expectations.

The Gamma Monocab pushes towards a younger, modern, progressive, and innovative brand image. It will bring innovation & excitement to the gamma platform in the S-segment.

The Mission / Image Statement is established on the base of Umbrella Brand Mission General Motor's Europe, on Umbrella Brand Strategic Objectives, on Umbrella Brand Character, and helps to make an efficient market segmentation strategy.

Umbrella Brand Mission GME relies on the *The Essence of Opel/Vauxhall* which are:

"Opel challenges the market with innovative German-engineered products and services that exceed customer expectations by delivering best-in-class quality and superior value, throughout the ownership experience".

"Opel – Anticipating Life's Journey"

"Opel is a brand of German engineered cars for independent minds and the young at heart which reflects and delivers a unique combination of excitement and harmony in all aspects of the driving and ownership experience" (positioning statement).

"Holden is to have the best range of products, the best customer care and be the sales leader".

Umbrella Brand Strategic Objectives GME are:

Quality Leadership

We build best-in-class products that exceed customer's expectations throughout the ownership experience by delivering problem-free operation. Our products will build confidence through smooth and precise function and provide a feeling of strength and solidity.

Affordable High Technology

We introduce advanced and meaningful technology that provides customer benefits in the areas of safety, security, fuel economy and low cost of ownership, that are first in their segment.

Superior Value

We sell vehicles that exceed customer's expectations for affordability and value. Our vehicles are functional and easy to operate and set standards for economic ownership throughout the purchase and disposal cycle.

Environmental Responsibility

We assume a leading role in the areas of resource conservation, emissions reduction and use of environment-friendly materials (no PVC use). We take the environmental initiative-even without legal requirements.

Mature Driving Pleasure

We manufacture spirited vehicles with refined ride and precise, responsive and safe handling providing a pleasurable/fun to drive driving experience that is in tune with the times.

Harmonious Distinctive Styling

We design consistent high quality styling that reinforces brand identity and makes customers respond on an emotional basis. The high level of refinement underlines the identity and quality of the car.

At GMAPO are some additional strategic objectives like:

Quality Leadership

Exceed Toyota Corolla quality in terms of visual quality impressions and DPTV.

Superior Value

Superior vs. Toyota Corolla in structural durability, material quality and reliability.

Mature Driving Pleasure

Focused on typical city traffic driver patterns with high degree of stop and go driving, i.e. superior launch/acceleration feeling, precise yet easy to handle steering and "Japanese feel" pedals. At balance "Germaness in ride and handling must be preserved.

Harmonious Distinctive Styling

European styling

Umbrella Brand Character GME relies on the three core themes of the Umbrella Brand Message:

Challenging the market

A brand that is not complacent, that continually seeks to challenge the status quo, a sponsor of change.

Innovative products and services

A brand that does the unexpected, that pleasantly surprises customers through product and service innovation.

Exceeding customer expectations

A brand that is dedicated to understand customer requirements and exceed expectations more effectively than competitors. The supported by more rational attributes are: German engineering, Quality leadership, Affordable high technology, Superior value, Environmental responsibility, Mature driving pleasure, Harmonious, distinctive styling

The five key brand character traits which describe our attitude towards consumers and customers in all relevant areas of the business, i.e. product, Quality, Distribution, Aftersales, Parts, Pricing and Communications.

Vibrant

Opel leads in its field and dares to try new technology, processes materials, services communication channels in order to exceed customer expectations and to maintain the closest possible contact to its customers. Opel is agile and permanently senses its environment in order to maintain and further strengthen its leadership role.

Sociable

Opel is a brand which reflects an open mindset and which is easily accessible to all classes in society. It bridges between cultures and age groups and genders. Opel seeks the open contact with its customers in order to best anticipate consumers needs.

Authentic

Opel has a long and successful tradition of mobilizing people with innovative, customer focused German engineered cars. The company willingly accepts the ecological, safety-and quality-related demands faced by modern enterprises and equally willingly acts on it in order to offer lasting value to its customers. Its corporate values of Customer Enthusiasm, Continuous Improvement, Integrity, Teamwork and Innovation govern all aspects of the Opel product and Opel services.

Harmonious

Opel continuously seeks to bridge and balance the multitude of competing or conflicting areas concerned with today's individual transportation, i.e. ecological necessities and driving pleasure, economical necessities and safety, individualism and cost, interior space and size, status and value, design and packaging, just to name a few. Opel product and services help the customer to establish and maintain a harmonious lifestyle.

Stimulating

Opel designs and offers products and services that will inspire people to raise their standards and expectations. Opel communicates with consumers and customers in a way that enables the best possible exchange of ideas, desires and needs in order to strengthen the trust in our brand. By going above and beyond the usual Opel seeks to engage with its customers in a lifetime relationship.

Supported by additional rational attributes:

Customer – brand – customer communication channels:

A highly service oriented distribution and after sales support:

Competitive parts pricing.

Gamma Monocab Mission is defined in proper marketing terms such as: Bring new customers to GM and improve the overall umbrella brand image;

The Gamma Monocab shall help to establish GM's new leadership in the fast growing monocab segment and contribute to the umbrella brands overall market share increase;

Price and packaging will challenge competition making Gamma Monocab a logical decision for customers looking for an ideal compromise between interior

space/flexibility for passengers and luggage, with an expressive styling in a vehicle that they can afford;

It shall be an exciting alternative for the large Corsa owner body that allows to move up in interior size and comfort at an attractive price; It shall support Corsa's image and strong market position.

The Monocab Strategic Objectives to achieve are:

The Monocab will be offered in one bodystyle, with a revolutionary, new, exciting and innovative design. This vehicle will be targeted at young families and individuals who appreciate its distinctive styling and enhanced driving environment. It shall in most cases be the first car in the household.

The Monocab shall offer best-in-class price-value relationship and be fun to own and drive;

Build Monocab competence by translating Opel/Vauxhall's wagon competence into a premium, yet affordable, non/traditional S-Car with contemporary design offering flexibility, practically & best in class comfort for all passengers;

Traditional Opel/Vauxhall strengths such as safety and ecology at class leading level;

To demonstrate and prove Opel's vibrancy as a brand and its determination to lead;

To give Opel a considerable presence in the small car segment in Asia Pacific;

The gamma Monocab is one of the Design ambassadors for the Chevrolet, Holden and Opel umbrella brands, bringing innovation and excitement to GM's product portfolio world-wide,

The gamma Monocab will push towards a younger, modern, progressive, and innovative brand image.

Gamma Monocab Product Cornerstones refers to four principal features :

Exciting Exterior and Interior Design(New, fresh and exciting Monocab design – “to fall in love with”; Modern, comfortable, flexible and catering interior).

Affordability(MSRP base price significantly lower than Renault Megane Scenic; Comparably equipped price also lower than Scenic; Low cost of ownership)

Fun to drive (Competitive powertrain offer; High seating position relative road; Interior space, flexibility and storage alternatives).

High quality(Of materials. Matching, finish, appearance, touch; Should appeal to higher segment intenders (Compact)

Interior will offer maximum flexibility and space compared to vehicle's exterior size and offering high level of comfort; Excellent price/value relationship; Rewarding driving enjoyment via responsive powertrains; List price targeted at intenders from Small & Compact hatch segments ;Smart interior features such as armrest front, foldable desks and various storage compartments for small items, bottles, etc.

For GMAPO Affordability will include MSRP base price 5% premium over Toyota Spacio;

Comparably equipped price head on with Toyota Spacio. and High quality is translated in

Young and authentic material in line with trends in sporting goods with the little extra in finishing touch. Materials to be appropriate for tropical region, i.e. enabling air circulation, skin friendly, etc.

Manufacturing Strategy is made on three areas which are LAAMO, GME and GMAPO.

At LAAMO the plan is to produce the Gamma Monocab in the Sao Jose dos Campos (SJC) plant (no flexibility with other platforms). Capacity is being planned as a 9 JPH (jobs per hour) rate at 3 shifts in SJC. No plan for CKD assembly has been defined yet.

At GME Gamma Monocab production is allocated to Luton plant in the UK. Total Plant Flex: 45 jph Monocab (capacity of 145.000 upa only for the Monocab) in a 2 shift operation. The principals sources of engines are:

<u>Engine</u>	<u>Supplier Plant</u>
GME Fam0/DOHC Y1.2XE	Aspern (Austria)
GME Fam0. GenII Z1.3XE	Aspern (Austria)
GME Fam1/SOHC Y1.6SE	Szentgotthard (Ungaria)
GME Fam1/D1 Y1.4XG	Szentgotthard (Ungaria)&Bochum
GME Fam1/DOHC Y1.8XE	Szentgotthard (Ungaria)
GME Fam1/D1 Y1.8XG	Szentgotthard (Ungaria)
GME Fam1/D1 Z1.8XG	Szentgotthard (Ungaria)
GME L/DOHC Y1.7DIT	Tychy (Isuzu – Poland)
GME L/DOHC Y1.9CDT	Tychy (Isuzu – Poland)
GME L/DOHC Z1.9DT	Tychy (Isuzu – Poland)
GME Fam1/DOHC Y1.6XE	Szentgotthard (Ungaria)
GME Fam1/DOHC Y1.6XG	Szentgotthard (Ungaria)
GME Fam1/DOHC Z1.6XG	Szentgotthard (Ungaria)

Source: Product Planing Adam Opel AG (2010)

Major European markets for the Gamma Monocab are Germany, France, Italy, the UK and Spain, which are also the largest forecast small Monocabs markets. At GMAPO the local assembly plants are in India, Taiwan and Philippines and they plan to increase volume forecast substantially.

Market Segmentation Strategy

Gamma Monocab’s positioning based on the needs Segmentation for Western& Central Europe should target the entry-level version (GL) to macro 1 (“Affordable For Passengers”) of the VanWagon partition. The top-of-line version (GLS) would then be targeted to macro 2 (“Stylish For Passengers”) of the same partition, as follows:

Macro1-44% - Something simple, Practical/Affordable, Functional and maximum Interior, Want a Durable Vehicle, average age43 Monocab basic, Corsa SW;

Macro2-25% - Mainstream Functional, Rounded Exterior Design,Attracts Attention,Must have ample power, latest Technology, Biggest vehicle in Class, Willing to pay more for vehicle they like, average age 47, Monocab upscale, Van/Wagon;

Macro3 – 6% - Functional with Flair, Luxurious interior, Sporty Styling, Attracts Attention – big vehicle, Latest Technology, asverage age 45, Zafira , Opel/Vauxhall Astra;

Macro4- 10% - Almost Luxury , Luxurious Interior, maximum interior space, elegant looking sleek exterior, Opel/Vauxhall Vectra;

Macro5-8% - Affordable Sporty for, practical /affordable, maximum interior space, elegant looking, sleek interior, average age 37, Opel/Vauxhall Astra 3DH;
Macro6- 9% - Distinctive and Sporty For me, sporty styling, luxurious interior, maximum interior space, elegant looking, sleek interior, average age36 Opel/Vauxhall Calibra CPE;
Macro7-16% - Functional Sportiness For More, sporty Styling, Practical/Affordable , Maximum interior space, Elegant looking Sleek exterioraverage age 38;
Macro8-7% - Sleek and Elegant For More Sporty Styling, Luxurious Interior, Maximum Interior Space, Elegant Looking, Sleek exterior average age 39 opel/VauxhallAstra 4DN.

At the level macro GME Needs Segments can be clasificated into next levels – tabel 1

Tabel1.General Motors Europe needs segments

Partition(% of MKT)	Macro(%of Partition)
Low(32%)	Basic Transportation (7%) Pragmatic Individuals(11%) Mainstream Traditional(28%) More Size for me(14%) Traditional Elegance(10%) Style, Mainly Me(14%) Style for More(16%)
Mid(40%)	Something Simple(14%) Mainstream Functional(15%) Functional with Flair(25%) Almost Luxury(6%) Affordable Sporty for Me(8%) Distinctive and Sporty for Me(9%) Functional Sportiness for More(16%) Sleek and Elegant for More(7%)
High(10%)	Moderate Demanders (11%) Mainstream Comfort (19%) Large Conservative(17%) Premium Conservative(15%) Personal Sporty(13%) Mainstream Sporty(21%) Premium Performance(4%)
Van/Wagon(15%)	Affordable Mainstream(35%) Upper Mainstream(20%) Big and Functional(7%) Prestige Seekers(14%) Relaxed Control(7%) People Mover(17%)
Sport Utility (3%)	Stylish Urban Cowboys (28%) Functional Urban Cowboys (10%) Workhorse (11%)

	Premium Lifestyle (28%) Maximum Possibilities (23%)
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Source: manufacturing strategy Opel AG – Corsa Brand Time (2010)

Competitor Strategies

The Gamma Monocab will presumably be among the first entries in the Small Monocab segment.

Direct competition is anticipated to come in CY 2001 to 2003 (Ford Fiesta monocab, VW Polo Monocab).

Japanese entries will come earlier onto the market (Deihatsu gran Move, Mazda Demio) but are not forecasted to get the bulk of the segment.

Thus, the Gamma Monocab is likely to secure a good slice of the segment (F/C:19,00% in WE). In the figure 1 is presented the current and future Competition Gamma Monocab

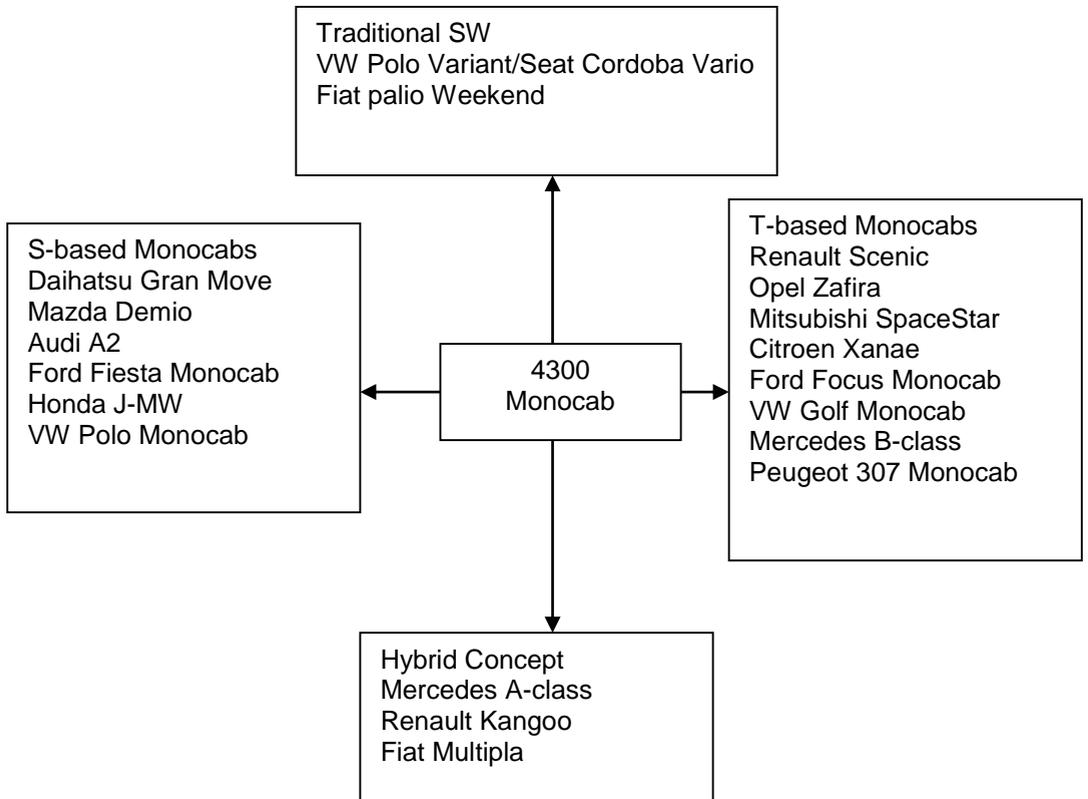


Figure 1. Current and Future Competition Gamma Monocab

Source: Competitor Strategies Adam Opel AG (2010)

3. Conclusions

The new Gamma Monocab must have in future some priorities like quality and reliability. The quality improvements for the Gamma Monocab have therefore to be benchmarked not only with current Renault Scenic, but also with the best-in-class competitors at the time of vehicle development and start sales (Ford Fiesta Monocab, VW Polo Monocab, etc.)

The use of an innovative seating concept should not hamper superior interior quality, and has to focus on the following points: easy to operate, no rattling, close tolerances, no reliability or durability problems, solid feel, no grease. The Gamma Monocab is targeted to be a family vehicle and should therefore have an easy to clean interior, fabrics with high quality feel even after intensive use. As a result of this study I find some key quality Measures from the customer's perspective specified to Gamma Monocab. These are: low engine noise/ vibration; excellent torsional rigidity; solid feel and sound when closing the doors; responsive/ low effort steering and braking; length of warranty; excellent fit/ finish; no walk home failures; vehicle is durable and lasts; no squeaks, rattles and/or excessive wind noise; materials look attractive, are pleasant to smell and touch; features/ equipment are easy to use and work as expected upon delivery and over time; smooth operation of controls and switches. Another important problem is the value/ affordability for this Gamma Monocab. The factors which determine the value for money rating are: price, equipment level, quality, refinement, durability, performance, comfort, size, roominess, brand, model image, service, warranty, resale value, depreciation, design, styling. An important aspect on the production management is to put in practice the PSDA Cycle, to improve a product or a process. This cycle includes four steps: step 1 Plan is the foundation of the whole cycle, step 2 Do- carryout the test, comparison, or experiment, preferably on a small scale, according to the layout decided step 1, step 3 Study-the result and step 4 Act- adopt the change (Deming, W.E., 1994: 131-134). The cycle and the technology is used to shorten the time of development in our case an engine or a component of the automotive products. One of the business purpose of European Business Team's Europe, part of general Motor's Europe is to develop a revenue stream in line with long term Portfolio brand objectives and consistent with target market & competitive environment and reduce costs. The principal customers will be Brand Teams, Vehicle Line Execution Teams, Budget & Business Plan, Finance Organization, Planning and regional pricing Group. Thus process starts with communication of the approval Portfolio Plan prior to Draft Charter review with the respective Strategy Board and ends with integration into the production pricing process. Regarding these aspects is very important not forget the human resources, the managers because to reduce external risks, a manager may act in at least two ways: one may adopt a passive attitude until the materialization of the risk, and then his reaction is to reduce the effects and a second course of action is to be a proactive manager, to prepare in advance, to be cautious, and to take a preventive stance. For business, it means to move from traditional pricing to a more realistic one, taking into account the absorption capacity of the market and the level of competition in the field (Rădulescu, Toader, Boca, Hahn, 2011: 56).

Transforming GM to compete in this global economy is a daunting task. But it also provides us with an opportunity to lead this great company into a new era of growth and success in providing the world with innovation in transportation. I am confident

that we'll emerge from these challenging times stronger, smarter, and a better global competitor (Wagner,2010:7)

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THE IMPACT OF ACCOUNTING INFORMATION ON MANAGERIAL DECISIONS – THEORETICAL APPROACHES

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Abstract: *The hospitality industry is one of the most dynamic sectors of contemporary society with a pronounced role in the globalization process. Nowadays, hospitality industry does not only face the challenges of the economic crisis, but also the changes of the market, in consumer's behavior and in technological trends. Accounting, as a language of business, must keep pace with developments in the areas investigated, and the need to promote universally recognized concepts proves its usefulness more and more. When an entity's management team is facing difficult problems such as the economic and financial ones, a situation frequent in the hospitality industry given the complexity of these activities, a need is naturally felt, for a set of accounting principles which are not similar with the immutable laws of nature from physics and chemistry.*

The contribution of accounting to the fulfillment of the strategic objectives of the managers in hospitality and tourism industry is manifested also in the form of providing the information necessary for monitoring, for determining the degree of liability and the effect produced at various work places, which allows detection of internal reserves, of unnecessary and uneconomic spending and of losses. Also, accounting has developed the capability of knowing the economic and financial situation, so that it can provide, in optimal conditions, the information necessary to make the most appropriate decisions. Moreover, the purpose of accounting is to make the information and its methods a targeting tool, a "dashboard", an advisor, in order to determine the conditions in which the economic entity operates at both micro- and macroeconomic level.

These were the reasons that led to the start of our scientific approach, aiming at a radiography of the impact of accounting information on managerial decisions in the hospitality industry in Romania. This article is primarily a theoretical one in which we intend to review the literature on the topic of accounting information in the hospitality industry and of management accounting practices in this sector.

Keywords: *accounting information; accounting management; managers; hospitality industry*

JEL classification: M 41.

1.Introduction

The world today would not be what it is, if the human mind would not have created thousands of years ago the writing, this formidable means of communication. Nowadays an axiomatic truth has been promoted: the future of a company is determined essentially by the production and possession of a fundamental resource: Information (Horomnea 2008:148).

The impact of information and of computer science on the global economy in general and on the economic entities in particular is a subject analyzed both by sociologists, economists and specialists in technology.

Nowadays, an economic entity can no longer be regarded only as a producer of goods and services, but also as a producer, owner and user of knowledge and information from different fields. Economic and financial power of the most important entities lies in their ability to control and use the information to achieve the desired objectives. Global competition is now held in the realm of the best use of knowledge, information and new communication technologies (Briciu and others 2003:29).

But how can information be defined? Why is it so valuable?

The term "information" is a polysemantic one, being perhaps one of the most frequently used and "abused" words. The term is taken from the Latin *information* and can sometimes have different or contradictory meanings, meanings given by the contexts and the areas where it is used, in human activity.

According to the dictionary Le Petit Larousse information is the action of informing to keep up with events, the indication of the details regarding someone or something, every event, every fact, the decisions made known to a smaller or larger audience, in the form of images, texts, speeches, sounds, elements of knowledge to be stored, processed and communicated.

Regardless of the definition of the concept of information, we note that its analysis, as well as that of its impact and its importance for the decision making process, has represented and still represents a challenge for researchers from different fields. The information is the result of thought, a process of the mind, a property of consciousness (Belkin 1978), it is characteristic data or material data (Mingers 2003), it is knowledge, communication (Gelepithis 1997, Callaos and Callaos 2011, Floridi 2012, Vakarelin 2012).

The term information is used in many areas, but in our case we will focus on accounting information and its impact on managerial decisions in the hospitality industry.

2.Literature reviewed – accounting information in the hospitality industry

Analyzing the local literature on the topic of accounting in hospitality and tourism industry, we can conclude everything as "lights and shadows", i.e. while in what financial accounting is concerned there is some light, with respect to the management accounting there persists a shadow in this sector, a darkness. The issue of accounting in the hospitality and tourism industry in Romanian literature has a general character, without tackling different cases, or without a central topic, the authors being: Dumbravă and Pop 1995, Dumitrana and Negruțiu 1996, Sabău and others 2000, Ivanof 2007, Dumitrana and others 2008.

Major works on this topic of the hospitality industry are numerous in foreign literature, they addressing both general organizational and management issues, and specific questions on financial accounting and management accounting and control in this sector: (Hales 2005), (Dobson and Hayes, 2009; Rutherford and O'Fallon, 2007; Barrows and Powers, 2009; Weygant and others, 2005; De Franco and Lattin, 2007; Guilding, 2002; Demski, 2008).

The review of foreign literature addressing various subjects on the topic of cost calculation and management accounting in terms of hospitality and tourism industry reveals that these issues are of interest to various researchers. The issues analyzed are many and complex such as: issues relating to information technology in the hospitality industry (O 'Conor and Murphy, 2004), the difference between theoretical and practical aspects of management accounting in various industries, presenting even arguments on the causes of this difference (Torrecilla et al., 1996; Shields, 1998; Williams & Seaman, 2001; Jones, 2008), issues regarding the role of financial accounting and management accounting (Zubac, 2012), the structure of cost accounting system (Brignall and others 1991), the importance of knowing the accounting techniques in hospitality management (Damitio & Schmidgall 1990), the use of the information provided by management accounting in the process of decision making (Downie 1997; Santos and others 2010), the importance of planning and of budgetary practice in the sector and the importance of determining deviations (Cruz, 2007; Pavlatos and Paggios, 2008), the profile of the management controller and his role in hotel management activities (Burgess 1996), cost accounting and the relation with price setting practices (Pellinen 2003), acceptance and use of uniform systems of accounts for the accommodation industry (Kwansa & Schmidgall, 1999).

3.Accounting information – a source of information for the managerial process in the hospitality industry

A particular importance in the category of the information circulating in an economic entity, has been given to the economic information that represents the main sources used in the management process, it allowing analysis and critical examination of the use of resources in order to sustain the necessary decisions. In 1895 Frederick W. Taylor referred to the importance of accounting information: comparative accounting information available at the right time should serve to: determine monthly the complete costs of finished goods or of goods in progress, evaluate performance, set the prices by establishing a monthly account per product, ensure protection of assets and prevent fund diversion (Chen and Pan, 1980, pp 20-21).

It is important to note that not all economic information that is provided and runs in an entity is useful to the operational or the decision-making process. The managerial team of management is forced in many cases to face the challenge of selecting and refining the information in order to make it useful. So, in the management process, actors should pay attention both to qualitative aspects that make information be useful and to the quantitative ones that ease the process of measuring information. To be useful, it must be *consistent, relevant, accurate, complete and sufficient, timely and accessible*, and, not least, *concise*, which is to have the level of aggregation necessary for the decision-making process.

The accounting framework issued by the International Accounting Standard Board defines also the limits of the relevant and reliable information. They are given by:

- Opportunity - the information should be timely so that it can be used optimally in the process of decision-making;
- The cost / benefit ratio – the benefits from the information have to be bigger than its costs; Accounting information is a resource that has a cost. It is important to recognize that organizational resources are expended collecting and analyzing cost information. We should not spend more money on collecting and analyzing cost information than the decision making or control benefit that will derive from the costing information (Guilding 2002:83). The cost of information is an important element when choosing alternative sources of information.
- The balance between the qualitative characteristics of the financial information.

According to the literature the way of organizing an entity's accounting system, as well as the way it exploits the accounting information in the management process is influenced by many factors that can be grouped into two categories: external factors and internal factors.

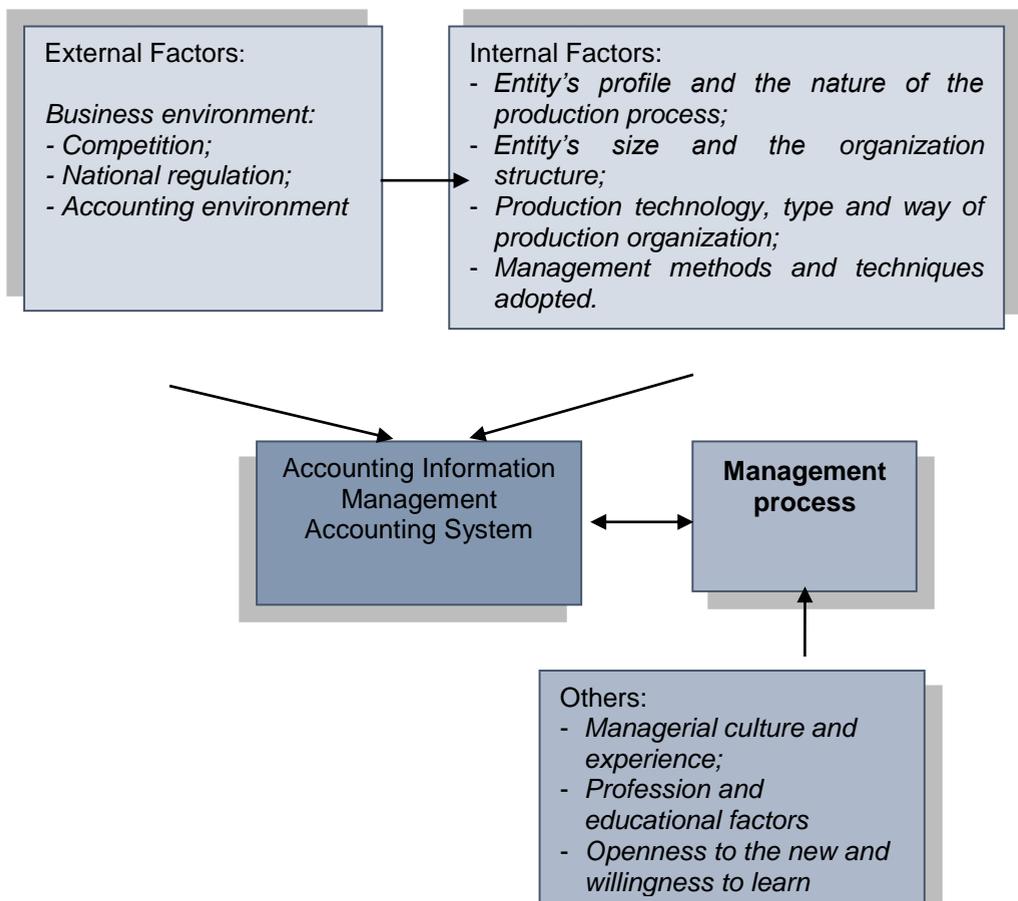


Figure 1: General factors of influence of the accounting information and of the management accounting system

Source: Own elaboration

So that the accounting information can be useful in the process of management, one should keep in mind that, in addition to the qualitative aspects and the general factors of influence, it is also influenced by some specific features of each area.

In the hospitality industry, as this is the area on which we focus, there are both factors of influence that are actually some general particularities of the tertiary sector, as well as some features specific to the industry.

The features common to all components of the tertiary that may influence the accounting information and also the decision-making process are:

- The intangible nature of the touristic service, package or provision;
- Lack of storage potential of touristic service because of the simultaneity of production and consumption;
- Impossibility of separating service from provider;
- Large share of human resources in the provision of services in hospitality industry and of employment costs.

The specific features which can affect to some extent the accounting information and the management process are:

- The complementary nature of supply - (participation of a large number of providers due to the complexity of the activities in hospitality industry i.e. accommodation, meals, transportation, entertainment, services related to the organization of tourism);
- High seasonality of demand for the hospitality industry's offer;
- Heterogeneity and interchangeability (dependence of the quality of the touristic services on the material and human resources available to the provider and the possibility of combining and substituting the elements that constitute the touristic offer);
- Ability and sometimes need to personalize the offer due to the different behaviors of visitors, regarding various components of the tourist services.

Given these features of the hospitality and tourism industry, we believe that each of these influences to a greater or lesser extent the organization of the accounting entities in this sector of activity.

But we believe that, in addition to the general influence and the specificities of each sector, the managers' perception about the accounting information is also influenced by other factors such as: occupation and experience as a manager, organizational and managerial culture, willingness to learn and openness to the new, cultural and sometimes religious factors.

We also know that sometimes the managers' perception concerning the financial accounting information is influenced by the results obtained and also by the relationship with the accountant. Because it is more often than not that a professional accountant reports one thing while the management team wants something else. Nowadays, accounting has been given new tasks, it is no longer sufficient to provide information about the entity's past activity (how much a certain product or service cost me) but there is a need to provide information about the future (how much these products or services will cost me in the future). So there is a change of roles as financial accounting has lately lost the informational war within the business, being considered far too slow and irrelevant (Briciu et al 2010:13), while managerial accounting with its reliable components, management accounting and control, has been given increasingly more importance.

4.The relevance of financial information for managers in the hospitality industry

As a provider of specialized information, accounting as a whole has a certain offer and targets certain "customers". Therefore, we need to know the users of information, i.e. "customers", to know their expectations, their requirements and the purpose for which the information will be used. We can say that in this area of accounting, as well, the slogan "Our client, our master" may be applied. And the slogan must also be respected, as there is too often a difference between the accounting "product" and the demand of the "customers".

While the information provided by financial accounting is public and its main recipients are external users (investors, financial and credit institutions, employees, business partners, government and its institutions, potential investors and the public), management accounting provides confidential information, to internal users (investors, the management team).

Given the above condition, we wanted to see the perception of managers in the hospitality and tourism industry, regarding the importance and usefulness of accounting information, but also about other specific aspects of the sector. So, we started with an empirical study, the total population consisting of 146 entities in Bihor authorized to operate in this sector. The sample was composed of 91 entities and the response rate achieved was 62.33%. Managers of these entities were given a questionnaire consisting of 38 questions, by which we wanted to target certain aspects of accounting information, its utility as well as how it can be exploited in the decision making process.

62.63% of respondents stated that the information provided by financial accounting is very useful in decision-making while, in what the managerial accounting was concerned, 65.63% of them stated that the information provided is very useful for decision making.

We tried to see if these responses are confirmed by another question in the survey, namely the usefulness of accounting reports, knowing that some of them contain only information provided by financial accounting, while others contain or may contain information provided both by financial accounting and by management accounting.

This question was the following:

II7. What are the accounting reports most commonly used in your work?

- Balance sheet
- Profit and loss account
- Statement of cash flows
- Statement of changes in equity
- Notes to the annual financial statements
- Auditors' report
- Dashboard
- Balance Scorecard
- Budgets
- Other (specify)

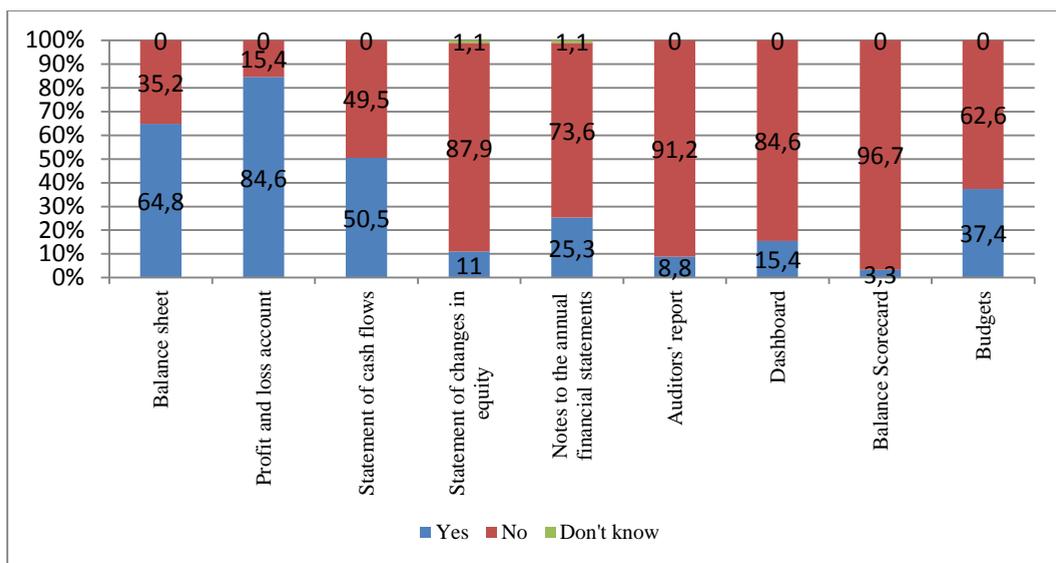


Figure 2 Distribution of accounting reports used most frequently in the activity of the managers in the sample

Source: own elaboration based on responses from questionnaires

Managers in our sample most frequently use information provided by the profit and loss account respectively by the balance sheet while they least appeal to the information derived from the Balance Scorecard. From the research done in the field we found that very many managers do not know the term Balance Scorecard. Regarding the Dashboard we found that there are some entities that use this tool of reporting and performance evaluation, but do not use this term for identification. From processing the data in the questionnaire, it appears that the balance sheet (64.8%) and the profit and loss account (84.6%) are the two statements most used by managers in the hospitality industry in Bihor, but another question arises, which we seek to give an answer to, in our future research, namely: do managers use frequently these reports in the management process or in relation to third parties? The balance sheet expresses the entity's past heritage status at the moment of the year-end while the profit and loss account is the summary document that shows the performance of the entity. But performance can be defined differently depending on the interests of users of accounting information. We are witnessing today, without minimizing the informational value of the balance sheet and of the profit and loss account, a "cosmeticizing" of economic reality, reflected through them. (Cotleț, Megan, Pistol, 2007: 241). If the reports specific to financial accounting address past aspects of entity's management, the reports specific to managerial accounting consider, on the one hand, the past activity of the entity, in more details, but they constitute, at the same time, a basis for elaboration of *future decisions* of strategic, tactical and operational nature (Berheci, 2010: 198). Our study shows that, although 65.63% of the managers surveyed said that information provided by management accounting is very useful in the management

process, the reports specific to accounting and management control are less commonly used (Dashboard 15.4 %, Balance Scorecard 3.3%, Budgets 37.4%).

5. Conclusions and future research directions

The challenges that any economic entity has to face as well as the effects of the global crisis require from all factors involved in the management process to give greater consideration to the internal and external information that concerns the activity of the economic entity.

From the category of accounting information, more attention should be given to that provided by managerial accounting, as financial accounting refers to "valuation" while managerial accounting refers to "creating value" by making good decisions (Cokins and others 2012:32).

Information, regardless of its nature, cannot produce the expected impact without the existence of an information system grafted on the informational needs of the entity, for there is no accounting system that can be universally applied, without any customization, to all entities, in all circumstances. On the contrary, an efficient informational system will take into account the particularities of the economic entity that can facilitate grounding and implementing of proper decisions which shall bring a new pulse to the activity of the economic entity.

Given the multitude of information circulating within an economic entity, that may negatively influence the management process, we believe that it should be synthesized and presented to the decision makers by means of a performance monitoring tool, namely the Balanced Scorecard or the Performance Dashboard. Whatever the performance monitoring tool is, it will not achieve its objectives unless it provides the management team not only with financial information but also with information from the perspective of customers, employees, suppliers, and, not least, from the perspective of shareholders (Scorțe 2012: 180) .

As aforesaid, in this paper we wished to review the literature of specialty that addresses the issue of accounting information and of management practices in the hospitality industry. This paper is meant to be just a preamble of an empirical study conducted on a sample of 91 entities in the hospitality and tourism industry in Bihor county that undertook to identify the perception of Romanian managers concerning the accounting information, particularly that provided by accounting management, the way of exploiting it in the decision making process, but also regarding different management practices applied in this sector of activity.

Although the study undertaken brings new and original elements to the research in managerial accounting in Romanian hospitality industry, it has limitations, one of which is given by the fact that the research has been performed only on entities in Bihor. We are also aware that there are still questions that we seek to answer, questions that were born after processing the responses collected by applying the questionnaires.

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THE IMPORTANCE OF AN INNOVATIVE LEADER IN THE ORGANIZATION

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Abstract The aim of this paper is to make a correlation between performance, a leader receptive to new ideas and an innovative management of the organization. Wishing to highlight the role and importance of innovative management, I will present its characteristics, features, factors of influence, and how a leader receptive to innovative ideas stimulates an innovative system in the organization. The contribution of this paper is that it makes a correlation between, and a comparative presentation of, the characteristics and importance of the two pillars of the paper, which are: innovative management and a successful leader, by broadly exposing the advantages and drawbacks of innovation management within an organization and the influence of the participation of an innovative leader in the management system. It is important to note the bond that exists between an innovative management, innovation and the team leader of the organization. Many specialty researches show that there is interdependence between the innovation capability of the organization and its chances of success in the current dynamic market.

1. Introduction

In the current society, of continuous economic instability and economic crisis, finding a way of surprising the competition – not in any other way – but successfully, is a hard task for the management of any organization in any area. Thus, I consider innovation management to be of unparallel importance, especially in the case in which a given organization has a leader open to new ideas. Economic globalization has imposed radical changes in organizations throughout the world, in order to keep the pace with the global changes. Companies, in order to remain competitive on the market and to cope with these changes, had to adapt their management to a more innovative one, on the fly, to create their own long term identity, for coping with competitors of any kind. At this point, the importance of innovation reveals itself, the management of an organization having to transform itself into a more and more innovative one.

Managers have created organizations that have an important role on the global market, but that is not sufficient, because introducing and imposing innovative ideas on this market is very difficult and demanding. Therefore, the idea that a good leader has the capability of finding innovative ideas and that along with his team, he is capable of their successful implementation, has shaped itself to a great extent.

The current society is relying, to a greater extent, on dynamicity and innovation, thus creating an optimal environment for innovative technological processes. Innovation management has an important role in an organization, being the primary tool, and at the same time the prime pillar for the team and leader, which have innovative ideas. By using this type of management at its fullest potential, a leader is capable of bringing together all favorable factors, financial conditions and necessary human resources, which all are prerequisites for the birth of innovation.

Innovation management can be brought to life in the business environment, which is why a manager's courage, inspiration, competencies and charisma could have a decisive role in making this type of management successful.

2. Innovation Management

Innovation management consists of the economic implementation and exploitation of new ideas and discoveries. In my opinion, innovation management is the process of organizing and allocating the available resources (human, technical, informational and financial resources) with the primary goal of obtaining new knowledge for generating new ideas, which in turn enable the obtainment of new products, services or processes, or of enhancing/improving existing ones; it also facilitates the transfer of the best ideas to production and sales. Therefore, innovation management must be taken into consideration, as an important and intricate part of a company's strategy.

According to Verloop, J. and Wissema, J. G. (2004), "innovation needs careful management in order to be cost and time effective and it is a supply chain process, the essence of effective innovation management being that of understanding that the path from idea to market goes through three distinct changes: generating and conceptualizing ideas, developing and demonstrating the concepts, and investing to extract the value from the market place."

Due to the fact that the global market is becoming more and more dynamic, the process of innovation suffers changes accordingly. Thus, for some businesses, the lack of innovation could lead to their destruction, especially in the current environment, where the economic crisis and the recession of some countries, has left "deep soars" on some markets. In the face of such threats, the importance of the abilities of innovation managers is put to the test. The "benefits" of the current society have radically modified local and international markets but opened the path towards innovation. Despite being aware of the negative impact over a long period of time of the rapid progress of cutting-edge technologies that facilitate every-day activities, we are even more open to them and more dependent on them.

3. The role of leadership in the current business environment

"Thinking innovatively isn't enough. It is just as important to create a climate that promotes this sort of thinking – an environment that scales it up from the individual to a team, a unit, or an entire organization. That's the leadership component." (Stauffer, D., 2005)

Global experience has shown us that in order to be successful, an organization has to approach projects with innovation. But in order to promote innovative processes, not only the known and required knowledge is needed, but also a management adapted to innovative ideas.

According to Lafley, A.G. and Charan Ram (2008), in their book *The Game Changer: How every leader can drive everyday innovation*, "innovation leaders are comfortable with uncertainty and have open mind; they are receptive to ideas from very different disciplines. They have organized innovation into a disciplined process that is replicable. And, they have the tools and skills to pinpoint and manage the risks inherent in innovation. Not everyone has these attributes. But companies cannot build a culture of innovation without cultivating people who do".

A leader is in charge of more or less efficient and effective teams, but a successful leader is capable of adapting its behavior to the requirements of certain situations that might appear. This flexibility and adaptability makes the performance of the entire team increase and makes the organization more able to achieve its goals.

“You cannot expect your team to be innovative if they do not know the direction in which they are headed. Innovation has to have a purpose, it is up to the leader to set a course and give a bearing for the future. This is set in broad terms and is described as the mission, core purpose or vision for the organization. Although each of these is different, they share much in common, and whichever you choose, there should be one overarching statement which defines the direction for the business and which people will readily understand and remember”. (Sloane, P., 2007)

In this part of this paper, I will highlight some of the traits that a leader has to master (specific elements of leadership), such as motivating employees, training, communication, the ability to make important decisions, charisma, and the ability to innovate.

In the effort of creating a sketch portrait of a leader open to innovation, the following traits are observed:

- a leader has to be able to mobilize and motivate the team and make it aim towards “new”;
- a leader has to have the abilities and qualities in order to push for innovation in the activity field of the organization.

This study aims to highlight the extent to which the performance and success of an organization can be attributed to a good leader. The behavior and management style of a leader can influence a certain company’s environment, which in turn has direct consequences on its activities.

4. The impact of leadership in achieving an innovative management

A leader is capable of mobilizing, convincing, training, and encouraging his team in order to achieve their goals. His abilities are accompanied by courage in embracing new ideas, enthusiasm, and new visions that can innovate in the given sector of activity. Therefore, implementing an innovation management can be successful, if such a leader is involved.

“It is important for the leader to ensure that all team members can express their views on any issue. Team members benefit because they will feel they can be heard, be open to different viewpoints, and be supported as they question ideas and debate openly. Also, when team members can debate openly, they are much more likely to stand behind the direction the team leader chooses”. (Weiss, D. S., Legrand, C., 2011)

In the current dynamic economic environment, an innovative idea could make the difference between make it or break it; for example in the IT market, innovation is the most important factor in guaranteeing success.

Innovation in a diversified industrial products company is not the same thing as innovation in a pharmaceutical company or in an automobile company. The innovation problem is different across industries. The management structures, systems, and practices needed to manage innovation effectively are not the same in all industries (Christiansen, J., 2000).

Innovation management has become a prerequisite that assures the quality of products and services, and it maintains or improves the market position of an organization. Innovation can be better than creativity, because of the fact that by implementing an innovative idea, a process, a product, or a service can be improved, thus increasing the performance of the organization, while a creative idea may require lots of resources and may prove to be useless at the given moment, if it's not realistic.

A good leader must be able to come up with ideas that bring added value to the organization and must also be open to the innovation of others. Some sectors of activity (such as IT, where innovation is common) must be based on innovation management, which is led by people capable of supporting and materializing innovative ideas.

Through innovation, we not only see the creation of new, but also see a future related vision of that idea.

An innovative management must take into account - in this fierce competition sustained by globalization - the way it is conducted in different companies, by adopting effective measures and rational production process and beyond. This makes clear the difference between a successful company that opens new opportunities for growth and profit and other companies on the edge of survival. Innovation management and innovation are thus priorities for most organizations. The application of innovative ideas by the leaders of these organizations will make the difference. A good correlation between the HR strategy - a competitive team and leader - development management strategy generates long-term value and success in these difficult times that the world economy is going through. Innovative ideas should target customer needs, adapting products to the actual market demand.

An innovative management is based on investing in employees who are efficient and that generate added value for their organization. The biggest role is that of those who have the innovative ideas, the creative people who are always open to new, and for a competitive and open-minded leader, in this period of economic crisis, this can only be an opportunity to find and put in practice new opportunities. The real transformation of technology has also influenced the business world, bringing competitive advantages, by stimulating the creation of new products and services, and therefore the innovative capacity was required and much put to value.

The innovative leader thinks that if he is not the one who innovates, there will be another person who "will take his place", so this is a very stimulating environment for innovation. A good leader must establish a set of common goals that must be achieved by the team, but should also instill in his team members the feeling that each of them plays an important role and that each of them should contribute to the innovation process.

The leader should encourage the team on one hand, and on the other should impose basic rules of behavior, so that the team can put into practice the most daring and innovative ideas and also the team should be allowed to experience – thus giving them the intellectual freedom to try new ideas, processes or plans.

A leader with innovative ideas will be able to turn those ideas into products and services that can lead to economic growth, competitiveness and more jobs. In

many global markets, innovation is already recognized as the engine - the essential condition, if you will- the success of businesses.

Innovation management has many priorities, among them are: supporting and promoting open minded people, support innovation within the company, addressing those innovative ideas that bring competitive advantage to the company in relation to the competition, cooperating with government bodies to support innovation. However, there is no such a thing as a one of a kind - fits all formula- innovation management must be adapted to the individuality of the organization, responding to socio-economic challenges in the area of action.

Innovation is crucial to solving many global economic, social and political problems with which the mankind is facing today. Therefore innovation and an innovative leader, respectively, can offer new solutions in times of crisis when costs are reduced. Research and development accompany the innovative process, but alongside them, institutions, stakeholders and other organizations must be involved in order to facilitate the market entry of the idea.

The Oslo Manual distinguishes three types of innovation: innovation can be new to the company, new to the market or new to the world. The first concept covers the dissemination of existing innovations in a company - innovation may have already been implemented by other companies, but may be new to the company. Innovation which is new to the market is when the company is the first to introduce the innovation. An innovation is new to the world when the company is the first in the world to introduce the innovation in all the markets and industries (The Cross Border Cooperation Program Romania-Bulgaria 2007-2013, co-financed by the European Union Regional Development Fund, 2011).

For a leader with innovative capabilities to be highlighted, the organization must have policies which support innovation and which support those with innovative ideas. It is the role of innovation management to provide favorable conditions by mobilizing financial resources for innovation, promoting innovation within the organization through a healthy risk-taking culture through innovative activities and by cooperating with the government to implement policies for motivation and innovation support.

In innovative organizations managers have to curb their natural instinct to control everything. Control is an important leadership or management function, but it has to be exercised with skill and sensitivity (Adair, J., 2007).

On one side, an innovative management must support human capital, the essence of innovation, but leaders must be supported to by their organization as important actors in innovation as it helps transform new ideas into practical applications. A successful organization is correlated - following several expert studies - to innovative experimentation of their leaders. An organization should focus its resources on a number of innovative projects and also should encourage their team leaders, capable to spur the introduction of elements of innovation. Bad management can overly use avoidance plans of risk factors through discouraging innovation policies, either from lack of experience or because of unfounded precautions. Failure to support innovative leaders is also caused by: the uncertainty about the evolution of commodity prices or the request of a new product; information and communication difficulties; accentuated economic instability and lack of supportive government policies; administrative regulations too

bureaucratic; and not least, the access to financing can be an impediment to innovation in the business environment.

Innovation management must be addressed equally in private firms but also in the state or mixed, so coherence between national, regional and local authorities is required. The global economy is interconnected with governments and companies will have to make decisions and set priorities for areas in which they can excel.

In innovative management, potential sources of ideas are established which can lead to the long term development of the organization. The creativity and the openness to new of the people in the organization are important, but not sufficient.

Innovation management applies specific strategies which transform innovative ideas in successful products, services, processes. The task of a innovative leader and manager is to follow, coordinate, guide and evaluate the way specific to innovation activities are run inside the organization.

An important step towards innovation is finding that brilliant idea, which will make changes for the better and will bring success to the organization. A good leader needs to pay attention to innovation management, which can contribute to launching innovative ideas, whilst being in direct contact with his team's needs. As an efficient leader his managerial role is to focus his team's efforts on the objective, instead of defining it for the members of his team.

5. Conclusions

Successful innovations are the result of innovation activities supported by the organization. For the innovative leader there is a continuous stumbling block when trying to succeed in innovation and in applying innovation. As I earlier presented, the complexity of the innovative process is high and hence so are the risks assumed by the leader. That is why I believe that a leader open to new can encourage and inspire trust in the team, that is going to put into practice those brave and risky projects. An innovative management is based on improving the economy of the organization, strengthening its position on the competitive market, protecting the personnel as well as the environment. All these tests in the current economic and social context have to be accompanied by a approach of the innovative leader to inform the working teams, to search for the right people in his support, to change organizational culture of the organization so that all staff takes risks not only the management but also the lower hierarchical level staff. That is the job of the active innovative leader who will know how to mobilize the team to take the risk of change and ultimately the failure or success. Humanity expects an obvious economic progress, especially after it was shaken by the crisis. Innovation can be a viable alternative to the shortage of natural resources and materials, bringing new ideas to replace them with other unconventional ones, which require lower costs and which help protect the fragile environment in which we live in.

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PROGRESS AND DEVELOPMENT OF ROMANIA IN THE TIME OF CHARLES I (1866-1914)*

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Abstract: *The economic evolution of Romania, during the reign of Charles I, is so obvious and unique in Europe that does not fail if you paraphrase historian Gheorghe Brătianu and say that it was "a miracle".*

The process of taking the country out of feudalism, started during the reign of Alexander John Cuza, and concluded in subsequent years when they laid the foundations of capitalist economy, european-style. Romania earned their independence and created most institutions with economic profile, diversified ministries and institutions of higher education (technical colleges and the Academy of Higher Commercial and Industrial Studies).

Also, the monetary system of the LEU (Romanian currency), Bank institutions, first National Bank of Romania, the railway complex developed and was carried out at the junction of the European railways, Danube navigation, trade, as well as cereal stock market of Brăila, and this forms an important yardstick for the cereals market in Europe.

With the coming of Charles I, its doors to the West opened for Romania, the Prince and later King being the guarantor of future economic relationships with Western capitalists.

The detachment of the Romanian economy from the sphere of influence and the dependence of the Ottoman Empire were made under the impetus of Britain and France, and, later, of Prussia, powers interested in the development of trade at the mouths of the Danube, through harnessing the principalities, Moldova and Romania, and their attraction to the European economy. Political solution meant to hasten this process had been given even by the great powers, by the election of a foreign Prince as Ruler of the provinces, after the Crimean War (1853-1856). At the beginning, it was very hard to accept a foreign Prince, the progressive forces of the two countries resorting to election as Ruler of Alexander John Cuza. After his abdication, the foreign Prince was accepted. Alongside Cuza, Charles I is the main reformer of modern Romania.

Keywords: *railways, concession, monopoly, viaduct*

1. Introduction

Charles I was born at Sigmaringen, on 20 April 1839. As Prince of Hohenzollern, he grew up in a severe national and German military background.¹⁴ Following his studies at Dresden, after which he joined the exam for junior lieutenant at Münster. In 1850 he met for the first time with his cousin, the future King Friedrich Wilhelm of

* The article comes as a celebration of a century since He passed away.

¹⁴ C. Kiritescu, *A great moral personality: Charles I, King and the Founder*, p. 7.

(Conference held on November 13, 1940, in the presence of M. M. L. L. King Michael I and Queen Mother Elena)

Prussia forming a close friendship. On 1 January 1857 he was appointed second lieutenant of the Artillery Regiment of the guard of the Citadel of Jülich. In the same year, he began to attend, at Berlin, The Unified School of artillery and engineering. In 1858 Prince Charles was mobilized during the Franco-Austrian war.

In the summer of 1861 he accompanied his brother, Crown Prince Leopold, to Lisbon, to his marriage with the infanta Antoinette. In January 1862, departing on a trip to Algiers¹⁵, which lasts a few months. On his return he visited Madrid and then Paris. The summer of the same year he spent at Bonn, where he also attended some lectures, but also private exposures about French literature and cultural history supported by Professor Springer. Back to Berlin he worked as a Lieutenant in the 2nd Regiment of guard Dragoons.

In December 1863, Charles I was invited by Napoleon III to the Court of France. In 1864 when Prussian Allied troops occupied Schleswig-Holstein, the young artillery Lieutenant Charles took part in this conflict. During the campaign he became ill, he had to go to be treated in Switzerland.

2. Progress and development of Romania (1866-1914)

On 31 March 1866, I. C. Brătianu, following the advice of Napoleon III, went to Düsseldorf, where Karl Anton Charles father lived, who occupied the position of military Governor of the province of Westphalia and the Rhineland, to persuade Carol to accept the proposal to be ruler of Romania.¹⁶ The one who had the final say in what concerned the decision of Charles was Chancellor Otto von Bismarck: "An entire nation unanimously elected you as prince; give this course calls, go directly to the country in whose reign you're called upon."

On 10 May, Prince Carol of Hohenzollern became ruler of Romania. "By putting my foot on this sacred earth I became Romanian... I bring you a faithful heart, honest, open, thoughts, tough will to do only good, a boundless devotion for my new homeland and that unwavering respect for the law and order that I learned from my folks. Today, peaceful citizen, tomorrow, if need be, soldier with gun in hand, now we will have the same destiny, be it happy or distressing."¹⁷

In 1940, in a conference held in front of their Majesties King Michael I and Queen Mother Elena, The historian Constantin Kiritescu argued: "The first five years of the reign of Prince Charles have been a thorny road of Calvary startles. It was a respite from the mutual knowledge, the intertwining of the mindsets of both the ruler and the prominent men of the country, a deep patriotism and capable of the greatest sacrifices for the good of their homeland... To the weights of the malevolent attitude of suzerain Turkey, ... the disastrous inside financial situation, the impassioned struggle of the political parties, which did not allow the formation of a seriously and lasting Government, barely disguised attacks to the Prince and, most importantly, the campaign in the fucking thing to new concessions of railroads Strousberg Consortium".¹⁸

Since his arrival in Romania, Prince Carol I was supposed to take into account the most important issue of general interest, that fidgeted the most important political

¹⁵ P. Lindenberg, *King Carol I of Romania*, Editura Humanitas, 2003, p. 49.

* The article comes as a celebration of a century since He passed away

¹⁶ Keith Hitchins, *Romania, 1866-1947*, vol. I, Humanitas, 1998, p. 27.

¹⁷ *Ibid.*, p. 67.

¹⁸ C. Kiritescu, *op. cit.*, p. 10.

figures, without which it could not achieve the economic progress of the country, the construction of railways, meant to relieve the trade with the West.

Construction of the first railway line of Bucharest-Giurgiu was leased to an English company T. J. Barkley & J. Staniforth. The price of a kilometre had been fixed in 196.500 gold francs, the total cost amounting to 13.775.000 gold lei, with the possibility of redemption.¹⁹ Discontinued after the abdication of Al. I. Cuza, these negotiations were resumed and their results published, with some modifications, in the Official Gazette on April 7, 1867. The Romanian Government excelled in this regard: "... the lack of quick, safe and cheap transport is in this regard the biggest obstacle. Only the railways can today satisfy this requirement. Across the country in all directions, they will give the mountain products to the fields and the surplus of the field to the mountains and some excess would form the exportation, which would perform with ease. Developing industry, agriculture would make those advances that brought wealth and abundance in other parts of Europe."²⁰

Charles I, aware of the importance of rail transport after the commissioning of the Bucharest-Giurgiu line, on May 16, 1868, initiates the construction of other lines, with the help of the Austrian firm Oppenheim and German Stroussberg Maschinenfabrik. The former built the first railway line Suceava-Iași-Botoșani-Roman (244 Km), at the price of 270,000 Gold lei/km. The price versus the English firm T. J. Barkley & J. Staniforth is much higher. To make the Roman- Vârciorova railway line at the same cost per mile of track built, Charles I chose the German firm offer Stroussberg, having the support to the Minister of public works, Donici.²¹ The support of Prussia was taken into account and working with Chancellor Otto von Bismarck, for the supply of the equipment for the army endowment. Charles I does not exclude that, after the conclusion of the Convention, to achieve a settlement for the transport of materials and even the purchase of the project carried out by Oppenheim company. The duration of the concession was 90 years, being also laid down the redemption by the Romanian State after 30 years. To grant the necessary capital formation (absolute German majority), they could issue bonds guaranteed by the State with an interest rate of 7.5% per annum.²² The problem of the concession of this rail line to the German shareholders arose a great political scandal in Romania, after the bankruptcy of the Stroussberg firm.

Professor Gh. Tașcă, making some references to this business, showed that the Vârciorova-Roman line was in full construction when the Franco-Prussian war started in 1870, "which shakes the whole European market. The great enterprise of Stroussberg is rocked and, soon after the outbreak of the war they ceased payments."²³ Ambron, former administrator of the House of Hohenzollern, the German Government's Commissioner to Stroussberg Society fails to use in financial speculation, 30 million and replaces them with some worthless mortgages, which led to the bankruptcy of the entire business. Later, this problem had a

¹⁹ Victor Slăvescu, *Developing transport, general principles, railways, inland waterway and maritime navigation*, Cartea Românească, Bucharest, 1930, p. 186.

²⁰ O.G. of 17 august 1866 in Const., Dem., John David, *The Romanian railway network*, Sport-Turism Publishing House, 1977, p. 70.

²¹ National Archives, Charles I, vol. I, 164.

²² Const. Botez, Dem. Urma, Ion Saizu, *The Epic Romanian Railway*, p.83.

²³ Gheorghe Tașcă, *The reign of King Charles I. The economic Organization*, p. 65. (Conference held on 14 December 1940)

pronounced political character, by conditioning recognition of independence of the redemption of shares by the Romanian State. The historian A. D. Xenopol, contrary to the other position toward this issue, considered that redemption, "had made the country a good deal, putting in our hands the main communication artery of the country."²⁴

Charles I was interested in the economic development of the country and "he looked with satisfaction at the beginnings of an industry, marked by the erection of different factories"²⁵ and the establishment of banking institutions in this regard, the most important achievement was the establishment of the National Bank. He was attentive to the economic situation in the country, as well as the effects of the evolution of the European economy and the world over. Romania has sought to lead a policy of close neighbours.

In 1873, a big slump, unknown until then, with General effects on the world economy, affects Romania, but its effects are much lower than in the developed States. Charles I was very confident in the economic future of the country, "...we can only congratulate ourselves and we are proud of our country's credit strength, and abroad."²⁶

In the same year, The Prince, on the occasion of the participation of Romania to the exhibition in Vienna, he met with the Emperor of Austria-Hungary, Franz Joseph. The Empire was passing through the greatest financial crisis unknown until then, "the great Black Friday crash"²⁷ of 9 May 1873, which resulted in the bankruptcy of several banks and industrial enterprises. Romania's economic situation was appreciated by neighboring States, Romanian products on display in Vienna received a number of medals.

Relations with Tsarist Russia have improved through the conclusion of a postal Convention in 1872. Romania had participated, together with other States, to the ratification of the new international postal Treaty concluded on 9 October 1872 in Berne. At the same time, he negotiated the conclusion of trade agreements with other countries. Romania also had a representative in the International Commission of statistics in Stockholm.

Changes in the economy have had long-term effects. The Conservative Government, interested in the development of agricultural productions, to remove the effects of the droughty years, studied the establishment of an efficient irrigation system. He felt the need for the establishment of a credit institution. Whereas economic progress could not be made without a proper education, after nine years from the adoption of the law of public instruction, it undertook some changes. Elementary schools needed teachers better prepared in „normal”* institutes, intended for their preparation. Secondary education was supposed to follow a practical direction, "to meet the needs of a country, whose legitimate aspirations for the future were partly based on its economic development. And faculties, in addition to the abstract Sciences culture which is entrusted, will also fulfil basically the purpose of giving senior officials to the State with a professional aim and well prepared for secondary schools."²⁸

²⁴ A. D. Xenopol, *Economic works*, publishing house, Bucharest, 1967.

²⁵ *Ibidem*, p. 216.

²⁶ M. O., 1873, no. 236, p. 2171.

²⁷ Erich Zöllner, *Austria's history*, vol. II, Editura Enciclopedică, 1997, p. 519.

* normal, that is pedagogical

The effects of the development of transport on railway are beginning to be felt. They are intensively working on the outfitting piers of the ports of Braila and Galati, and Giurgiu was almost finished. "Communications, until now very heavy and expensive, they turn to a degree unknown until today; the poor can enjoy the same convenience as the wealthy ones and we can find with satisfaction, how much they raised, to promote trade relations between various populous centres, from one edge to another of the country."²⁹

Charles I, addressing the Assembly of Deputies, on December 7, 1873, shows just how important is the establishment of a "discount and transaction Bank", for the development of credit and, implicitly, to commercial transactions.³⁰ This issue is under discussion also in the subsequent years. In order to ensure the necessary credits for land transactions in both urban and rural areas the Rural Land Credit was established through the law promulgated on 6 April 1973, which, later, in 1880, has been amended.

Rural Land Credit Society was established by 60 owners, who made the proof that they have a Fund of 3 million gold lei, a huge amount for the time. There were also established the Urban Land Credit and the Agricultural Bank, as privileged institutions.³¹ For a long time, no banking institutions have been set up, to ensure the normal operations of capital, because of the absurd prejudices which supported the idea that they did not resist in conditions of crisis, facing bankruptcy, and bankruptcy would have "The most damaging consequences for the whole economy."³² This bias has been superseded by Vintilă Brătianu, which initiated the establishment of the Romanian Bank, where the entire management and Supervisory Board consisted of Romanians.

The increased export of wood resulted in an alarming phenomenon, namely the phenomenon of deforestation. In order to regulate the massive cuts of forests, Charles I, reported that needed the legislative project concerning the new forest code. In December 1874, speaking to Senators and deputies of the Parliament of Romania, The Prince criticized the destruction of forests: "through their unbounded deforestation that has reached an alarming fact. It produced a disturbance felt in the country's climatic phenomena, the disturbance which has reflected upon and threatened agriculture. Your Excellencies, I do not doubt that you will think about the measures necessary to combat this danger."³³

The Conservative Government encountered financial hardships because of the budgetary expenses for building the railway line Vârciorova-Pitești and arranging the Danube ports. The Port of Brăila was transformed into a stop of agrarian products loading, particularly wheat, while Galați was intended for transport of wood. Budgetary needs were covered, largely by the charges levied on the export of such products and by issuing Government securities, which, in order to be attractive, were maintained at a fairly high rate. The State got more financial resources from the tobacco monopoly, the law of stamps and licenses. These fees were justified by the costs of the construction of buildings in the general interest.

²⁸ M. O. 1843, nr. 249, p. 2227.

²⁹ M. O. 1873, nr. 236, p. 2171.

³⁰ *Ibidem*.

³¹ Gheorghe Tașcă, *op. cit.* p. 68.

³² *Ibidem*, p. 69.

³³ M. O. 1874, nr. 250, p. 1419.

Sub-loans state interest was particularly high because of the dependence on the Ottoman Empire.

Statement of expenditures needed to modernise Romania was the following:

The period 1861-1866

The railway Bucharest-Giurgiu.....	2 010 000 lei gold ³⁴
Bridges of iron	1 443 274 lei gold
Stern Loan	2 111 983 lei gold
Oppenheim Loan	3 163 778 lei gold
Total	8 729 035 lei gold

The period 1866-1871

Ițcani-Iasi-Roman railway	3 881 250 lei gold
Roman-Vârciorova railway	18 609 750 lei gold
Domenial Loan	8 000 000 lei gold
Total	30 491 000 lei gold

The period 1871-1875

Iași-Ungheni railway	452 425 lei gold
Deposits for incident solution with the construction of the railroad's shareholders for the amount, borrowed from deposits and Savings Bank	700 000 lei gold
Lending loan interest (44 600 000 lei gold)	2 230 000 lei gold
Total	3 382 425 lei gold

The budget deficit in the period 1861-1871 was 39 035 120 lei. To cover this deficit, in 1874, a number of charges were introduced.

The addition to the property tax	2 019 336 lei
Tobacco Monopoly	8 010 000 lei
Stamp duty and registration.	4 461 647 lei
Charge over sale of spirits	7 372 656 lei
Fee for the manufacture beverages	402 000 lei
Tax on the revenues from the railways..	4 121 806 lei
Total	26 387 445 lei

Source: Titu Maiorescu, *On the pamphlet, Germany, Romania and Prince Charles of Hohensollern*, p. 12

³⁴ A gold leu = 0,3221 grams of gold.

For the proper functioning of the services that offered revenue to the State for a more rigorous control and supervision, public accounting was adopted. To prepare the accountants, high schools of Commerce had been established (1873). Titu Maiorescu, considered that “*the crucial question of State costs is not increasing them, but their use.*”³⁵

With regard to the agricultural landlords and tenants, the high rent favored a series of loans. The amount of these loans in this period was particularly high.

In 1875, Romania concluded a hotly disputed commercial Agreement with Austro-Hungary with quite disastrous effects they had on the development of national industry. This Convention, drawn up on a par with a major power, represented an important step towards that independence. Since that period, an older traditional Romanian foreign policy issue was the resumed theme that would aim at gaining political rights in Exchange for economic concessions.

Charles I, addressing lawmakers reminded: “We are a people small in number and territorial expanse. We can, however, be regarded as a great nation through the power of our rights, through respect and trust that we know to inspire. To seek our strength in developing all our origins, in our internal Organization, in the adoption and implementation of improvements compatible with our position and our interests in practicing, finally, of freedom and order at the same time. When being strong under this power of inside, we will know to inspire confidence outside, keeping us within a strict limit to the legality of treaties, arguing with moderation, but with resolution, our ancestral rights; When practicing a wise policy, within respect for others, we seek only to reclaim and exercise our rights to us and to keep us under our change in balance, the best relations with the guarantor powers, then our moral strength from outside will be as real as the one from the inside. Romanian nationality will become increasingly more assured and strengthened.”³⁶

Romanian products on the European market required a developed network of roads and railways under the proximity of the neighbouring State, politics of railway construction continued, the utmost importance was a junction with the Austrian railways, by the railway line construction through Ploiești-Predeal, which should have ended up in August 1878, in order to facilitate trade between the two countries.³⁷ In the discussions of the Romanian Ruler with the engineer Wardorf there was the problem of planning the Iron Gates of the Danube for navigation. At the same time, it was put into question the finding of solutions for populating the Danube with the Californian salmon and trout on mountain waters.³⁸

A pattern of approach to the problem of minorities is the advice given by the Ruler to his soldiers on the occasion of the return of Dobrogea to Romania: “Soldiers! In the New Romania, you will find a population of most Romanian! But you will also find the inhabitants of another nation of other religion. All of them became members of the Romanian State and have the right to an adequate protection and your love. Among them you will also find Muslim, whose religion, family, morals, differ from our own. I purposely recommend you to respect them. Be in the middle of your new fellow citizens what you have been up until now, in times of peace as

³⁵ Titu Maiorescu, *On the Pamphlet, Germany, Romania and Prince Charles of Hohensollern*, p. 13.

³⁶ M.O., 1875, nr. 2, p. 19.

³⁷ M.O., 1875, nr. 199, pp. 2477-2478.

³⁸ National Archives, Trust Fund, Charles I, file 449.

well as on the field of honor, what with pride I find that the whole Europe recognize today, i.e. a model of bravery and discipline, rights defenders and forerunners of the European legality and civilization.”³⁹

A series of measures were taken for the economic support of Dobrogea's population was disbanded. The metayage was disbanded whatever its nature, being replaced by “a straight quintrent and easy for agriculture. „Emleacul” (tax on real estate property in towns and villages), the tax on the income of property in cities, „temetuatul” (3% tax on farmers and craftsmen's work), the tax on the rent of pubs, grocer's, coffee shops, inns, all of which will be turned on January 1, 1879 to a tax that was easier and more straight and „bedelul” (tax for relief of army duty), „entizab” (2.5% fee from the sale of cattle) and the mills tax abolished altogether.”⁴⁰ In March 1879, the Prince attended the inauguration of the factory of matches at Brăila.⁴¹ In November 1880, they began the drainage of the Dambovitza that ended a year later. Reaffirming the importance of developing the industry on 13 November, when Society “Concordia Romana” opens an exhibition in Bucharest. Around this time, among other things, it is stated that the development of the industries would save the country a lot of shopping abroad and would contribute to her economic independence.

Charles I talks like a real economist about the role of exhibition: “Exhibitions have given in all the countries the most strongly urge to arts, trades and industry, establishing to competition, rewarding. I hope that all will be well with us. I salute, but with great joy, the first Romanian endeavour exhibition established on the initiative of Concordia and wholeheartedly wish you a full success of this beautiful enterprise, which, I am convinced, will bear its fruits. I have always had the most vivid wish to see national trades and industry provided and developed by practical schools and factories, thus preserving to the country so many millions that go abroad each year. I'll be grateful to whoever will help and work on our economic emancipation. Give God that this small exhibition, which already is the sign of a good progress, to be the start for the acquisition of the great results that will give new life to the Romanian people.”⁴²

Charles I appreciated the appellation DOMN, that have a historical significance, but also cherished the act voted by the Parliament on 26 March 1881, establishing the Kingdom of Romania: “Proud I was as a DOMN, this name is dear to me which had been bestowed in the past as rays of glory and highness; for the future however Romania believed that it was necessary, and in accordance with the extent and significance of the power acquired and manifested by certain acts and having lifted up her name, to proclaim itself as Kingdom. Not only for me personally but for the growth of my country, receiving this title expressing the desire that had been burning most vividly for so long in the chest of each, but that does not change anything in the tight links established between nation and me and that proved just how strong burning the events are that we have spent together.”⁴³

³⁹ M. O., 1878, nr. 254, p. 7145.

⁴⁰ M. O., 1878, nr. 255, pp. 7161-7162.

⁴¹ M. O., 1879, nr. 46, p. 1237.

⁴² M. O., 1880, nr. 247, p. 7334.

* The coronation took place on 10 May 1881.

⁴³ Constantin. C. Giurescu, The Speeches of King Charles I, vol.I, 1866-1886, Foundation for literature and art, "Charles II", 1937, p. 358.

However this political act had a great economic importance. Through the Prestige enjoyed externally, the country has obtained some loans with lower interests. In the following period, Romania concluded a number of trade agreements, initiated a program for the development of navigation on the Danube and the first railway line built entirely by the Romanians, Mărăști-Buzău (30 October 1881), whereby for the first time, the liberal principle "by ourselves" materialized.

In November 1881, P. S. Aurelian organized an agricultural exhibition at the school of Agriculture in Herăstrău, involving King Charles I. He, in addition to the appreciation, brings a series of criticisms that agriculture has not kept pace with the development of other sectors of the economy.⁴⁴ Significant progress is achieved in the field of mining, the development of navigation on the Danube, channeling the river Dâmbovița etc.

The last decade of the nineteenth century is important in several legislative initiatives and the achievement of remarkable constructions. By Royal Decree No. 1625, of June 1, 1882, the conditions were settled for the construction of the railway line Bucharest-Fetesti and Făurei-Fetești through international competition. The results of the two competitions, made in 1882 and 1886, being unsatisfactory, the Minister of Public Works, P. S. Aurelian, having the King's consent, gives this construction to the Romanian engineer Anghel Saligny. The construction of the main bridge, with a length of 750 m and the height at the central pillars of 60 m, was awarded to the French firm "Fives-Lille." The total length of bridges and viaducts is 4088 m.

On 17 May 1894, the Sulina Canal opened, making possible for heavy vessels enter the port of Galați (work carried out by the engineers of the European Commission of the Danube), and one year later (September 26, 1895), with great fanfare, inaugurating the bridge at Cernavodă, called King Carol I bridge: "Today - affirmed the King - we master the shortest line between the northern seas and countries of the Orient. I watch this huge bridge as a golden key of a brilliant future of our beloved Romania, whose soaring, step nobody can stop in its way of greatness and prosperity."⁴⁵

On 14 November 1895, the international luxury train Orient Express, arrived in its first journey at Constanta. The optimisation of the bridge in Cernavoda and Constanta railwaytrack could not be achieved without the arrangement of the harbour. The works started in 1896 and were also entrusted to the engineer Anghel Saligny, who uses the reinforcing iron bars for the first time in the construction of the concrete silos. The work of the port were completed in 1909.

Increasing quantities of goods transported by rail and the need to ensure the safety and security of those, urged the Parliament to revised the law for the railways, "so as to better specify their nature and to prevent alienation of the railways of general interest."⁴⁶

Although economic developments during this period were indisputable, they could not fully cover growing expenditure, which was due, on the one hand, to the large-scale construction, but also to the number of clerks required by various government institutions.

⁴⁴ M. O. 1881, nr. 173, p. 5685.

⁴⁵ Gheorghe Tașcă, *op. cit.* p. 70.

⁴⁶ Constantin. C. Giurescu, *op. cit.* p. 80.

In 1895 the first law of mines was worked out, a partial law of nationalization of resources, through which the State became the owner of the subsoil, except for oil deposits, bitumen and ozokerite. This law came in to the support of increasing crude oil production, Romania, at that time, being in competition with US, being the first country in the world which also had a refinery (1856).

In 1875 the society of Geography was founded, its purpose being, among other things, to discover the subsoil resources to be harnessed. Production of crude oil increased from 6,000 tons in 1866 to 1 900 000 tonnes in 1914.⁴⁷

Agriculture remains, during this period, the main economic branch. The absence of banks, to ensure, under favorable conditions, the necessary credit transactions, determined Parliament to give a law for setting up Rural House for sale of large properties in small plots, coming to the aid of both the large landowners, who could not find buyers, and villagers who, in most cases, lacked the money. Analyzing this fact today we consider it counterproductive, because they encourage the phenomenon of breaking down the agricultural property, being aware that a peasant subsistence economy is little suited to the market. It was however the only way by which the peasantry, which form the vast majority of the population, could make a better living, and the owner to obtain the necessary capital used, most of the time, at his own expense and less for development.

On June 20, 1897 the Foundation of the Economy and Deposits (Headquarters in Calea Victoriei) was laid. The King's participation in the inauguration had become a tradition of big buildings for institutions, which have become true symbols of Bucharest, which impress visitors today and foreigners coming to the Romanian capital.

Of the institutions opened in the early 20th century were noted, today's Commercial High school "Nicolae Krețulescu", and the Chamber of Commerce and Industry.

Making stock activity during the 42 years of existence of the Chamber of Commerce and Industry, the King had only words of praise, saying: "This is due to Romania's economic upsurge and the multiplication of means of transport, which gave it, in less than 50 years, a soaring impetus in the whole Europe. Elements of this prosperity we have in the richness of the soil, in the riches of subsoil in the basement and in our geographical situation. To come to light there was only a wise strained initiative. This initiative was taken by the State that, immediately after the War for Independence, addressed all his activity in this direction through the establishment of the railroads, regulating the navigation by the Danube, that started by arranging the ports and the great bridge over the Danube, through the countless commercial and conventions measures, aimed at all to raise the value of the produces of agriculture and to encourage trade and industry."⁴⁸

In the same year, the King gives University of Iasi an amount of 300,000 lei "whose interest will apply by the University Senate for theses prints and, most importantly, support for destitute students."⁴⁹

An act with profound historical meaning it attending the unveiling of the statue of Alexander John Cuza, on 8 June 1912, in Iasi, for whom the King has made a major donation. They got the word, then, to a number of personalities: Metropolitan

⁴⁷ Gheorghe Tașcă, *op.cit.* p. 71.

⁴⁸ Constantin. C. Giurescu, *op. cit.* vol II, p. 434.

⁴⁹ OG 1911, nr. 146, p. 6890.

Pimen of Moldavia, Grigore Ghica Deleni, G. Botez, A. D. Xenopol and Minister of religious affairs, C. Arion.

King Carol I thanked everyone and only had words of appreciation for his ancestor, who performed the Union of Moldavia with Wallachia: "ruler Alexandru Ioan Cuza took the glory to tie his name to this great historical fact, started by his election, and led to the fulfilment by his strained diligence. However, other facts are great, more personal, which entitle their veneration that I do today. In addition, this monument, erected by the public gratitude, implies the Secularization of monastic goods and guiding the country to freedom. The resolute will of Cuza-Voda and his astute wisdom of His Counsellors finally found their right and beautiful reward. The first King of Romania is fulfilling a holy duty to the first ruler of the United Sisters-States, bringing in front of this monument the abundance of honor what the memory of Cuza-Voda, who will remain forever in the memory of the people."⁵⁰

3. Conclusions

Counting the totals of 48 years of the reign of King Charles I, we have made remarkable progress. In 1866, Romania had no kilometre of highway, no miles of track, very few bridges or ferry. In 1914, having 26 425 km of cobbled roads, 920 wood bridges, 2,700 stone bridges and 89 steel bridges, 3,600 miles of track and 10 ships in the Maritime Service.

Area under crop increased from 2 000 000 ha to 6 000 000 ha; exports grew from 150 million to 670 million, the number of factories from a few rose to 769 with 74902 workers. The amount of taxes paid through the customs duties amounted to 24.650.000 lei, and the budget of receipts increased 10 times. The National Bank of Romania had 265 million gold lei and had a discount of 1.246.000 thousand lei⁵¹, Romania scoring the most dynamic development pace in Europe.

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