

**OVIDIUS UNIVERSITY  
ANNALS**

**ECONOMIC SCIENCES  
SERIES**

**Volume XIV  
Issue 2**

**Year 2014**



**OVIDIUS UNIVERSITY ANNALS**

**ECONOMIC SCIENCES SERIES**

**Volume XIV**

**Issue 2**

**2014**



## EDITORIAL BOARD

### EDITOR in CHIEF:

- Professor, PhD. **Elena Cerasela Spătariu**, Dean, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania

### MEMBERS:

- Professor, PhD. **Paolo Andrei**, Università degli Studi di Parma, Italy;
- Professor, PhD. **Stefano Azzali**, Università degli Studi di Parma, Italy;
- Professor, PhD. **Grigore Belostecinic**, ASEM Chişinău, Republic of Moldova;
- Professor, PhD. **Jacky Mathonnat**, L’Universite D’Auvergne, Clermont1, Clermont–Ferrand, France;
- Professor, PhD. **Viorel Cornescu**, University of Bucharest, Romania;
- Professor, PhD. **Mykhaylo Postan**, Odessa National Maritime University, Ukraine;
- Associate Professor, PhD. **Rose-Marie Borges**, Université d’Auvergne, France.

#### SCIENTIFIC COMMITTEE:

- Professor, PhD. **Ion Botescu**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Professor, PhD. **Elena Condrea**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Professor, PhD. **Paula Diane Corina Vancea**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Associate Professor, PhD. **Sorinel Cosma**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Associate Professor, PhD. **Cristina Duhnea**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Associate Professor, PhD. **Marian Ionel**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Associate Professor, PhD. **Simona Utureanu**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;

#### EDITORIAL SECRETARIES (Secretary Editor, Translator, Technical Editor):

- Lecturer, PhD. **Gabriela Gheorghiu**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Lecturer, PhD. **Silvia Ghiță-Mitrescu**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania.
- Lecturer, PhD. Student **Victor Jeflea**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania.
- Lecturer, PhD. **Andreea-Daniela Moraru**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Lecturer, PhD. **Cătălin Ploae**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Lecturer, PhD. Student **Ionuț Antohi**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Teaching Assistant, PhD. Student **Dorinela Nancu**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;

# TABLE OF CONTENTS

## Section I: International Affairs and European Integration

### *Subsection: International Affairs*

1.	Botescu Ion	- China In The New World Economic Setting	2
2.	Căzănel Maria	- Comparative Analysis between the Exception of the Non-performance of the Contract and Its Retroactive Termination	7
3.	Constantin Sergiu-Bogdan	- International Tax Evasion in the Current Geopolitical Context	13
4.	Gavrilescu Camelia	- Romania's Position in the European Union Intra-Community Agri-Food Trade	18
5.	Gurgui Amalia, Gribincea Alexandru	- Current State of European Hotel Chains	24
6.	Popovici Veronica, Muhcină Silvia, Bundă Nicoleta Ramona	- Ongoing Trends and Challenges in the Cruise Tourism Industry. The Black Sea Region as an Emerging Cruise Destination	29
7.	Sav Irina	- Global Money Laundering - Impact on Economic Stability	35
8.	Scutaru Liliana	- Foreign Trade of Multinationals in Romania	41
9.	Stoian Andrei	- Effects of the US financial crisis on nine representative countries	47
10.	Toma Sorin-George, Grădinaru Cătălin, Stanciu Costel	- BRIC in the Global Economy	53
11.	Voiculeț Alina	- Foreign Direct Investment and Its Worldwide Distribution in Recent Years	57
12.	Voiculeț Alina, Belu Nicoleta	- Human Resource – a Strategic Resource in the European Transnational Corporations	61

### *Subsection: European Integration*

1.	Ciobanu Carmen Liliana	- The impact of E.U. funds between 2007-2013	68
2.	Damean Doru Claudiu, Popovici Dumitru Dănuț	- Social Policies regarding the Integration of Persons with Addictive Behavior into the Labor Market from Romania	74

3.	Hurjui Marcela - Cristina, Hurjui Ioan	- Regional Development in Romania under the Impact of Internal Requirements and Exigencies of the European Union	79
4.	Milea Camelia	- The Financial Integration in Romania and in the new Member States of the European Union	84
5.	Mitra Mariana	- The New Dimension of Violence. Manifestations and Prevention	89
6.	Mitra Mariana	- Corruption – A Real Threat to Democracy and to the Rule of Law	95
7.	Stana George	- Strategies for Improving the Migration of Labor in the UE	101
8.	Stoica (Corbu) Luminita-Claudia	- Pre-university Education Financing in the Context of the EU's Economic Crisis	105

***Subsection: Regional Development Strategies***

1.	Duduială Popescu Lorena	- How Did the Economic and Financial Crisis the Groups of Companies and the Main Measures Exit	110
2.	Ionescu Gr. Ion	- Aspects of the Confrontation of Ideas from Romanian Interwar Thinking Regarding Economic Policy	115
3.	Margaritti Doina	- A new vision regarding the competitive advantages in the Romanian pharmaceutical market	119
4.	Popescu Maria	- EU security of energy supply and international cooperation	132
5.	Șerbănel Cristiana-Ioana	- Romania and the Assessment of its Competitiveness Level	137

**Section II: Business Economy and Administration**

***Subsection: Economic and Social Studies***

1.	Burghilea Cristina, Bălăn Mariana, Vuță Mariana	- Minimum Wage Increase in a Competitive Economy	144
2.	Colomeischi Tudor, Iancu Eugenia	- Considerations on Several Ways of Evolution of Public Pension System in Romania After 1990	149



3.	Constandache Mihaela, Nenciu Daniela - Simona, Stanciu Anca-Cristina	- Features of E-Commerce in Romania	158
4.	Dima Teodor	- The Influence of the Financial Crisis on European Club Football	163
5.	Gheorghiu Gabriela	- National Approaches to Consumer Problems - The Information Model vs. The Negotiation Model	168
6.	Ghita Simona, Titan Emilia, Manea Daniela	- A Retrospective Look on the Ports Sector in Romania Before and After the Global Financial Crisis	172
7.	Ghiuță Ovidiu-Aurel	- The Motivations of Electoral Absenteeism	177
8.	Iacob Oana Camelia, Volintiru Ana Maria, Hohan Silvia	- Economic Effects of Tax Evasion	182
9.	Iancu Eugenia, Burciu Aurel, Kicsi Rozalia	- Innovative Economy and Knowledge Society Vectors	187
10.	Ilie Margareta, Ilie Constatin	- Analysis of Tourist Accommodation Establishments and Resident/Non-resident Tourist in Romania between 2002 and 2013	194
11.	Lazar Cristina, Nancu Dorinela	- The Analysis of the Organizational Learning Processes in Local Organizations	198
12.	Lungu Ion, Stancu Ana - Maria Ramona	- Modeling a Product Launching Process Based on a Decision Tree	203
13.	Maha Liviu-George, Herțug Iulian	- Controverse teoretice privind Responsabilitatea Sociala Corporativa	207
14.	Mihai Mihaela	- Impact of Economic Crisis on Education	212
15.	Moise-Titei Adina	- How Strong is the Correlation between GII and GEI?	216
16.	Moise-Titei Adina	- The Gender Equality Index and the Gender Gaps for EU Countries	220
17.	Moraru Camelia, Popovici Norina	- Analysis of Fiscal Policy Measures during 2005 - 2013. The Case of Romania	224
18.	Neagu Olimpia	- There Is a Connection between Wages and Human Capital in Romania?	229
19.	Neagu Olimpia	- Some Reflections on Knowledge Management within NGOs	234
20.	Nenciu Daniela - Simona, Constandache Mihaela, Condrea Elena	- Analysis of Tourism Offer and Traffic Manifested at Constanța County Level During the Period 2005 – 2013	239

21.	Oncioiu Ionica	- Innovation and Market Value of Firms – a Challenge of a Changing Romanian SMEs	244
22.	Pandele Adina Laura	- The Transport of Goods and People. Aspects of Civil Liability Insurance	250
23.	Ristea Bianca, Maşcu (Uda) Mihaela, Dudan Anghelina	- Financing the Romanian Decentralized Educational System: International Projects Contribution	255
24.	Sintea (Anghel) Lucica	- Evolution and Determining Risks in an Entity through Methods Adapted to Economic Vulnerability	260
25.	Urziceanu Ramona-Mihaela	- The Formation of the Incomes and their Social Significance	265

***Subsection: Marketing – Management***

1.	Anastase (Bădulescu) Ileana , Andrusca Maria Carmen	- Management and Financial Crisis Effects in the Period 2005 - 2009 in Romania	271
2.	Asalos Nicoleta, Dinu Laurentiu, Vasile Iulian	- A Way to Rise Competitiveness in Textile Industry According to Innovation-Research-Development	276
3.	Blagorazumnaia Olga, Muntean Vlad	- Remarketing as a Tool of Online Advertising	281
4.	Cârstea Gheorghe, Păun Oana, Păun Sorin	- New Approaches of Supplier Relationship Management	285
5.	Ciabuca Alina	- Identifying Strategies to Market Police Image in the Media	291
6.	Cotîrlea Denisa Adriana	- From Place Marketing to Place Branding within the Nation Branding Process: a Literature Review	297
7.	Dan Gheorghe	The Perspective of Goods Distribution and Logistics	303
8.	Daneci-Patrau Daniel, Neacsu Gabriela	- The Conceptual Framework of the Reward System in a Simulated Enterprise in the Hotel Industry	309
9.	Dimitrescu Mihaela	- Post Crisis Economic Recovery Investment In Human Capital	315
10.	Dragomir Cristina, Utureanu Simona	- Development of Maritime University-Maritime Industry Relationships in the “E” Era – Comparison Between Danish and Romanian Maritime Cluster	333

11.	Grădinaru Cătălin, Toma Sorin-George	- Results-oriented educational leadership	338
12.	Irina Ioana	- Elements of Novelty in Corporate Reputation Research	343
13.	Jugănaru Mariana, Jugănaru Ion Danut	- The Social-Economic Characteristics of a City and Their Influence on Education	348
14.	Molcuț Alin, Văsuț Elvira	- An Analysis of the Process of Sport Performance Management	354
15.	Munteanu Anca-Ioana	- What Means, in This Period, The Human Resources Strategy in an Organization?	360
16.	Nitu Oana, Nitu Claudiu Valentin, Tileaga Cosmin	- Social Media - Return On Investment	364
17.	Popovici Norina, Moraru Camelia	- Organizational Culture – Essential Aspects. Case Study : Turkish Airlines	368
18.	Pricop Oliver Constantin, Robu Alexandru Dragoș	- Loyalty Marketing: Attracting and Retaining Customers and Workers	373
19.	Romanescu Marcel Laurentiu	- Modern Methods of Identification of the Risk in Romanian Management	378
20.	Romanescu Marcel Laurentiu	- Influence in the Organization's Strategic Business Management of the Firm under the Conditions of Globalization	382
21.	Sanda Gheorghe Gabriel, Enea Constanta, Enea Constantin	- Organizational Culture - Synthesis Particularities Give Personality And Dignity Of Each Human Group	387
22.	Stoica (Mihali) Ana-Maria	- Marketing Specific Communication – A Support in Establishing the Connection with the Personnel of the Organization	393
23.	Tampa Mircea, Voicu-Dorobanțu Roxana	- Innovation in Business Strategies in the Cosmetic Industry to Address the MicroTrend of Sun-Haters	398
24.	Utureanu Simona, Dragomir Cristina	- Airlines Alliances – Burst of Benefits or Competition Threats?	403
25.	Voicu-Dorobanțu Roxana	- Territorial Capital and Innovative Entrepreneurial Ecosystems – A Theoretical Approach	408

### ***Subsection: Finance and Accounting***

1.	Afrăsinei Mihai-Bogdan	- The double tax treaties signed by the EU member states with tax haven jurisdictions	413
----	------------------------	---	-----

2.	Asalos Nicoleta	- The Financial Crisis and its Implications on the Balance Indicators in the Banking System. Case Study	419
3.	Avram Alexandru, Heteş Roxana, Crâşneac Alexandru	- Fiscal and Monetary Policies' Impact on Investment in Romania	423
4.	Bilan Irina, Roman Angela	- Interest Payments on Public Debt and the Quality of Public Finances	429
5.	Buculescu (Costică) Maria Mădălina, Stoica Anamaria	- SMEs Financial Reporting in European Union: steps towards a more harmonized reporting	436
6.	Caratas Maria Alina, Spatariu Elena Cerasela	- Innovative Techniques in Internal audit	442
7.	Caratas Maria Alina, Spatariu Elena Cerasela	- What's the main role of the Internal Audit in the Corporate Governance of a firm?	447
8.	Caruntu Constantin	- The Balanced Scorecard and its Importance for the Assessment of the Global Performance	453
9.	Cibotariu Irina-Ştefana	- Conceptualization of Public Policy on Employment Stimulation in Romania	457
10.	Condrea Andrei, Mouriès Alexandre	- The Financial Analysis of Citizens Financial Group, Inc.TM	462
11.	Constantin Laura-Gabriela	- Online Disclosing Information on the Catastrophe Bonds Transactions – a European Perspective	467
12.	Cuceu Ionuţ - Constantin, Văidean Viorela Ligia	- Considerations on VAT Efficiency and VAT Evasion	473
13.	Danila Alexandra, Horga Maria-Gabriela, Negrea Alexandru	- Credit Scoring Model for Calculating Firm Financial Performance	479
14.	Dăucianu (Avram) Mihaela	- IAS 29"Financial Reporting in Hyperinflationary Economies" - Analysis and Implications of Accounting, Tax and Legal	483
15.	Dobre Elena	- Valuation techniques in fair value measurement	489
16.	Georgescu Floarea	Concept Performance between Theory and Practice	495
17.	Guni Claudia Nicoleta, Munteanu Victor	- The Group of Companies and the Consolidated Financial Statements in Romania - Convergence and Harmonization	501

18.	Guni Claudia Nicoleta, Munteanu Victor	- Theoretical Delimitations and Positioning of the Performance of Group Companies	506
19.	Horga Maria-Gabriela, Danila Alexandra	- Measuring Tax Gap on Income Tax and Social Contributions: Romania's Case	512
20.	Ionescu Alin, Tudoreanu Petru	- Corporate Governance Dimensions and Financial Structure of the Companies in European Developing Countries	517
21.	Khalilov Sh.A.	- The Application of IFRS Standards (IAS) in Uzbekistan	521
22.	Lupulescu-Caruntu Roxana Corina, Caruntu Andreea Laura, Vezure Oana Sabina	- Trends and Policies Promoted in Public Debt Management	525
23.	Mihălțan Delia Corina, Vitan Daniela	- Motivation of Revenue Specificity in Non-profit Organizations	531
24.	Mocanu Mihaela	- Controlling in Romania. A Literature Review	537
25.	Munteanu Irena	- Competition Structures and Trends in The Banking System of Romania	541
26.	Nichita Elena Mirela	- Linguistic Issues Regarding the Financial Reporting in Romania	547
27.	Nitu Oana, Nitu Claudiu Valentin, Tileaga Cosmin	- Saving In Foreign Currency	551
28.	Păiușan Luminița , Boiță Marius	- Financial investments in emerging economies	556
29.	Paunescu Mirela	- The Impact of Financial Crisis over the Audit Reports Issued for Listed Companies in Romania	560
30.	Paunică Mihai, Honu Monica-Veronica	- Crisis Influence over the Aviation Market Segment	566
31.	Sălișteanu (Ștefan) Simona - Florina	- Aspects Regarding the Accounting Information	572
32.	Săveanu Cristina	- Romanian Macroeconomic Vulnerability in Terms of Credit Risk – a Restructuring Procedures Perspective	576
33.	Seria Crina	- Internal Audit and Relevance Within Companies	580
34.	Stefan Liviu, Păunică Mihai	- Performance Audit of Resource Utilization During the Economic Crisis	585
35.	Stoica Anamaria, Buculescu (Costică) Maria Mădălina	- The Evolution of the Fair Value Accounting – A Response to the Global Financial Crisis	591

36.	Țițan Alexandra Gabriela	- Confidence Indexes and Their Influence on Macroeconomic Information on the Romanian Market	597
37.	Trăistaru Diana Andreea	- The Convergence of Accounting Standards: a Continuous Concern	602
38.	Trandafir Raluca-Andreea	- Using the “Efficient Frontier” in Analyzing the Activity of a Sample of Hotels from the Romanian Seaside	606
39.	Trandafir Raluca-Andreea, Mirea Marioara	- Measurement Indicators of the Value Creation within a company from the Romanian Seaside Hotel Industry	612
40.	Tudose Geanina Gabriela, Petroianu Grazia-Oana	- Governance Code - Solution to a Better Corporate Life	617
41.	Văidean Viorela Ligia, Mașca Simona Gabriela	- Determinants of Romania's Public Healthcare Expenditure. A Quantitative Approach.	623
42.	Velicescu Nicolae Bogdan	- Accounting and Tax Treatment of VAT Collection	629
43.	Vezure Oana Sabina, Lupulescu-Căruntu Roxana Corina	- Indicators for Measuring the Evolution of Local Budget Expenditure at the National Level, Within the 2006-2012	633
44.	Varlan Cecilia Iuliana	- Discussing a Title	637

**Section I**  
**International Affairs and European Integration**

\*\*\*

**Subsection 1**  
**International Affairs**

## China In The New World Economic Setting

Botescu Ion  
Ovidius University of Constanza  
[Ion\\_botescu@yahoo.com](mailto:Ion_botescu@yahoo.com)

### Abstract

*The experience of the last few years during which we have witnessed an emphasis of the globalization phenomenon has demonstrated that the countries which have strongly connected to the global economy have had significantly higher growth rates than the countries which have opted for autarchic growth.*

*Through the substantial imports and exports which have been realized by China, through the attracted foreign direct investments, etc, China has become a first ranked player in the global economy. All the aspects which have determined this evolution and the way in which the Chinese government is responding to the current global challenges were captured in this paper.*

**Keywords:** globalization, reforms, GDP, country with two systems, economic opening  
**JEL Classification:** F43, F63

### 1 Introduction

From ancient times China has represented an economic and cultural pole. The "Silk Road" was opened by China more than 2000 years ago and it has determined the development of the trade between the East and the West. Goods such as silk, paper, prints, compass and even gun powder have reached many Western countries from China and this has been a factor of the global civilization growth. The cultural impact generated by the "Silk Road" should also not be omitted.

The grand cultural revolution realized by China under Mao Tze-dun was developed under the context in which an important part of the Chinese population was suffering of starvation, phenomenon which lead to a large number of deaths after the second world war.

Den Xiaoping's coming into power lead to the start of economic reforms and implicitly to China's development. The start of the economic reform was done in the agricultural sector where starting with 1978 the tools which were found in the state property were distributed to the peasant. Moreover the agricultural lands were leased to the peasants for a period of 50 years, this being subsequently prolonged by 30 years.

The reforms of Deng Xiaoping were continued after his death and lead to China's market economy even though politically the country was lead by only one party. Therefore it was made possible that company profits were returned to the economy, this leading to the country's rapid progress.

The reforms developed by Deng Xiaoping

### 2. The dynamics of the Chinese economy in the last thirty years

China, „a country with two systems" [1] as named by Ion Bari, has recovered a great number of the its handicaps profiting on a global level in the last years. Without a doubt it can be affirmed that at least from the developing countries, China is the largest beneficiary of globalization.

The transfer of some components and financing sources from the government to local administration was made gradually, thus decentralization was realized whilst avoiding the opposition of the communists conservators.

The founding of companies under ownership of city and rural communities represented another progress element for the Chinese society.

With all this, two decades ago, bad performing credits, accentuated bureaucracy, accelerated inflation, protectionist measures adopted at a regional level, the falling apart of the Soviet Union, etc. determined China to develop a set of measures for the economic development of the country. In this direction



the National Popular Chinese Congress adopted a law protecting both state and private property.

Table no. 1. The evolution of the annual growth rate of China's GDP

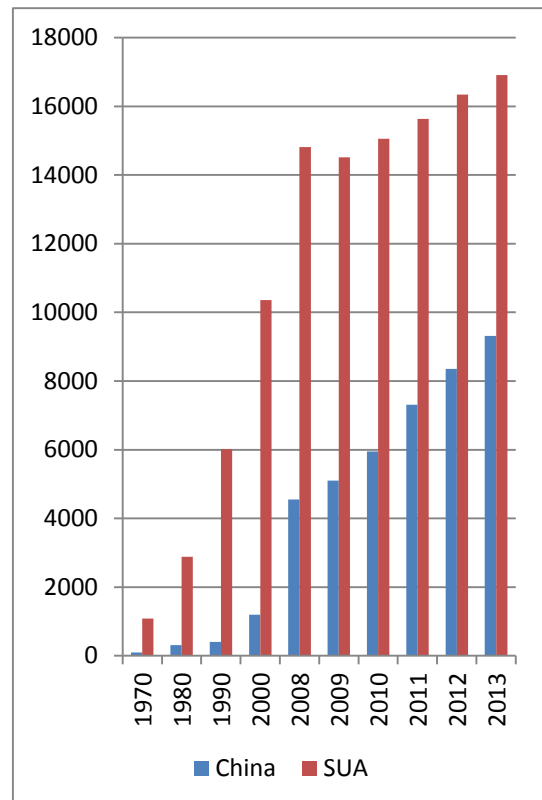
Period	Annual GDP growth rate (%)
1970-1980	5,90
1980-1989	10,83
1990-2000	10,65
2000-2005	9,79
2006	12,68
2007	14,16
2008	9,63
2009	9,21
2010	10,45
2011	9,29
2012	7,7
2013	7,6

Source:www.unctad.org

From the economic growth perspective China can be given as a success example. If in the pre-reform period (1970-1980) the annual GDP growth rate was 5.9%, starting with 1980 and up until the 2008 global financial crisis this indicator was more than 9%.

The intervention of the Chinese government for the financing of important investment objectives and an active fiscal stimulation policy coupled with a substantial increase in demand for Chinese products abroad due to low price competitiveness made the Chinese economy record growth rates comparable to those in the last 30 years during the financial crisis.

Figure nr. 1 The GDP dynamics recorded by China and the USA (billion \$)



Source: www.unctad.org

An accentuation of the Chinese GDP growth can be observed starting with 1990, the moment when the effects of the reforms implemented by Deng Xiaoping were evident.

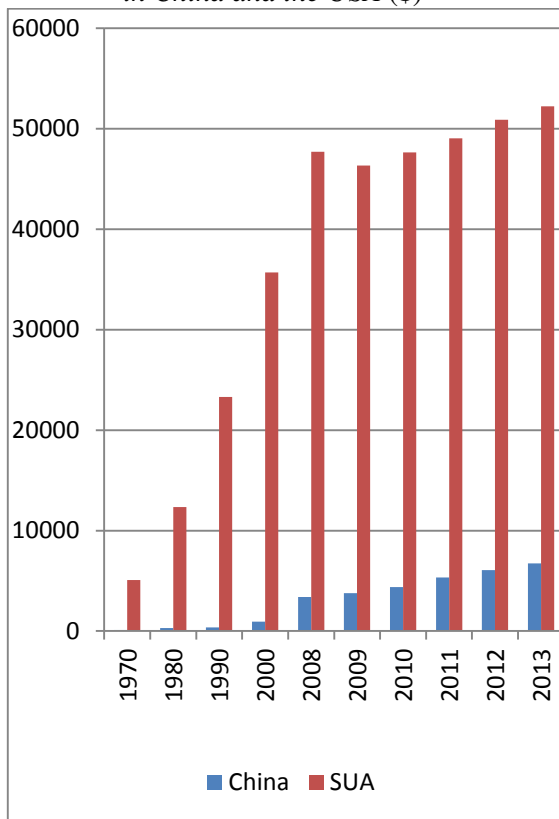
If in 1990 the weight of China's GDP and the weight of the USA GDP in the global GDP were 1.7% and 26.5% respectively, in 2013 this indicator for the world's largest two economies were 12.4% for China and 22.6% for the USA. This evolution clearly indicates the substantial increase of the role of China in the global economy.

Four years ago China overtook Japan which occupied this position for over fifty years, becoming the second largest economy in the world.

The placement of China among the top economies of the world is not a novelty. Almost two centuries ago China represented 28.7% of the world economy being followed at a great distance by India and France. [2]

China has not only traditionally been a first hand player on the clothing, textiles and leather market but currently also holds over 50% of the laptop market and significant weights on the microprocessor, phone and TV market

Figure no. 2 The evolution of the GDP/capita in China and the USA (\$)



Source: www.unctad.org

With all the success recorded by the overall economic growth, China remains the developing countries category, the GDP/capita in this country being 6726 USD in 2013, much under the world average 10418 USD and at a grand distance from the level recorded by the USA (52282 USD). However even under this aspect China's progress is evident. If in 1990 the GDP/capita was of 67.1 larger than that of China, in 2013 the level was 7.7 times.

The economic opening of China has transformed the country in a prime player in international trade. Therefore, starting with 2011 China has become the largest exporter of goods and the second largest importer. The weight of China's exports in the world total exports grew from 1.4% in 1990 to 11.9% in 2013.

From 1990 to 2013 the Chinese balance of trade was on surplus excepting for 1993. The surplus recorded by the balance of trade of China in 2013 was 358 USD. This evolution signals a positive situation.

With the ~1000 USD billion with which China acquired US treasury bonds, the Chinese state became the largest creditor of the USA. Massively lending the USA, China

stimulated the American consumption, a large amount of this being assured by Chinese products.

The success recorded by the Chinese economy has determined a significant portion of the population to cross the poverty line. It was the largest exodus of its kind in history, apart from the rural environment where many citizens record small income, presently almost 200 mn Chinese being recorded as poor.

If in the 80s China was able to attract Western investors through the creation of special economic areas (fiscal stimulus being completely special), with the passing of the time a substantial savings rate and an enormous monetary reserve was The weight of the aggregated savings in the GDP has constantly surpassed 40% in the last years, remaining over 50% and the monetary reserve at the end of 2012 was 3332 USD bn.

Under this context the Chinese dependence of foreign investors diminished with the domestic capital easily covering the necessary investments in the country. Moreover, China has become the largest creditor of the USA and has made important investments in Africa, Venezuela, Iran, Russia, etc. the Chinese investments mainly regarded countries with important natural resources, resources necessary to sustaining the economic progress of the country. In absolute terms, in 2013 the inflow of foreign direct investments was of 613 USD bn.

In the last few years, in order to assure the necessary top technologies, the Chinese government has awarded a favorable fiscal regimen for the R&D centers with foreign financing.

Moreover, in order to reform of domestic companies and to facilitate the transfer of technology has encouraged m&a by multinational companies on the Chinese market.

China is the second largest country in the world depending on the weight of the GDP destined to R&D activities. With almost 1.5 mn researchers, China occupies the first position in the world under this aspect.

It is to be remarked that in the period in which China has started and realized the reforms which have permitted the transition from the planned economy to the market economy have only realized a small amount of the IMF recommendations. For example,

China did not liberalize the capital market according to IMF requests, motivating industrial objectives cannot be built with capital that enters and leaves the country at great speed.

### 3. Restrictions regarding the development of China

The estimations of the World Bank regarding the evolution of the Chinese GDP in 2014 and 2015 warn of a slower annual growth rate which will be slightly higher than 7%. The reduction of the growth rate is mainly determined by the reforms implemented by the government meant to assure a larger amount of stability and implicitly a durable development of the Chinese economy.

With China's economic upheaval in the last thirty years it is believed that a series of factors which should slow down the growth of China in the next period. From these factors we can mention: [3]

- The dependency on the foreign markets on which China is selling its products. The long awaited relaunch of the USA and the EU is a phenomenon which can seriously limit the export possibilities of an economy which has developed mainly in the goods trade on foreign markets;
- The geographic limitation due to the form of relief which surround China and diminish the potential of the country to exercise its influence territorially;
- Demographic aspects characterized by the aging trend of the population and the disequilibrium between the women and men positioned in the production process, the number of men being significantly higher than that of women;
- The existence of a single party on the political scene of the country has determined a bureaucratic economy with the increase in the number of corrupt acts;
- The road and railroad infrastructure which at time are below the development potential of the area.

From the wish to insure the economic growth mainly through exports, China has not insured a proper growth in the purchasing power of the citizens, fact which has determined the accentuation of the inequality between the rich and poor classes.

In the attempt to stimulate the increase in the consumption, the Chinese government has subsidized the price of certain products of intellectual used sold in the poorest provinces of the country. The results have quickly appeared, the sale of the mentioned products in the respective provinces decreasing by 30%

Moreover, the World Bank has positively appreciated China's decision of encouraging internal consumption through according facilities in this sense.

An encouragement to crediting was made through the largest quantity of liquidities induced in the banking system by the popular bank of China. In this way maintaining a low level of interest was achieved. The banks insured the financing of large infrastructure projects, fact which has insured a certain level of stability. On the other hand, through the state policy mainly large state owned companies received financing. The result was revealed in a large number of bad performing loans. Unfortunately small and medium size companies which in many countries represent the stability motor in the national economy had difficulty in accessing financing.

### 4. Conclusion

In the last thirty years, China has been by far the best performing country in the world economy

Having only a small reserve of natural resources China has been able to utilize the large work force at its disposal. The progress of the Chinese economy is mainly due to the large, cheap and disciplined workforce which has very low syndicate rights. Moreover, the right to strike is completely forbidden in China. It is remarkable also that through the measure adopted by the governmental reforms China was not affected by the global financial crisis, thus avoiding the prophecy of Nouriel Roubini according to which the Chinese economy would enter the crisis in 2012

### 5. References:

- [1] Bari Ioan, Globalizarea economiei, Ed. Economică, București, 2005, p 147
- [2] China – între a fi și a nu fi prima putere economică a lumii:  
<http://geopolitics.ro/china-intre-a-fi-si-a-nu-fi-putere-economica-a-lumii>

- [3] <http://www.ziare.com/economie/analiza-economica/este-china-o-mare-amenintare-pentru-sua-ca-putere-globala-1303286>
- [4] Pencea Sarmiza, China un nou pol de putere in economia mondiala: <file:///C:/User/Admin/Downloads/82-179-1-SM.pdf>
- [5] Chirca I Sergiu, Mecanisme sistemelor economice, Ed. ASEM, Chisinau, 2004
- [6] Navaro Peter, China razboaiele care vor veni. Ed. Niculescu, 2013
- [7] Pomeranz Kenneth, Marea divergenta: China, Europa si nasterea economiei mondiale moderne, Ed. Polirom, Iasi

# Comparative Analysis between the Exception of the Non-performance of the Contract and Its Retroactive Termination

Căzănel Maria

"Ovidius" University of Constanta

The Faculty of Law and Administrative Sciences

[maria.cazanel@gmail.com](mailto:maria.cazanel@gmail.com)

## Abstract

*In order to understand thoroughly the exception of the non-performance of the contract, it is necessary to underline the similarities and differences that shape the legal regime of this exception and the retroactive termination of contracts. In this regard, we note that the common legal basis is represented by the reciprocity and interdependence of the obligations incumbent on the contracting parties, by the fact that each mutual obligation represents the other's legal cause. Both the exception of non-performance and the retroactive termination or cancellation have the same legal grounds: the idea of purpose, the principle of binding force and the idea of fault. In addition to these items, the exception of non-performance is characterized by the simultaneous execution of the obligations arising from synallagmatic conventions.*

**Keywords:** contract, exception of non-performance, civil obligations, retroactive termination.

**J.E.L. Classification:** K

## 1. Introduction

The exception of non-performance of the contract crystallized within the jurisprudence as a separate and complex legal institution, with multiple meanings and practical implications. Thus, we consider that the delimitation from other institutions in its vicinity (retroactive termination and cancellation of the contract, lien, potestative rights, assignment of debts and

compensation of related debts) is likely to emphasize its autonomy and specificity.

## 2. Comparative analysis between the exception of non-performance and the retroactive termination of the contract

In the legal literature and jurisprudence it was held that, if a contracting party to a synallagmatic contract fails to fulfill its obligations, the other party has three possibilities: to invoke the exception of non-performance of the contract; to seek the enforcement of the contract and ask for compensation where appropriate; to seek retroactive termination, cancellation or reduction of services, under articles 1549-1554 of the New Civil Code.

The retroactive termination implies the judicial or conventional dissolution of the synallagmatic contract with *uno actu* execution, if one party does not fulfill its obligations, culpably. This dissolution entails retroactive effects (*ex tunc*). Cancellation implies the dissolution of a synallagmatic contract, with successive performance, with effects for the future (*ex nunc*), if one party fails to perform its incumbent obligations, culpably [1].

Therefore, the legal basis of the exception of non-performance, retroactive termination and cancellation is represented by the reciprocity and interdependence of the contracting parties' obligations, by the fact that each mutual obligation represents the other's legal cause. As previously mentioned, it is not related to the technical notion of purpose, prior to the conclusion of the contract (its absence representing the grounds for contract nullity). It

is about a purpose understood as a manifestation of the idea of purpose, during the performance of the contract. The absence of the purpose justifies the specific effects of synallagmatic contracts, namely: the exception of non-performance, the contract risk, retroactive termination and cancellation. Therefore, in the legal literature, it has been shown that "the interdependence of the obligations arising from synallagmatic contracts is not only genitive (upon the establishment of the contractual will) but also functional (throughout the performance of the contract) [2].

We note that both the exception of non-performance and the retroactive termination and cancellation have the same legal grounds: the idea of purpose (in a bivalent sense: both upon the conclusion of the contract and during its performance); the principle of the binding force of the contract and the idea of fault, because these concepts represent the basis for all the specific effects of synallagmatic contracts [3]. In addition to these elements, the exception of non-performance is particularly characterized by the simultaneous execution of the obligations arising from synallagmatic conventions.

Within the doctrine, it is generally accepted that retroactive termination and cancellation are civil penalties since they are based on the idea of fault. The *bona fide* within a contract disposes of contractual liability if the other party does not culpably perform its obligations; this is stipulated by the provisions of article 1270, paragraph 1 of the New Civil Code, according to which contracts have a binding "force of law" on the contracting parties [4].

Under the principle of the binding force of the contract, the parties undertake to carry out all the incumbent services under the contract and this performance should take place under the established terms and conditions, according to the provisions of articles 1492, 1516, paragraph 1 and 1527, paragraph 1 of the New Civil Code. In the literature, this principle of the binding force of the contract was called "the compliance rule of contract performance", i.e. the performance of the obligations arising from the contract must correspond exactly to the landmarks established contractually, in terms of quality, quantity, identity, place, time and means of enforcing a contractual service [5].

In case of a voluntary non-performance of contractual obligations by the debtor, the creditor has the right to choose between several possible remedies. According to article 1516 of the New Civil Code, the creditor may choose to request the performance in kind, accurately and on time. If the debtor refuses to fulfill his/her obligations, the creditor is entitled to choose between the enforcement of the obligation in kind, the retroactive termination, cancellation of the contract or the reduction of the service, or to use whatever legal means provided by law, in order to acquire the performance owed to him/her, or to use the economic coercion of the debtor, for the same purpose [6]. Thus, the retroactive termination is a last-resort, used only if the remedy of the additional performance period fails. It should also be noted that only the creditor benefits from this option among remedies, being the only person entitled to invoke the retroactive termination of the contract; neither the debtor nor the court are entitled to this right [7].

The literature has shown that a true innovation of the new Civil Code in relation to previous regulations is represented not only by the creditor's right to choose between possible remedies for the non-performance of the contract, but also by his/her right to choose between two types of retroactive termination: judicial retroactive termination and extrajudicial unilateral retroactive termination. This is provided by article 1550, paragraph 1 of the new Civil Code, which states that "the retroactive termination may be ordered by the court, upon request, or, it may be declared unilaterally by the entitled party" [8]. The author emphasizes that this absolute novelty in the Romanian legal landscape is a purely potestative right, which can be limited only exceptionally, by an eventual contractual provision, unlike the creditor's right to choose among the possible remedies of non-performance.

If the debtor does not perform the incumbent services, the other contracting party may require their performance by equivalent, engaging the debtor's contractual liability; thus, the debtor will be obliged to pay to the creditor the money in compensation for the damage caused. These damages are moratory or compensatory, insofar as the enforcement in kind of the obligations

under the contract is not possible; the damages are only moratory if the enforcement in kind is possible.

In the literature, civil contractual liability is defined as the debtor's obligation to repair the pecuniary damage caused to his/her creditor by the non-performance, inadequate performance or late performance of the obligations arising from a validly concluded contract [9].

However, any solution would be unfair to the party which has performed its duties as the guilty party, against whom the enforcement is required, may be in a state of insolvency. In this situation, the *bona fide* party could not obtain full satisfaction of its claims and the competition of other creditors may occur. However, even if the culpable party were solvable, the delay in performing the obligation could result in the loss of the other party's interest in that claim [10]. The subjective representation of one party on the obligations of the other party represents the legal cause for the performance of one's own duties. This representation can be changed if the other party does not fulfill its obligations and if the creditor believes that there is no incentive for the performance of his/her duties. Such a possibility of appreciation is, however, a favor created by the legislator to the *bona fide* party, which has performed or states that it is ready to perform its obligations. It can consider, however, that it is better to seek the enforcement in kind of the obligations of the other party, if it is still possible and if it provides interest [11].

Therefore, another solution for the *bona fide* party is the retroactive termination or cancellation of the contract. Thus, the interested party is allowed to withdraw from the contract and to demand the return of all the services provided, thus achieving a balance between the principle of the binding force of the contract, the principle of the performance in kind and in good faith of the obligations assumed and the equity principle. Accordingly, the retroactive termination and cancellation appear as special forms of civil contractual liability, i.e. as civil penalties [12].

But the civil contractual liability represents the (indirect) enforcement by equivalent of contractual obligations. Therefore, the retroactive termination and cancellation are varieties of enforcement by equivalent, as shown

by the provisions of article 1549 of the New Civil Code, according to which the creditor of the obligation may also request damages along with the dissolution of the convention, if he/she is entitled to it [13].

On the other hand, the exception of non-performance cannot be classified as a civil sanction, because it is, as mentioned above, a preventive defense means employed by the party which fulfilled its contractual obligations in good faith; it is a guarantee and a means of pressure on the other co-contractor. Therefore, the purpose of the party invoking the exception of non-performance is not to cancel the contract and to cover the damage that was caused, but rather to continue the contract, by the performance of the parties' obligations. Therefore, the exception of non-performance of the contract appears as a real remedy of the non-performance of the contract by the debtor. To the extent that the co-contractor, who acted in bad faith and did not perform his/her contractual obligations, needs the correlative performance by the other party, in order to get it, he/she will be forced to immediately proceed to the execution of the service or services to which he/she is indebted. This comminatory function of the exception of non-performance results from its suspensive effect, i.e. from the suspension of the binding force of the contract, without aiming at the dissolution of the contract or at the extinguishment of the parties' obligations, as in the case of retroactive termination and cancellation.

Although some authors have argued that "the retroactive termination operates in any conventional relation ensuing mutual obligations, whether it is a unilateral or synallagmatic contract" [14], we consider that the retroactive termination can not apply to imperfect synallagmatic contracts [15]. This is because the obligation arising during the performance of the unilateral contract does not represent the legal cause of the other legal obligation. On the contrary, it has an extra-contractual basis stemming from a legal fact, *stricto sensu* (for example, unjust enrichment). However, the exception of non-performance may be applied to those imperfect synallagmatic contracts, under the form of lien [16] (i.e. when the depositary of an article spends money for the

preservation of the article, and the deponent does not pay this expenditure, the depositary is entitled to hold the article and not return it).

The two legal institutions are similar in that the action for retroactive termination may be exercised only by "the party in relation to which the obligation was not performed". Therefore, the debtor of the non-performed obligation may never request retroactive termination. There was expressed, in the doctrine, the view that the action for retroactive termination may be required not only if the party performed its obligations, but also if it is ready to perform them, because, in this case, the creditor's fault is excluded [17]. Similarly, the exception of non-performance may be invoked only by the party which performed its obligations in good faith or is ready to perform them.

As regards the admissibility of judicial retroactive termination, several conditions must be met:

- one party did not perform its contractual obligations: the non-performance of the obligations may be total or partial, in which case, the remaining un-performed part of the obligation must be essential or sufficiently serious, as article 1551, paragraph 1 of the New Civil Code requires this unique basic condition of retroactive termination [18]. Accordingly, the court may rule the total or partial retroactive termination of the contract [19]. Also, the retroactive termination may be based on the improper performance or on the delayed performance of the contractual obligations, both significant, i.e. sufficiently important, thus depriving the creditor of what he/she would have been entitled to under the contract [20];

- the debtor's notice of default, as provided by law, by a previous formal notice or by the action for retroactive termination. Some authors have expressed the view that the notice of default is not necessary because the summons imply an active manifestation of the plaintiff's will, which would render a prior formal notice superfluous. Thus, as long as the performance is possible, the creditor may waive the action for retroactive termination, demanding the performance of the obligation even throughout the lawsuit [21].

In order to determine the severity of the non-performance of the debtor's obligations, in the

context of the Romanian law, we use the notion of "contract purpose", in order to identify the implications of a determinant non-performance upon the conclusion of the contract. Thus, the non-performance of a certain service may trigger the retroactive termination of the contract if it was a determinant reason for the conclusion of the contract by the creditor [22].

The first condition is necessary in order to invoke the exception of non-performance, but without requiring the debtor's notice of default. Moreover, the invocation of the exception of non-performance takes place directly between the parties, as a form of private justice, without the delivery of the court, unless the party who opposes this exception claims that its invocation was done improperly. This means that the non-performance of the obligation was caused by the act of the person invoking the exception or that the non-performance of the obligation by the debtor is only partial and minor, so that the refusal of the other party to perform its obligation is not justified. From this perspective, the exception of non-performance is similar to the extrajudicial unilateral termination, regulated by article 1550, paragraph 1 of the New Civil Code. This implies the creditor's possibility to invoke the retroactive termination of the contract for non-performance, even in the absence of an express *commissoria lex*, without resorting to the court or to any external authority. The potential role of the judge will be to verify, *a posteriori*, the accuracy and appropriateness of the retroactive termination [23].

On the other hand, the parties to a contract appeal to the conventional retroactive termination in order to avoid a process and, therefore, the control of its opportunity, which the court may perform. Thus, under article 1553 of the New Civil Code, in the contracts they conclude, parties may stipulate express clauses on the retroactive termination of the contract or express *lex commissoria*. However, when those clauses are missing, the judicial retroactive termination is applied [24]. Nevertheless, court intervention is not removed in the case of an express *lex commissoria*; it is only minimized, reduced to the finding that *lex commissoria* has occurred and that the contract was terminated under the parties' will. Even in this situation, the conventional retroactive termination shall meet



the requirements discussed above, because it does not lose its character of civil sanction.

Without making any distinction between judicial and conventional retroactive termination, its main effect is the retroactive dissolution of the contract. Between the contracting parties, the effects of retroactive termination consist in terminating the contract both retroactively (*ex tunc*) and with respect to its future effects (*ex nunc*). Thus, the contract is dissolved upon its conclusion with the consequence of reinstalling the parties in their previous situation (*restitutio in integrum*). As far as the issue of an insolvent debtor is concerned, the retroactive termination is an extremely efficient tool, allowing the creditor to regain his/her service without entering into competition with other creditors, situation that could not be avoided if he/she opted for the enforcement of the contract [25]. Following the implementation of this measure of retroactive termination, the contract is almost nonexistent, it is considered that it had not been concluded, that the parties were not legally bound under the initial contract [26].

As far as third parties are concerned, the retroactive termination occurs by abolishing all the rights granted to them by the acquirer of the goods that formed the object of the contract (according to the principle "*resoluto jure dantis, resolvitur jus accipientis*"), except for *bona fide* third parties, sub-acquirers for good and valuable consideration.

However, the effect of the exception of non-performance resides, as shown, in the suspension of the binding force of the contract, which remains temporarily un-performed, similar to the situation where it would have benefited from a deadline. Thus, the *bona fide* contractor, who was entitled to refuse the performance of his/her obligations, cannot be forced to pay for moratory damages on the ground that he/she would have delayed the performance of the services due to the other party, because the contract and its binding force continue, as in the case of the retroactive termination, being only suspended [27].

### 3. Conclusion

In this article, we have shown that the retroactive termination of the contract for non-performance is a remedy issued by the court, while the exception of non-performance is a preventive measure, adopted at the *bona fide* contractor's own initiative, as a form of private justice, without the intervention of the judiciary. Therefore, the retroactive termination of the contract operates under the power of a final and irrevocable court decision, while the exception of non-performance is directly invoked between the contracting parties, by the entitled party.

In the previous regulation of the Romanian Civil Code, the retroactive termination of the contract intervened only when the non-performance of the contractual obligations was triggered by the debtor's fault. The regulations on the retroactive termination of the contract, in articles 1549-1554 of the New Civil Code, are innovative and modern in the sense that they no longer impose this condition regarding the contractual non-performance. It is sufficient for such a non-performance to be concerned with a contractual obligation and to be serious enough. However, the exception of non-performance is also applicable if the non-performance by a party is due to unforeseeable circumstances or force majeure, which temporarily prevents the performance of the obligation by the debtor [28].

Regarding their effects, we showed that the retroactive termination entails the dissolution of the contract with a retroactive effect and the parties are restored to the situation prior to conclusion of the contract, by returning all the services provided. On the other hand, the exception of non-performance only discontinues the effects of the contract; this situation ceases when the contractor against whom the exception is raised executes or declares that he/she is ready to execute his/her own obligations. Thus, the contract remains available and the contracting parties are released from their obligations unless their non-performance by the debtor becomes final.

### 4. References:

- [1] Stoica, V., "Rezoluțiunea și rezilierea contractelor civile", ed.All, București, 1997, p.15-16.

- Pop, L., ”Drept civil. Teoria generală a obligațiilor”, Ed.Lumina Lex, București, 1998, p.78.
- [2] Constantinesco, L.-J., ”La resolution des contrats synallagmatiques en droit allemand”, Rousseau&Cie Éditeurs, Paris, 1940, p.316 în Stoica, V., op.cit., p.23.
- Kocsis, J., ”Excepția de neexecutare a contractului, sancțiune a neîndeplinirii obligațiilor civile contractuale”, revista Dreptul nr.4/1999, p.15-16.
- [3] Jurcă, C., Căzănel, M., Trandafirescu, B., Iordache, F., Naum, M., ”Curs de drept civil. Drepturile reale. Teoria general a obligațiilor”, ed.Bren, București, 2005, p.150.
- [4] Pop, L., Popa, I.F., Vidu, I.S., ”Tratat elementar de drept civil. Obligațiile conform noului Cod civil”, ed.Universul Juridic, București, 2012, p.140 show that this expression originates in the formula ”tiennent lieu de loi”, borrowed from the French law, more exactly from the authors of the French Civil Code, inspired by the great jurist Domat.
- Pop, L., ”Tratat de drept civil. Obligațiile”, vol. II,” Contractul”, Ed. Universul Juridic, București, 2009, p.77.
- [5] Pop, L., Popa, I.F., Vidu, I.S., op.cit., p.143.
- [6] Pop, L., ”Tratat de drept civil.Obligațiile”, vol.I, ”Regimul juridic general sau ființa obligațiilor civile”, Ed. C.H.Beck, București, 2006, p.336.
- Turcu, I., Pop, L., „Contractele comerciale. Formare și executare”, vol.II, ed. Lumina Lex, București, 1997, p.17.
- [7] Pop, L., Popa, I.F., Vidu, I.S., op.cit., p.283.
- [8] Pop, L., Popa, I.F., Vidu, I.S., op.cit., p.285-286; see also Adam, I., ”Drept civil. Obligațiile. Contractul în reglementarea Noului Cod civil !”, ed.C.H.Beck, București, 2011, p.138.
- [9] Eliescu, M., ”Răspunderea civilă delictuală”, ed.Academiei, București, 1972, p.7; Anghel, I., Deack, Fr., Popa, M.F., ”Răspunderea civilă”, Edit.Științifică, București, 1970, p.295; Stătescu, C., Bîrsan, C., ”Drept civil. Teoria general a obligațiilor”, ed.Hamangiu, București, 2008, p.289; Albu, I., ”Drept civil. Contractul și răspunderea contractuală”, ed.Dacia, Cluj-Napoca, 1994, p.235.
- [10] Motica, R.I., Lupan, E., ”Teoria generală a obligațiilor civile”, ed.Lumina Lex, București, 2005, p.83.
- [11] Stoica,V., op.cit., p. 26.
- [12] Motica, R.I., Lupan, E., op.cit., p.83.
- [13] Stoica, V, op.cit., p.30-32.
- [14] Hamangiu, C., Rosetti-Bălănescu, I., Băicoianu, Al.,”Tratat de drept civil român”, vol.I, București, 1998, p.681.
- [15] These are contracts initially concluded as unilateral contracts but which, during their existence, also entail obligations incumbent to the creditor.
- Deleanu, I., „Drepturile subiective și abuzul de drept”, ed.Dacia, Cluj-Napoca, 1988, p.50-5.
- [16] Stătescu, C., Bîrsan, C., op.cit., p.47; Adam, I., op.cit., p.395.
- [17] Popescu, T.R., Anca, P., ”Teoria general a obligațiilor”, ed.Științifică, București, 1968, p.139 în Motica, R.I., Lupan, E., op.cit., p.83.
- [18] Article 1551, paragraph 1 of the New Civil Code provides that: ”The creditor is not entitled to retroactive termination when the non-performance is insignificant”; G.Mihai, ”Drept Comercial Român”, vol. II, revised edition, in accordance with the New Civil Code and the New Code of Civil Procedure, Ed. MAR, Constanta 2013, p.75;
- [19] Albu, I., op.cit., p.133; Motica, R.I., Lupan, E., op.cit., p.83.
- [20] Pop, L., Popa, I.F., Vidu, I.S., op.cit., p.289.
- Pop, L., ”Tratat de drept civil. Obligațiile”, vol. II,” Contractul”, Ed. Universul Juridic, București, 2009, p.76.
- [21] Cosmovici, P.M., „Drepturi reale. Obligații. Codul civil” ed. AllBeck, București, 1998, ediția a III-a, p.148 in Motica, R.I., Lupan, E., op.cit.,p.83; Stătescu, C., Bîrsan, C., op.cit., p.88;
- [22] Pop,L., Popa,I.F., Vidu,S.I., op.cit., p.291; Cass.com., 2 iulie 1996, Bull.civ.IV, n°198, 1996, obs. D.Mazeaud: ”the retroactive termination may be pronounced by the judge in case of partial non-performance, since it concerns an obligation determinant upon the conclusion of the contract”, in Malaurie,Ph., Aynès,L., Stoffel-Munck,Ph., ”Obligațiile”, Ed. Wolters Kluwer, București, 2010, p.480;
- [23] Pop, L., Popa, I.F., Vidu, I.S., op.cit., p.287.
- [24] Trandafirescu, B., ”Dispozițiile noului Cod Civil român privind legea aplicabilă contractului de comerț internațional” în volumul Sesiunii de comunicări „Codul civil român. Noutăți în materia dreptului privat”, Editura ASE, București, 2010, p. 84;
- [25] Cosma, D., ”Teoria generală a actului juridic civil”, ed. Științifică, București, 1969, p.433.
- [26] Safta-Romano, E., ”Contracte civile”, vol.I, ed.Graphix, iași, 1993, p.165 în Motica, R.I., Lupan, E., op.cit., p.83; Stoica,V., op.cit., p. 31.
- [27] Pop, L., ”Tratat de drept civil. Obligațiile”, vol. II,” Contractul”, Ed. Universul Juridic, București, 2009, p.77.
- [28] Dogaru, I., Drăghici, P., ”Bazele dreptului civil”, vol.III, ”Teoria general a obligațiilor”, ed.C.H.Beck, București, 2009, p.151.

# International Tax Evasion in the Current Geopolitical Context

Constantin Sergiu-Bogdan

*Bucharest University of Economic Studies, Faculty of Accounting and Management*

*Information Systems*

[c.sergiu.b@gmail.com](mailto:c.sergiu.b@gmail.com)

## Abstract

*Tax evasion means the avoidance of declaring and paying the tax obligations. Through the manifestation of this phenomenon, the state incomes are reduced, the governments not being capable of complying with their tasks. As the economic globalization progresses, tax evasion becomes international thanks to the tax havens which usually are small states that provide various tax facilities to those who want to carry out their activity through their agency, especially through offshore companies. It is not illegal to carry out the activity through an offshore company from a tax haven, this representing more a means, an instrument through which international tax evasion takes place. Money from world countries are drained through tax havens, affecting the budget returns. The European Commission coordinates the efforts to combat international tax evasion by international cooperation, improvement of information exchange between EU countries, G20 and tax havens, using FATCA deed under OECD supervision.*

**Keywords:** international tax evasion, tax haven, EU, G20, OECD

**JEL Classifications:** F55, H26

## 1. Introduction

Tax evasion means the avoidance by any means, whether fully or partially, of declaring and paying the tax obligations owed to the state budget. Tax evasion is committed by infringing the tax law, taking advantage of the specific way in which taxation is applied, and it is one of the social and economic phenomena of greatest importance which, to lesser or greater extent, all states deal with.

Tax evasion threatens state revenues. This means fewer resources for infrastructure and services such as education and health, lowering standards of living in both developed and developing economies.

Being an extremely noxious, paradoxical and reprehensible phenomenon, tax evasion has been an unwanted presence, with different progress directions and incidences, in any country, irrespective of size, development level, governing mechanisms or political systems.

As the economic globalization progresses and the financial flows amplify, tax evasion enjoys a strong diversification of the forms of manifestation and content, and as the integration phenomenon extends and consolidates, they become international and often take place in cross border structures [1].

## 2. International tax evasion

International tax evasion is the result of the national burdening tax systems and also of the autonomy of the national tax regulations, which often generate a double taxation. International tax evasion is encouraged by the existence of fiscally free areas also called tax havens, which are genuine territorial enclaves that benefit by customs extraterritoriality and are not subject to the national legislations, having a legal status of genuine state entities. By themselves, tax havens do not have anything illegal, because all procedures, exemptions or confidentialities are provided in the local law [2].

The scope of tax havens is attraction of growing companies, investment of capital and stimulation of activities necessary to ensure the economic and social balance. The tax facilities used in order to achieve the intended scope are multiple: tax exemption of achieved incomes or profits or application of extremely low shares [3].

Another essential characteristic is the protection under the law of financial or commercial operations performed by individuals or legal entities.

In order to ensure a privileged tax system, these entities permanently adapt their tax legislation in accordance with its international evolution.

Also, the development of a bank system without restrictive regulations and constraints, which ensures the rapidity of operations inside and outside the borderline, absence of a strict control of exchanges, except the operations related to foreign currencies, and also the provision of means of communication at high functional level, are characteristics which define tax havens.

Therefore, a company cannot be accused of tax evasion for the simple fact that it carries out its activity in a tax haven, such company being called "offshore company". This assertion is based on the fact that tax evasion is pecuniary and criminally sanctioned, while the tax payers who use the advantages provided by such territorial entities are not sanctioned. The tax haven is a means, an instrument by which international tax evasion is committed by the tax payers who are looking for a more advantageous tax treatment. Alarming is the fact that, by taking advantage of these, some offshore companies resort to money laundering in the case of that money originated from tax evasion at national level.

### **3. Tax havens and their role in international tax evasion**

International tax evasion, stimulated by the existence of tax havens, is not a phenomenon characteristic to contemporary world. They have been existing from ancient times. Thus, in Ancient Greece, the isles from the proximity of Athens were used by the traders to store goods, in this way avoiding 2% tax levied by the city for imports and exports. Between the 16<sup>th</sup> and 18<sup>th</sup> century, Flanders had become a tax haven, because the trade made through its ports was subject to minor tax obligations and restrictions. In 1889, The Bank of Nova Scotia from Canada, the second largest bank from the country, opened an office in Jamaica [3]. Through the instrumentality of this office, its clients benefit of tax and

financial advantages provided by that country for international trading operations.

The moment which marks the increase in importance of tax havens is the end of the second great world military conflagration. This is due to the increase in number of the subsidiaries of a mother company. At origin, these subsidiaries have served as extensions of the mother company abroad, having the same organization as other companies from countries which allowed certain tax postponements, and as place of refuge (safety) for the capitals intended to be reinvested or repatriated. Subsequently, the foreign subsidiaries were used as means of tax evasion.

In order to comply with this scope, the subsidiaries started to be established in countries with stable currency, which did not exercise an exchange control, which had a reliable bank system and a government which encouraged foreign investments on their territory, which taxed with a reduced share the profits of foreign investors or the benefits of the resident companies and also the dividends paid-up by the subsidiaries of the mother company.

Today, directing the world's finances towards offshore centres from tax havens can be compared with the circuit of water in nature. Water, the same as money, is used and reused, finally completing its circuit in the great reservoirs of the oceans. Money, the same as water, circulates from one state to another. Part of it is visible to the authorities, the other part, which is quite substantial "drains" underground towards the great reservoirs of the tax havens [1].

In this way, tax havens have become genuine "collecting channels" of huge amounts of money obtained through methods more or less fraudulent of avoiding taxation; they provide a series of advantages for economic and financial criminality. The world of "white collars", which aims the cross-border economic and financial criminality, wanting to find the safest and most efficient methods of money laundering, has tried to identify the perfect tax haven, which maximizes the advantages and minimizes the risks, especially those related to confidentiality and possibility of state authority to intervene. [4].

The advantages of offshore companies are given, on the one hand, by zero or very low

taxation from tax havens, and on the other hand, by the possibility of using various treaties regarding the avoidance of double taxation. These financial centres play a destructive role. They serve as subterfuge in tax systems from several states. Capital export, associated with tax evasion, deprive the developing countries of the sources necessary for social services [1].

The most spread forms of manifestation of tax evasion at international level are abstinence and dissimulation. Other methods of committing the international tax evasion consist in the transfer of profits to states with reduced taxation through the method of manipulating the transfer prices and taking out of the country the incomes obtained by trading companies by paying fictive services provided to offshore companies established in tax havens [2].

These services are of management, marketing, consultancy and they cannot be physically quantified (regarding their effects). Such services are not concretely or practically supplied, and only a circuit of the tax documents is created, but such documents do not reflect real economic operations. We mention that, often, these services, although not real and not based on actual economic operations, are regulated based on civil contracts concluded between parties, which contain a series of "advantages" in order to favour the transfer of profits to a country with kinder tax conditions. Many of these contracts stipulate the confidential character of the business precisely because it is desired to mask fictive economic operations without a real base. The aforementioned provisions of services are used as instrument of transfer of an important part of the taxable matter off the profit to more favourable tax conditions, practically making a transfer of the right of taxation from the country of origin to countries with lighter taxation.

The Organisation for Economic Co-operation and Development (OECD) classified the tax havens and made a list of the countries which can be more or less nominated in this category. The first list of the tax havens was prepared by OECD in 2000 and the latest update was done in 2011 on the occasion of G20 summit from London.

The identified tax havens are: Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Bermuda, Belize, British

Virgin Islands, Cyprus, Chile, Costa Rica, Cook Islands, Dominica, Dubai, Cayman Islands, Delaware, Gibraltar, Grenada, Guatemala, Guernsey, Philippines, Isle of Man, Jersey, Liberia, Liechtenstein, Maldives, Malaysia, Malta, Marshall Islands, Hong Kong, Mauritius, Monaco, Montserrat, Nauru, Dutch Antilles, Niue, Panama, Uruguay, Samoa, San Marino, Seychelles, St. Lucia, St. Kitts & Nevis, St. Vincent and the Grenadines, Singapore, Tonga, Switzerland, Turks & Caicos Islands, US Virgin Islands, Vanuatu [5].

It can be observed that many of the tax havens are located in the British colonies, the money collected in these area is afterwards managed by (and not only by) London's financial institutions, the main beneficiaries of this obscure industry of tax havens surprisingly being not only those from the underworld, but also those from the high class of the world's political and economic elite. Hence, London is the financial centre in the centre of a spider net, which connects it to many of the tax havens, being considered the greatest tax haven from the world.

#### **4. Fighting against international tax evasion**

Because of the international tax evasion, vast amounts of money are kept off-shore and go untaxed. Countries cannot afford to lose these tax revenues. The more is done to combat tax evasion, the more resources the states will have to finance growth-enhancing public investment, restore the health of public finances, and put the euro area economy back on a sustained and long-term recovery.

Fighting against tax evasion is also a question of trust. Ensuring that wealthy individuals pay their fair share of tax and preventing double non-taxation of multinational enterprises is essential to restore public trust in governments. Taxation lies at the heart of the social contract and constitutes a powerful instrument to reduce inequalities.

Through the European Commission, the European Union leads the international efforts of fighting against tax evasion [6]. With regard to international tax evasion and tax havens, the main issues considered are tax transparency and exchange of

information for tax purpose. Under the conditions of the current information exchange system, the countries must submit every time an application in order to receive data on suspect tax operations. But many of these applications are often rejected.

In March, 2014, European Union adopted a text which is going to extend the automatic exchange of tax information on payments made by trusts or foundations, and it is an important component of the European Union's arsenal in the fight against international tax evasion and bank secrecy [7].

In the same assertion, 47 countries, including the ones from G20, but also some tax havens, have signed an agreement in May, 2014, which shall facilitate the exchange of tax information. In the future, the signatories of this agreement, but also many other countries which shall adhere, shall exchange information once a year. Thus, the agreement shall increase the pressure on banks to identify the owners of the companies and trusts behind which the tax dodgers often hide.

The catalyst of this agreement was the Foreign Account Tax Compliance Act (FATCA). FATCA is a United States federal law that requires United States persons, including individuals who live outside the United States, to report their financial accounts held outside of the United States, and requires foreign financial institutions to report to the Internal Revenue Service (IRS) about their U.S. clients. Congress enacted FATCA to make it more difficult for U.S. taxpayers to conceal assets held in off-shore accounts and shell corporations, and thus to recoup federal tax revenues. FATCA is designed to increase compliance by U.S. taxpayers rather than to enforce collection from foreigners. FATCA requires foreign financial institutions to report information related to the ownership by U.S. persons of assets held overseas [8].

The organization specialized in fighting against tax evasion at international level is The Organisation for Economic Co-operation and Development (OECD). Based on the mechanisms of the European Union, the strong and coordinated position of the European Union within G8 and G20, OECD contributes to guaranteeing tax transparency and transformation of automatic exchange of

information in the new relevant world standard. In this regard, this institution carefully monitors the degree of tax transparency and the modality in which the exchange of information is done with tax havens. In this context, the global information exchange system, which could not be conceived ten years ago, is almost functional.

Tax transparency and the fight against cross-border tax evasion have been key topics at G20 Summits in Washington, London, Pittsburgh, Toronto, Seoul and Cannes

The OECD has been also working in conjunction with the G20 to tackle double non-taxation of corporate profits through the Action Plan on Base Erosion and Profit Shifting, or BEPS. This is at the very centre of the trust agenda and vital for the strong functioning of the global economy [9].

Therefore, we observe an increase of efficiency in fighting against tax evasion by international cooperation, improvement of the exchange of information in EU and G20 countries and in tax havens under the coordination of European Commission and supervision of OECD.

## 5. Conclusions

As a conclusion, we can say that international tax evasion is as old as the states and tax legislation, and the procedures by which the stakeholders try to completely or partially avoid the established tax obligations have become extremely ingenious and sophisticated, being hard to identify them.

As a perspective, the possibility of using tax havens should be diminished for protecting the profits from the costs of various services, reinsurance, fees, knowhow, interests, dues and even transfer prices. A legislation should be adopted, which to fight against the capacity of a local company to diminish its tax debt by using a non-resident subsidiary established in a tax haven.

The negative effects on public financial resources related to the "run from taxation" of the amounts representing the equivalent value of the supply of the respective services could be minimized by limiting tax deductibility of these expenses only to the case in which the external provider originates

from a country with which there is concluded a bilateral agreement for the avoidance of double taxation.

Automatic exchange of information should become the new international standard with regard to prevention and fight against tax evasion. Interconnectivity and interoperability between EU information exchange systems, FATCA system from USA and the world standard currently developed by OECD, consisting in priorities to be complied with.

European Union can coordinate its position within G20 discussions with regard to the international cooperation in the relevant field, erosion of taxation base and transfer of profit, in accordance with the indications provided in the conclusions of the European Council, and based on EU progresses with regard to the approach of the tax haven issue and aggressive tax planning.

## 6. References

- [1] Rizea, M., *Politici și strategii de prevenire și combatere a evaziunii fiscale în context European*, Teză de doctorat, Facultatea de științe economice, Univestitatea “Lucian Blaga” din Sibiu, 2011.
- [2] Vîrjan, B., *Infracțiunile de evaziune fiscală*, Teză de doctorat, Facultatea de Drept, Universitatea din București, 2011.
- [3] Elena, I., Julean, M., Capotă, M., Bizon, M., Ursu, I., Cearbă, R., *Manualul specialistului în fiscalitate*, Editura Irecson, București, 2005.
- [4] Horațiu, S., Dragoș P., Florin C., *Practici de sustragere de la înregistrarea și plata impozitelor: la limita fraudei și dincolo de ea*, Editura C.H. Beck, București, 2009.
- [5] <http://www.oecd.org/tax/transparency/>
- [6] <http://www.business24.ro/articole/ue+evaziune>
- [7] [http://ec.europa.eu/europe2020/pdf/tax\\_ro.pdf](http://ec.europa.eu/europe2020/pdf/tax_ro.pdf)
- [8] <http://www.irs.gov/Businesses/Corporations/Foreign-Account-Tax-Compliance-Act-FATCA>
- [9] <http://www.oecd.org/tax/exchange-of-tax-information/thefightagainsttaxfraudandtaxevasioiontowardsanewglobalstandardonautomaticexchangeoftaxinformation.htm>

# Romania's Position in the European Union Intra-Community Agri-Food Trade

Gavrilescu Camelia

*Institute of Agricultural Economics, Romanian Academy*

[cami\\_gavrilescu@yahoo.com](mailto:cami_gavrilescu@yahoo.com)

## Abstract

*The accession to the European Union meant for Romania major expansion in its international agri-food trade. The present paper is empirically analyzing Romania's position in the intra-EU agri-food trade flows and the main changes in the post-accession period. Main products flows, in terms of values, directions and composition are analyzed as well. The conclusions are indicating a continuous upward trend in exports, together with a significant decrease in imports. Although the total trade (intra and extra-EU) showed a major shift in the trade balance trend, from high deficits to a newly gained position of net exporter of agri-food products, in the intra-EU trade Romania still has a negative balance. The pillars of the exports are agricultural commodities, while the largest share of imports is processed products, showing an unfavorable composition of the agri-food trade.*

**Keywords:** agri-food trade, Romania, processed products

**JEL Classification:** Q18

## 1. Introduction

The main target of the European Union, since the definition and introduction of the Common Agricultural Policy, has been to increase its agri-food production in order to satisfy its domestic demand and to intensify the export of surpluses. Upon its accession to the EU, Romania was showing a rather non-competitive agri-food sector, hence a non-competitive agri-food international trade as compared to both new and old Member States.

The important investments, of both domestic and foreign capital in the agri-food

sector, facilitated by the pre-accession (such as SAPARD) and post-accession development programs (such as the national Program for Rural Development) allowed for important improvements in the volume, efficiency and quality of agricultural and food production. The present study is part of a series of analyses of the Romanian agri-food trade evolution and competitiveness in the pre- and post-accession years [1], [2].

## 2. Data and methods

The calculations have been made using data extracted from Eurostat databases, in CN (Combined Nomenclature).

In the post-accession period, the statistical reporting of the EU international trade requires a separation between trade with other EU member countries, recorded separately as intra-Community trade, and trade with non-EU countries (extra-community trade)

The analysis is focusing on the main agri-food product groups (chapters HS 01-24), in value terms, as well as directions: exports and imports. Breakdown to 4-digits division of agri-food products was needed for the analysis of the ratio between agricultural commodities and processed products, therefore 196 product subgroups have been investigated.

## 3. Results and discussions

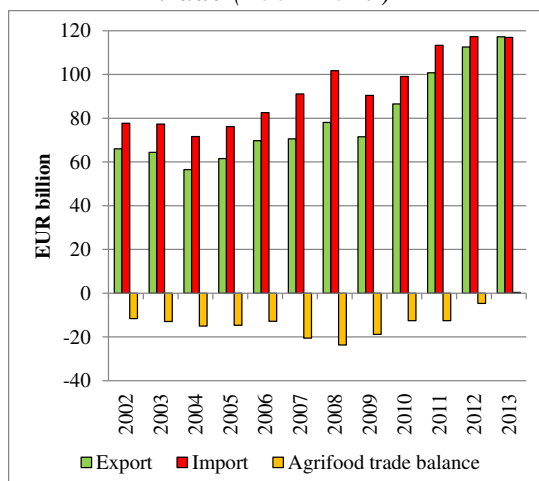
*General evolutions of the EU and Romanian agri-food trade*

The consecutive EU enlargements in 2004, 2007 and 2013 from 15 to 28 Member States had a significant impact on overall EU trade. Over the last twenty years, the EU has been the largest player in the global agrifood market. Starting with the 2004 enlargement, both the extra- and intra-community trade



(exports and imports) increased continuously, with the only exception of 2009, the year when the financial worldwide turmoil reflected in the agri-food trade by an inflexion point. The EU has shown a permanent deficit of its agrifood trade balance, ranging from 9 to 13% of the total, but after 2009, the deficit diminished continuously, and in 2013 the trade balance turned slightly positive (figure 1).

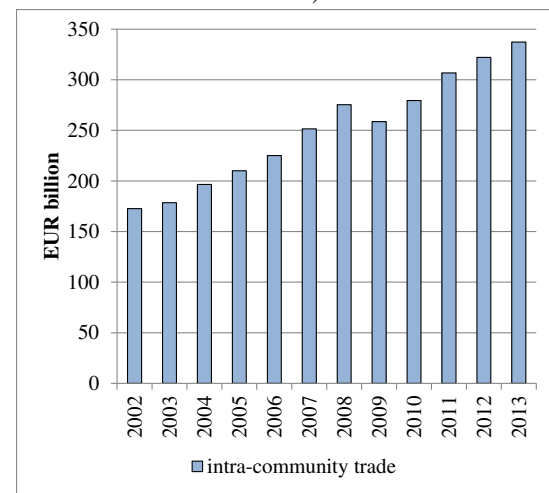
Figure 1. EU extra-community agri-food trade (2002-2013)



Source: author's calculations using Eurostat data [3]

The EU intra-community trade had the same increasing trend after all the enlargements, with the same inflexion point in 2009. Its value increased considerably: it doubled between 2003 and 2013 (figure 2).

Figure 2. EU intra-community trade (2002-2013)



Source: author's calculations using Eurostat data [3]

If we compare it with the extra-community trade, the value is almost 3 times higher. After joining the European Union, the efforts of the Romanian agrifood sector were directed mainly towards increasing competitiveness, resulting in improved efficiency and product quality along the food chains, allowing for a better country's presence on the European Single Market.

The Romanian agri-food trade increased spectacularly immediately after accession (table 1): after the first two years in the EU, exports increased 2.5 times and imports increased 1.9 times as compared to 2006 (the last year before accession).

Table 1. Romanian agri-food trade with EU and non-EU countries (2002-2013) (EUR million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Intra-EU export	236	285	391	438	518	792	1430	1742	2289	2911	2812	3176
Extra-EU export	224	213	197	236	336	330	732	500	821	1109	1230	2121
Intra-EU import	470	505	884	1068	1323	2440	3472	3090	3197	3542	3833	4050
Extra-EU import	775	1030	829	954	1102	897	869	731	721	903	954	912
Intra-EU trade balance	-234	-220	-494	-630	-805	-1649	-2042	-1349	-907	-632	-1021	-874
Extra-EU trade balance	-551	-817	-633	-718	-766	-567	-136	-232	100	206	276	1209
Total trade balance	-785	-1037	-1127	-1349	-1571	-2215	-2179	-1580	-808	-425	-745	335

Source: author's calculations using Eurostat data [1]

The result was the largest trade deficit ever recorded, EUR 2.2 billion. Nevertheless, the same happened to all other new Member States in their first two years after accession, so it can be considered as a necessary period of time for adapting to the EU membership rules of the game. The inflexion point of 2009, present in the Romanian trade flows as well, represented a contraction by 12%, after which the upward trends resumed.

What happened next was a steady increase in agri-food products exports up to EUR 5.3 billion (that is 6.2 times between 2006 and 2013); together with a slower pace in imports increase up to EUR 5 billion (only 2 times between 2006 and 2013). The free access to the EU Single Market and the devaluation of the national currency were factors favoring exports. The result was a dramatic decrease in the agri-food trade deficit, from the historical maximum of EUR 2.2 billion (in 2007 and 2008) down to EUR 0.745 billion (2012). In 2013, for the first time in the last 25 years, the Romanian total agri-food trade balance became positive (EUR +0.335 billion).

#### *Intra-community trade analysis*

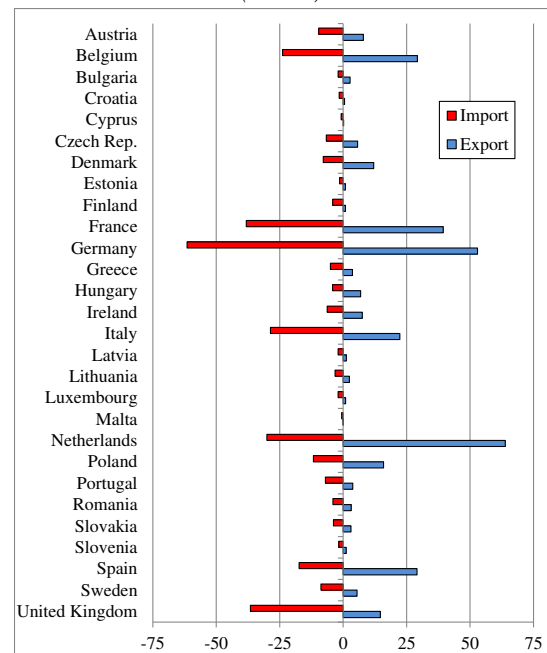
Of the old Member States (EU-15), Netherlands is the first agri-food exporter: in 2013 it sold on the Single Market products worth EUR 64 billion, that is 12 times more than the total (intra- and extra-community) Romanian exports. It is followed by Germany (EUR billion 53), France (EUR 39 billion), Belgium, Spain and Italy. Of the new Member States (EU-13), the first exporter is Poland (EUR billion 16), Hungary (EUR 7 billion) and Romania takes the third position (EUR 3.2 billion). In the 28 countries hierarchy, Romania ranks 17 in export and 18 in imports.

The main EU importer is Germany (EUR billion 62), followed by France (EUR 38 billion), United Kingdom (EUR 37 billion), Netherlands and Italy. Among the new Member States, Poland is the largest importer (EUR 12 billion), followed by Czech Republic (EUR 7 billion). Romania takes again the third position, with intra-community imports worth EUR 4 billion.

Only 9 of the 28 Member States showed a positive agri-food trade balance in 2013,

among them, three are of EU-13: Bulgaria, Hungary and Poland (figure 3).

*Figure 3. Intra-EU trade by Member State (2013)*



Source: author's calculations using Eurostat data [1]

Of the EU-15, those showing a positive trade balance in the intra-community trade are: Netherlands, Spain, Belgium, Denmark, Ireland and France.

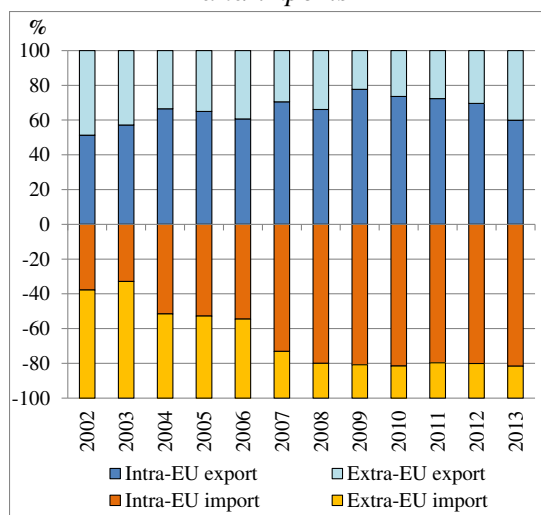
The main agri-food products sold within the EU are: meat, milk and dairy products, beverages, fruits, bakery and pastry products, vegetables.

In the pre-accession period, and then until 2009, the Romanian trade flows were more and more directed to and from the EU (figure 4).

Since 2010, the share of exports to the EU decreased, while the share of imports from the EU remained the same in the total agri-food trade. The result of these trends is that the Romanian intra-community agri-food trade balance is still negative, while the trade balance with the extra-EU countries became positive since 2010.

The total value of the Romanian intra-community exports increased almost continuously in the last decade (with the sole inflexion point in 2009); in 2013 exports were 6.1 times higher than in 2006, while imports only 3.1 times higher.

Figure 4. Share of intra-EU and extra-EU flows in total Romanian agri-food exports and imports



Source: author's calculations using Eurostat data [1]

The trade deficit increased between 2006 and 2008 from EUR -805 million to EUR -2042 million, then diminished to EUR -874 in 2013.

The composition of the Romanian trade flows is shown in table 2. The analysis is for the last three years average, in order to have a better picture of longer trends, thus the results are less influenced by yearly changes in the exchange rate, by unfavorable climatic conditions or by singular random export and export opportunities.

The main pillars of the Romanian exports to the EU are basic agricultural commodities, such as cereals and oilseeds, accounting for more than EUR 1 billion (35% of the total exports).

Table 2. Composition of the Romanian agri-food trade with the EU countries (2011-2013 averages)

Exports to EU countries				Imports from EU countries			
HS code	Product group	Value (EUR billion)	% of the total value of exports	HS code	Product group	Value (EUR billion)	% of the total value of imports
10	Cereals	528.31	17.8	02	Meat and edible offal	468.56	12.3
12	Oilseeds	526.83	17.8	10	Cereals	314.55	8.3
24	Tobacco and tobacco products	466.77	15.7	04	Milk and dairy products; eggs; honey	268.02	7.0
02	Meat and edible offal	223.36	7.5	21	Miscellaneous edible preparations	240.30	6.3
15	Edible oils and fats	207.30	7.0	19	Bakery and pastry products	207.80	5.5
01	Live animals	142.71	4.8	22	Beverages	207.44	5.4
04	Milk and dairy products; eggs; honey	107.12	3.6	12	Oilseeds	193.01	5.1
17	Sugar and confectionery	94.21	3.2	15	Edible oils and fats	187.61	4.9
23	Animal feed	93.33	3.1	08	Fruits	182.63	4.8
16	Preparations of meat and fish	87.57	3.0	23	Animal feed	171.80	4.5
<b>01-24</b>	<b>Total agri-food products</b>	<b>2966.09</b>	<b>100.0</b>	<b>01-24</b>	<b>Total agri-food products</b>	<b>3808.39</b>	<b>100.0</b>
<b>CR 5 (concentration ratio 5)</b>			<b>65.8</b>	<b>CR 5 (concentration ratio 5)</b>			<b>39.4</b>
<b>CR 10 (concentration ratio 10)</b>			<b>83.5</b>	<b>CR 10 (concentration ratio 10)</b>			<b>64.1</b>

Source: author's calculations using Eurostat data [1]

The top five products exported by Romania to its EU partners in 2011-2013 were: cereals, oilseeds, tobacco and tobacco products (mainly cigarettes, due to recent important foreign direct investment of Philip Morris in its factory near Bucharest, which is exporting more than 80% of its production to the EU, mainly to Italy), meat (beef, mutton and chicken), and edible oils and fats (mostly sunflower and rapeseed oil). These five product groups accounted together for about 66% of the total exports to the EU countries, while the top 10 exported products accounted for 84% of the total exports, showing a rather intense concentration of exports. Other important exported products were honey and live animals (mostly sheep and goats - although their value decreased lately, along with the increase of processed meat products).

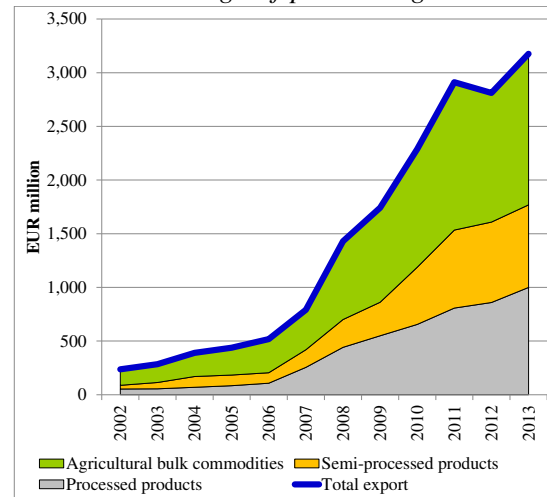
Imports from EU are much more diversified. The top 5 imported product groups are: meat (mostly pork), cereals (in years with bad domestic cereals harvest, such as 2012), milk and dairy products (mostly yoghurt and cheese), various edible preparations, bakery and pastry products. These five product groups are accounting for only 39% of the total imports, while the top 10 product groups are accounting for 64% of the total imported products.

#### *Ratio between the agricultural commodities and processed products*

The agri-food product groups in the Combined Nomenclature (chapters HS 01-24) were detailed, at 4-digit breakdown level, resulting 196 product subgroups. They were separated into 3 categories: agricultural bulk commodities, semi-processed products and processed products [3]. that are sold as such, without any kind of processing (such as live animals, fresh fish, honey, eggs, flowers, fresh vegetables and fruit, cereals, oilseeds, green coffee beans, tobacco leaves, etc.); semi-processed products, which were submitted to primary processing (such as meat, milk, frozen vegetables, dried fruits, tea, roasted coffee, cereal flour, edible oils, sugar, animal feed, etc.), and processed products, which have higher added value due to more complex (secondary) processing (such as: yoghurt, cheese, butter, canned fruits and vegetables, sausages, salami,

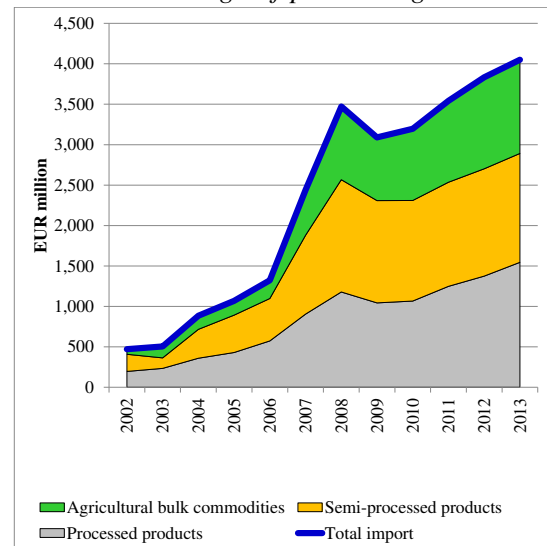
bread, pastry, chocolate, icecream, soups, frozen meals, wine, beer, pet food, cigarettes, etc.). The results are shown in figure 5 for exports and figure 6 for imports.

*Figure 5. Structure of Romanian intra-community agri-food exports according to the stage of processing*



Source: author's calculations using Eurostat data [1]

*Figure 6. Structure of Romanian intra-community agri-food imports according to the stage of processing*



Source: author's calculations using Eurostat data [1]

Before accession, the share of processed products in the Romanian intra-community exports varied between 37-43%. Since 2008 the share increased continuously, to reach more than half (56%) in 2012 and 2013.

In imports, the ratio is much more unfavorable: before accession, the share of

processed products in the Romanian intra-community imports varied around 81%. Since 2007 the share decreased continuously, down to 70% in 2012 and 2013.

#### 4. Conclusions

Over the two decades, the EU has been the largest player in the global agrifood market, and the consecutive enlargements between 2004-2013 strengthened its leading position.

In the post-accession period, Romania made important efforts in order to improve efficiency and product quality along the food chains, and to be present on the European Single Market with increased competitiveness.

The result is that after only 7 years since accession, Romania became agri-food net exporter.

In the EU intra-community trade flows, Romania is ranking 17 in exports and 18 in imports, while among the new member States, it ranks 3 in both exports and imports.

One third of the exports to its EU partners consist mainly of cereals and oilseeds, while the imports are much more diversified.

After accession, the ratio between agricultural bulk commodities and processed products improved. For the last three years, the average share of processed products became more than half (56%), of which semi-processed products 25% and processed products 30%. The share of imported semi-processed and processed products decreased in 2011-2013 by 10% as compared to the pre-accession period.

As general conclusion, since accession, a significant improvement occurred in the Romanian intra-community agri-food trade, in terms of values and composition of the trade flows.

#### 5. References

- [1] Gavrilesu, C., „*Evolution trends of the Romanian post-accession agrifood trade*”, Ovidius University Annals, Economic and Sciences Series, vol. XIV (1)/2014, Constanța, pp. 119-124.
- [2] Gavrilesu, C., Voicilaș, D.M., „*Changes in the Romanian agri-food trade competitiveness in the post-accession period*”, Management theory and studies for rural business and infrastructure

development, vol. 36, no.4/2014, pp. 823-834, <http://mts.asu.lt/mtsrbid/article/view/886>

- [3] <http://epp.eurostat.ec.europa.eu>
- [4] Regmi, A., Gehlhar, M., Wainio, J., Vollrath, T., Johnston, P., Kathuria, N., „*Market Access for High-Value Foods*”, USDA, Economic Research Service, Agricultural Economic Report AER-840, 2005, <http://www.ers.usda.gov/publications/aer-agricultural-economic-report/aer840.aspx>

## Current State of European Hotel Chains

Gurgui Amalia

*ULIM, Chisinau Faculty International Economic Relations*

[agurgui@yahoo.com](mailto:agurgui@yahoo.com)

Gribincea Alexandru

*ULIM, Chisinau Faculty International Economic Relations*

### Abstract

*The importance of selecting the appropriate brand for a hotel resides in the impact it will have on the market where the hotel is positioned and the potential benefits of the chain's distribution channels.*

*Accor, for example, is the world's number-one and Europe's leading hotel operator. It has more than 3.600 hotels in 92 countries and provides a comprehensive range of options from luxury to economy, with brands like Sofitel, Novotel, Ibis, Hotel F1. With over 170.000 people working for Accor brands around the world, the Group has 45 years of experience in serving its customers and partners.*

*Accor's vision is to be world's most innovative, best performing and most valued hotel company. Its new strategic roadmap, which has redesigned its business model around two divisions - HotelServices and HotelInvest - will boost operational efficiency and sustainable growth.*

**Keywords:** hotel chain, contracts, franchise.

**Classification JEL:** P45, P33, O19, N7, F6, Z0.

### 1. Introduction

Nowadays, leadership in global hospitality industry is reserved to the European continent. This is an average of about 70% of the tourist flow, respectively, and the corresponding fund hotel occupies a predominant average (about 45%) of the global hotel fund [4, p.44]. It is true that it does not take into account that about half of the European countries provide tourism services in the hotel, the rest of the tourists are accommodated on an alternative basis

(additional), less common for other regions. European hotel fund without succumbing leadership throughout history, is increasing yearly by an average of 2-2.5%, but is lower considering the growth rate of other continents.

### 2. Methodology of research

During investigations used quantitative methods, primary research and secondary research, qualitative or exploratory research, and so on were used.

***State of affairs and long-term prospects.*** International tourist arrivals worldwide are expected to grow by 3.3% per year between 2010 and 2030 to reach 1.8 billion arrivals by 2030. Between 2010 and 2030, arrivals in emerging countries (+ 4.4% per year) are expected to grow two times faster than in advanced economies (+ 2.2% per year). The market share of emerging economies has increased from 30% in 1980 to 47% in 2013 and should reach 57% by 2030, which corresponds to more international tourist arrivals, more than one billion euro.[5, p.4].

***The purpose of the investigation*** – peculiarities of expanding research in the European hotel chains, as the main vector of the destinations and provision of hotel services in the context of globalization.

### 3. Research of material

The tendency to gather some individual hotels in a chain has recently appeared, therefore about 70% of the hotels in the region are independent enterprises. Given the high price of accommodation, namely Europe is the most attractive market for most hotel companies. Coming on this market, multinational corporations do not build new hotels, do not purchase already existing

hotels and small of local chains or take them under their control. As a result, Accor has acquired 20% of the Polish chain Orbis, without limitation here, and Hilton bought the Swedish Scandic (150 hotels). Thus, developing resort hotel chains in Europe for some time generated the practice of absorbing one hotel chain to another one.

*Table 1. Top 10 chains of hotel industry*

Name of the holding	Country of residence of the parent company	Number of numbers
«Hospitability Franchise System Blanstone Part»	USA	490000
«Holiday Inn Worldwide»	England	386323
«Best Western International»	USA	295305
«Accor»	France	279145
«Choice Hotel International»	USA	271 812
«Marriott International»	USA	251 425
«ITT Sheraton Corp.»	USA	130528
«Promus Corp.»	USA	105930
«Hilton Hotel Corp.»	USA	101000
«Carlson Hospitality Worldwide»	USA	91177

*Source: UNWTO tourism highlights, 2014 edition*

At the top of the first "ten" are also included the three European hotel chains - InterContinental Hotels Group, Accor, Hilton Group plc, concomitantly the number of hotels and rooms in chains has varied. If for the first two European chains, these figures exceed 400,000, respectively, and 3500, and afterwards to all subsequent lower rates of 5-10 times. If the chain InterContinental Hotels Group in 2009 had approximately 3520 hotels, then the third Hilton Group plc. had 392 hotels. Most European hotel chains in the world rankings are in the top 20-30 places.

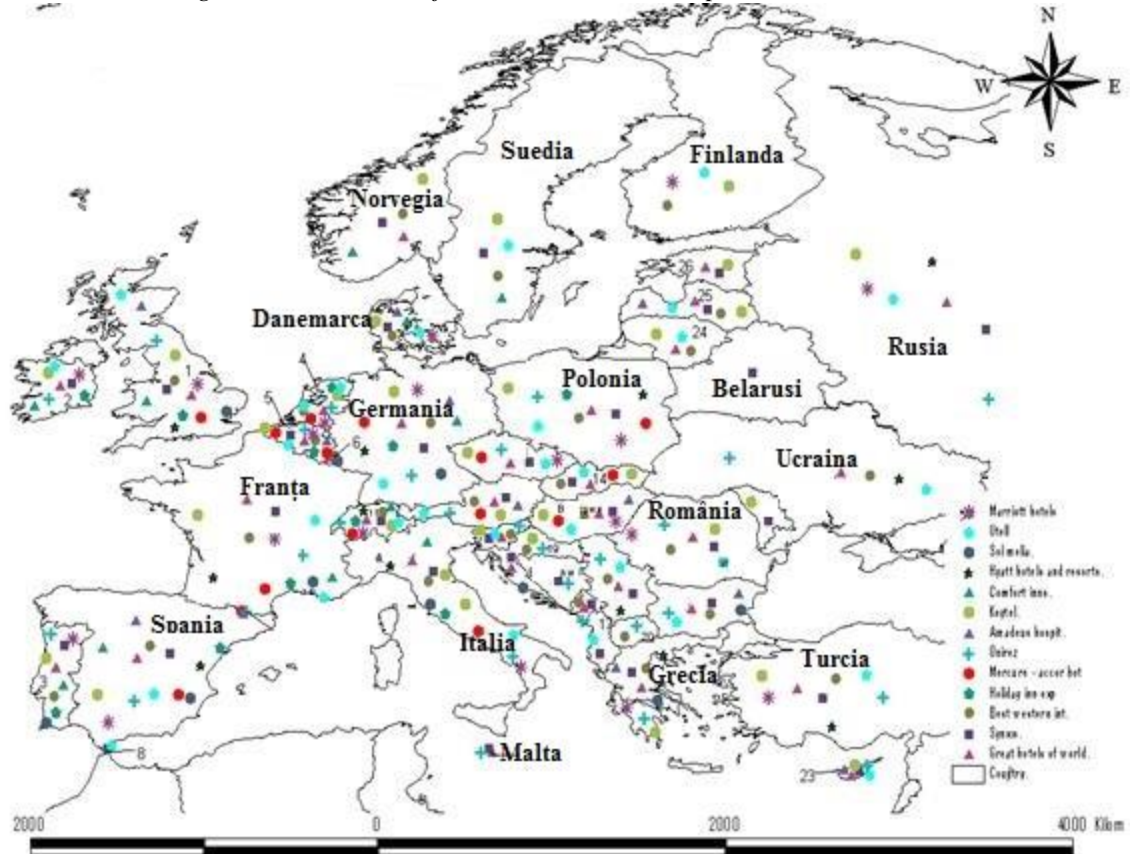
It is noteworthy that the existing European network is not very large, only 14 of them represent in their portfolio more than 100 hotels. And the largest European network - Accor - includes 3894 hotels. It is noteworthy that in France the most important brand hotels are among European states (and this is certainly the merit of Accor), while in Italy - their number is minimal (for these countries are characterized by small private hotels and pensions). In general, Europe is represented in most global hotel chains, and in some countries (France, Germany, Spain, UK), the number of hotels of some brands may exceed 100.

The highest number of numbers in hotel chains in Europe are the British InterContinental Hotels Group - 536 318 and the French Accor - 453403. These two chains are absolute leaders by number of rooms among all European circuits, surpassing its competitors by 4-5 times. The average size of the rooms in a hotel chain in Europe is of 20-30. Among the leaders according to the seats in hotel chains predominate UK, France and Spain.

Thus, the highest number of national chains is found in Spain (9 brands), UK (8), Germany - 7, France - 3, Finland and Norway have two major hotel chains, some countries - one hotel chain - Italy, Belgium, Netherlands, Sweden, Poland, Portugal, Malta etc. [2].

The geographical distribution of the largest hotel brands in European countries are shown in Fig. 4. It can be seen that the global hotel chain covers almost all European countries, with few exceptions. The highest density of objects of some global hotel chains are located in the most developed countries of Europe, where maximum profit can be obtained (Britain, France, Germany, Holland, Belgium, Switzerland) and the European - Mediterranean port area (Spain, Portugal, Greece, Bulgaria).

Fig. 2. Distribution of hotel chains in European countries



Source: UNWTO tourism highlights, 2014 edition

Let us examine large hotel chains in Europe, which are regional leaders.

*Intercontinental Hotels*, whose subsidiary is a 4 star hotel "Forum", has 61 hotels in Europe, 12 - after the franchising contract, the chain owns a total of over 3,5 thousands of hotels worldwide. Recently the company received the decision on expanding its trade mark *Forum* by *Intercontinental Hotels* for the future just as franchising contracts and further development is expected as means to luxury class operator. Historically speaking, the company has expanded through acquisitions of new hotels owned or by signing management contracts [37].

Accor requires an open joint stock company, the shares of which are listed on the Paris Stock Exchange. Founded in 1967, today the company is in possession of the portfolio shares of 3,8 thousands of hotels worldwide in about 92 countries, where a lesser or greater is the status of the owner, management company or franchisor. The Group operates several networks, including

Sofitel, Novotel, Mercure, Pullman, Adagio, Ibis, hotelF1 and MGallery.

*Mercure*, is brand of Accor hotel operator, which opened its first unit in Bucharest in early November. The hotel is located in the city center, close to the Romanian Athenaeum and Museum George Enescu. The four-stars hotel *Mercure Bangalore City Center* is located on George Enescu street, behind the Hilton downtown, and the investment was sustained in 70% by credit accessed at Garanti Bank.

Objects of Accor Hotels chain, are primarily intended for European countries. In France and Germany are most of the hotels. Concentration of hotels is evident in Brazil and Australia.

In total Accor finds 145,000 in more than 140 countries. Sales volume of the chain is over 7.139 billion euro. About half of Accor hotels is located in Europe, and 33% of the hotels are located in France. In addition to hotel activity, the company deals with the provision of other services and holds food business network. In this network enter 58%



of economical brands like Formule 1 (363 hotels). Motel 6 (852), Etap Hotel (236), Red Roof Inns (360) and Ibis (596), among 42% of medium and upper class hotels Accor system refers to known brands as Mercure (655), Novotel (340), Sofitel (151), Suite hotel, Coralia and Thalassa International (the last three together - 99). In Spain there are 22 hotels in the Accor network (Novotel, Sofitel и Ibis). Novotel manages 340 hotels in 56 countries, the largest chain outside of North America. [37].

Accor's strategy of franchising is based on Mercure trademark, in order to create their own leader among middle-class hotels. Mercure trademark was selected as the most suitable in terms of the required characteristics.

Grupo Sol. The company was founded in 1956, which brings together the main hotels in Spain. The chain has dual specialization - business-tourism (hotels Meria) and recreation tourism (Sol). After purchasing the company in 1987, this chain hotel Meria is considered as the main Spanish chain and the third in Europe. In 2006 Grupo Sol hotel occupancy was 76% and the amount of funds is estimated at 1236 billion USD. Currently, the chain manages 182 hotels in 22 countries. Only recently the group opened new hotels in Europe, with plans to expand its presence in other countries, Poland, Portugal. Within the chain there are four main brands: Melia, Tryp, Sol and Paradisus. Sol Melia is working quite actively on the market in Tunisia and Cuba [3].

In addition to splitting the brands in SM (Sol Melia), they are divided by type of hotel: Melia Hotels & Resorts (4-5 stars). Gran Melia (5 stars). Boutique Hotels (located in historic buildings 4-5 stars) Tryp Hotels (hotels modest 3-4 stars) Sol Hotel (over 100 hotels in the seaside area of 3-4 stars), Paradisus Resorts (5- seaside hotels stars).

Golden Tulip Hotels International (GTHI). The company is founded in 1962. The legal status of this chain hotel - limited liability company, headquartered in the city Hilversum, Netherlands. GTHI brings together 253 hotels, which have concluded management or franchise contracts, granting its associate members various forms of support, especially in marketing research. After the franchising contract at the hotel

chain 20% of European trademark holders joined. 25% of the company stocks owned by the Dutch company KLM, the other is in private possession.

Holiday Inn is the first hotel, bearing the name of Holiday Inn, opened in Memphis Tennessee in 1952, which today brings together 4,700 hotels in over 100 countries. Currently Holiday Inn Worldwide (HI) - is a hotel subdivision of Bass ple (UK), managing over 2,000 franchised hotels in over 60 countries worldwide. The number of rooms in these hotels reaches 370000. HI - is one of the largest hotel chains in the world trademarks. The company's headquarters is located in Europe, Middle East, Africa.

Radisson Hotels International is owned by Carlson Companies operative subdivision, which in turn is owned by Curtis L. Carlson. The parent company is made up of two groups - Carlson Holdings and Carlson Companies, the most branched private company in the US, its revenues exceeding \$ 11 billion, with 85,000 employees.

Radisson company is divided into several branches, including Radisson Edwardian, located in the UK.

#### 4. Conclusions

Thus, Europe is one of the largest hotel markets, where all the major hotel chains of the world are concentrated, due to higher profitability of doing business in Europe. In total, the group large hotel chains in the world, consists of approximately 50 chains in Europe, from Spain, Germany, UK, and France. The largest hotel chains in Europe are InterContinental Hotels Group, Accor, Hilton Group plc., which comprise about 500 000 numbers, which account for about 304 thousand hotels, working in over 100 countries worldwide. Generally European hotel chains remain one of the most important, competing successfully with American hotel chains. Being profitable hotel chains, they expand, founding incentives among firms and hotels in different countries. The opening of Romania, free movement of people and raising living standards, globalization increase the chances for expanding the hotel chains in the South-Eastern European area.

## 5. References

- [1] BURBULEA R., ȘVEȚ E., GRIBINCEA A. Analysis, assessment and forecasting of tourism activity in Moldova. In: *Economics*, 2010, no.4(74), p.21-30
- [2] GRIBINCEA A. Development of services in the European area. „Tourism development in the early century. XXI. Tourism and Biodiversity”. International Scientific and Practical Conference. (2010; Chișinău). In: *Tourism development in the early century. XXI. Tourism and Biodiversity: International Scientific and Practical Conference. 27 Sept. 2010 / col. red. Al. Gribincea (red. resp.), Teimuraz Shengelia, S. Maximilian [et al.]*. – Ch.: ULIM, 2011 (Publishing house. „Print-Caro” SRL). – 381 p. (p.43-46)
- [3] GRIBINCEA A., BARCARI I., GURGUI A. Tourism research between Moldova and Romania: logistics approach (methodological issues). Magazine *Economics and Sociology* , 2013, no.3, p.160-175
- [4] GRIBINCEA A., PALNIȚCHI E, MAXIMILIAN S. The problem of efficient functioning of the tourist complex. In: *Academic Days in Iasi, Processes in economic decision theory under risk and uncertainty conditions, vol. XI, Iași: Tehnopress, 17.09.2010, p.67-75*
- [5] GRIBINCEA A., PALNIȚCHI E. Promotional activity in tourism. Magazine *Economic studies*, 2009, no.1-2, p.336-342
- [6] GRIBINCEA C. Energy efficiency in the rural tourism sector. In: *Romanian rural tourism in the context of sustainable development. News and Perspectives. Vol. XXXI/ Coordinator I.Talabă. Iași: Tehnopress. 2013, p.55-64*
- [7] UNWTO tourism highlights, 2014 edition
- [8] UNWTO, annual report, 2013
- [9] ЗАХАРОВА Р. М. Логистическая организация гостиничных сетей как фактор развития отечественной сферы гостеприимства. Диссертация. Ростов-на-Дону. 2014
- [10] <http://www.businesstravelnews.com/Business-Travel-Research/BTN-s-2014-Hotel-Chain-Survey-Amid-Rising-Rates,-Hotel-Capital-Spending-Buoys-Buyer-Satisfaction/?ida=Hotel%20Chains&a=btn>
- [11] <http://www.capital.ro/o-familie-de-stomatologi-deschide-primul-hotel-mercure-din-romania.html>

# Ongoing Trends and Challenges in the Cruise Tourism Industry The Black Sea Region as an Emerging Cruise Destination

Popovici Veronica

Muhcină Silvia

Bundă Nicoleta Ramona

*„Ovidius” University of Constanta, Faculty of Economic Sciences*  
[verovnp@yahoo.com](mailto:verovnp@yahoo.com); [muhcina@gmail.com](mailto:muhcina@gmail.com); [drbunda99@yahoo.com](mailto:drbunda99@yahoo.com)

## Abstract

*At the crossroads of tourism and leisure on one hand, travel and transport on the other hand, cruising is an extremely rich concept. Offering a modern and versatile form of vacation and above all a unique mix of comfort, entertainment and discovery, the cruise industry keeps reinventing itself by constantly adapting to the new state of the world.*

*Cruise tourism has been developing at a rapid pace during the last few decades, tapping into even more extended geographies, with some of the most varied product offerings for an increasingly diverse and exigent customer group. Given all this, a natural curiosity grew stronger towards the specific trends and challenges encountered nowadays in the cruise industry and what kind of aspects could be considered as advantageous or even pitfalls for new cruise destinations.*

*Therefore, the objectives of this article are twofold: it firstly proposes a quick overview of the industry as it appears today, with a focus on the trends and challenges imposed by the multifaceted nature of cruise tourism and the complexity of our modern world; secondly, we apply the general takeaways from this analysis to the particular case of the Black Sea region, trying to underline the main factors that should be taken into consideration for a further successful development of this emerging cruise destination.*

**Key words:** cruise tourism, cruise ships, Black Sea region, trends and challenges

**J.E.L. classification:** L83

## 1. Introduction

About 60 million persons participate every year to one of the 30 000+ sea or river cruises offered in around 2000 destinations worldwide. A fleet of more than 340 cruise ships, with a capacity from 50 up to 4000 passengers, helps answering this growing demand for cruise services. These fascinating floating resorts are not surprisingly the biggest man-made pieces of mobile infrastructure. Symbols of engineering development and the human need for conquest beyond continents, these giants marry more than ever the technological supremacy with the taste for leisure and luxury.

The cruise industry was born back in the late 1950s when, due to the boom of air transport, the liners once used as only available transportation mean in long international crossings had to be transformed into vessels for pleasure trips. Traditionally oriented more towards the North American market, along the years this industry spread its tentacles more and more into Europe, but also lately towards South America, Asia or some niche markets such as Antarctica.

The cruise tourism has not only become a huge sector, conquering vast waters all over the world, creating jobs, helping developing regions and bringing about a massive trend in the way our society chooses to spend leisure time. The cruise tourism sector is actually registering the highest growth in the global tourism industry. In fact, we could go ahead and say it doesn't know any limits except for those imposed by its own infrastructure: on one hand, the number and capacity of cruise ships at sea, on the other hand, the port and airport installations as well as other local services (attractions, restoration, etc.) on land.

Based on a literature review, as well as observations of the author, this article provides first of all a brief overview of the cruise industry, focusing on the identifiable trends and the challenges it currently encounters. Secondly, as a perfect exemplification of these two aspects, we shall zoom in on the Black Sea region, its great potential as an emerging cruise destination and the long way towards becoming an established one.

## 2. An overview of cruise tourism nowadays

Departing for the study of the cruise industry both by the quantitative and the qualitative approach, we were quickly encountering unexpected problems. As an industry that transcends borders, cruise tourism has no single agency responsible for data collection. Therefore, from a quantitative point of view, we had to rely on several bodies (Cruise Lines International Association – CLIA, Passenger Ship Association – PSA, GP Wild International) to obtain an accurate picture and ultimately restrained ourselves to describing in more detail the situation in Europe, while only briefly documenting the other big pole for cruise tourism – North America. In the figure below it can be observed however the general worldwide situation in the cruise industry, per regions, in terms of capacity growth between 2008 and 2013 and the corresponding market shares:

Fig. 1: 2008-2013 5-year Growth and Deployment Trends



Source: CLIA 2013 North America Cruise Industry Update, February 2013<sup>1</sup>

The European section of the CLIA published an extensive report on the contribution of the cruise industry to the economy in Europe (CLIA, 2012; TNS, 2012). This document confirms that this form of tourism is particularly buoyant in recent years.

Thus, in 2012, the global cruise industry has reported to the European economy 37.9 billion Euros in sales of goods and services, an increase of 3.2% compared to 2011 (36.7 billion). The jobs created by the cruise industry amounts to more than 326,000 in Europe, 11,000 additional jobs in 2012. If Europe is just discovering the cruise domain, the economic crisis and the Costa Concordia incident, have nevertheless affected the domain last year. Thus, the number of Europeans which went on a cruise in 2012 - 6.26 million people (a higher figure than the previous because it includes Europeans who participate in cruises in other parts of the world) – has only increased by 1.3%. The results are better for tourists who participated on cruises in Europe (+2.5%), but, as already indicated, the 5.7 million passengers also include non-European tourists.

Europe only holds a small part of the market, as opposed to the US, the worldwide leader in the domain, and where the market is already mature.

If the number of cruise passengers worldwide has doubled in a decade, from 11.1 million in 2002 to 20.9 million in 2012, according to CLIA, the number of Europeans which went on a cruise almost tripled in the same interval, reaching 6.26 million in 2012, about 30% of the worldwide total.

Concerning the construction of cruise ships, European shipyards are leading the market with 20 ships on order, with deliver dates forecasted between now and 2016. Among these 20 vessels, 9 are built in Italy, 6 in Germany, 3 in France and 2 in Finland. The total value of these orders is approximately 10.6 billion EUR, according to the report.

1

<http://www.cruising.org/sites/default/files/pressroom/CruiseIndustryUpdate2013FINAL.pdf>

In this case, Europe's strength in this domain is represented less by the number of tourists but more by its expertise in the construction of ships. As indicated by CLIA Europe, "European shipyards, which represent almost the entire global cruise ships building, also benefited from increased investment in new construction and maintenance". Thus, these new twenty sea giants with a total capacity of 60,000 passengers represent an investment of 10.5 billion Euros.

All in all, Europe is firmly established as the world's second largest operator in the domain, behind North America. The British are the main cruise enthusiasts in Europe (1.7 million British passengers) and Italy, the first destination. More than 2 million passengers boarded in Italian ports in 2012, more than a third of the European market (36.1%).

### **3. Main trends and challenges for the cruise sector**

Cruise ships nowadays have nothing in common with the original cross-liners of maritime travelling golden age. The scientific and technologic developments have largely contributed to the renewal of all aspects revolving around cruise ships, from its mechanics to its energy production, from the design of its cabins to the services it provides.

One of the biggest trends at the moment concerns the size of cruise ships, an aspect equally interesting on both ends of the spectrum. Looking at the first tendency, we see developers continuously increasing the size of cruise ships (going even for capacities of around 4000 passengers) in order to take advantage of economies of scale (Ward, 2007). The economic rationale is as simple as in any other industry betting on good products for reasonable prices, hoping to attract the highest possible number of customers. Basically, the higher the serving capacity of a cruise ship, the lower the operating costs per passenger. Moreover, big cruise ships have the advantage of being able to offer more entertaining possibilities (Gibson, 2006). The modern cruise ships are huge infrastructures, sometimes being able to reach more than twenty floors and thus disposing of enough space to offer their customers a large variety of sports and

leisure activities, with them not even having to leave the vessel if they don't want to.

There are theatres, art galleries, shops and boutiques to fill a shopping centre, chapels to celebrate weddings, daycare centers, youth clubs, libraries and health clinics. Sports activities are not left out: swimming pools (with retractable roof for rainy days), water sliders, spas, golf courts, bowling alleys and skating rinks. New generation ships are conceived more and more like floatable theme parks, thus the modern cruise ship is not only a pleasant mobile transportation and accommodation mean, but a highly sought after maritime destination in itself.

At the other end of the spectrum we notice a considerable demand for smaller ships (150-200 passengers and less), either as transport extras for the big cruise ships or for a more intimate travel experience in river cruises. In the former case we are talking about bigger ships adopting smaller ones as a way of coping with the disadvantages generated by their size (congestion at access points and in the visited port cities). Smaller ships can access destinations inaccessible to big ships because of their flexibility as to the nature of the required port infrastructure; their role becomes thus that of genuine floating buses in charge of the transfer of passengers to the port of call.

As for the rise of river cruises, we could say this constitutes a current trend in itself. According to CLIA, river cruises have seen a 10% annual passenger increase, while the industry as a whole averaged growth of about 7% per year. European cruises (the most popular river cruise subcategory) have been the most-frequently booked luxury trip so far for 2013, according to a study by Travel Leaders Group<sup>2</sup>, a consortium of travel agents, beating out ocean cruises on the Mediterranean and Baltic. More than one third of travel agents in that study said that river cruises were one of the top three destinations they'd booked for last year.

And the lines that specialize in river cruises are responding to the demand, many of them having significantly increased their fleet in the past years. River cruise ships tend to be smaller than oceangoing ones, so they

---

<sup>2</sup> <http://www.travelleadersgroup.com/luxury-travel-trends-for-2013-from-travel-leaders-group/>

can navigate narrow waterways. The experience, however, is distinctly different, with river cruises focusing more on ports and less on onboard entertainment. River cruise passengers typically spend more time in each port they visit, and the tours included in their rates are more likely to include guided excursions examining each area's local art, history, cuisine or wine (Jaakson, 2004).

In terms of challenges, as within other sectors of the tourism industry, the cruise sector also has to take into consideration the various types of risks related to the safety of its customers, its employees and its land and maritime infrastructure (Gibson, 2012). The proper functioning of ship and cruises infrastructures depends on a number of services: fuel, drinking water and food supplies, weather forecast, immigration services, building security, food inspection, management of waste and wastewater. Everything must be well thought through, planned and synchronized to ensure optimal use of time, space and infrastructure available to the ship and its crew.

Port authorities must also have the necessary space to accommodate these mobile infrastructures. Cruise ships require dock lengths of 60 up to 300 meters (Gibson, 2011). In some tourist destinations, cruise ships can manage by themselves a large part if not all the port infrastructure during the time of stopovers. If tour operators prefer to manage large groups at sea, the situation is different on the ground. For example a cruise ship of 3000 passengers would require more than 50 buses to transport the passengers. Other problems that could appear are raised by security and customs clearance formalities in various visited ports which may cause congestion around the ship and also access problems to the ship. In the United States, only a dozen cities have the necessary infrastructure to accommodate cruise ships (Lois et al., 2004).

#### **4. Challenges and opportunities in the Black Sea region – an emerging cruise destination**

The Black Sea region (further referred to as BSR) has only lately appeared in the geography of cruise industry. It is

nevertheless an incredibly rich region from this point of view, gathering several countries with a strong touristic tradition and an incredible potential for development in the studied sector. Moreover, its direct vicinity with the Danube – a notorious destination for river cruises (with obvious adjacent spillovers) – and the Danube Delta with its unique offerings as a UNESCO World Heritage Centre should highly facilitate such endeavors.

In spite of all these theoretically positive arguments, the current situation is clear: it definitely seems to take a lot more for an emerging sea cruise destination such as the Black Sea region to establish itself in a highly competitive market.

One of the main challenges when it comes to the Black Sea region is that it basically consists of several individual destinations, physically coupled in a large geographical area. According to one of the rare development initiatives at a regional level, the United Nations Development Program – Black Sea Trade and Investment Program<sup>3</sup> (UNDP BSTIP), such a destination is not going to benefit from cruise passengers visiting its localities unless they all set common targets and coordinate their efforts.

A straight explanation is that cruise lines do not only examine the local availability of adequate infrastructure, low tariffs, or a plethora of on-shore activities for their clients while building a destination portfolio. Much depends as well on security terms, reinforcement facilities, and the combination of different types of attractions (Lois et al., 2004). The latter factors are assessed by cruise lines at a regional scale, which explains why the cruise industry is usually divided into large zones, among which the Caribbean and the Mediterranean have traditionally had the lion's share in port calls and cruise passengers (Ward, 2007).

Thus, there is much at stake for emerging destinations in the BSR not merely because of the industry's capacity to sustain trends of positive growth throughout the emergence and escalation of the economic crisis and its potential to penetrate in new source markets, among which are included the countries of Russia and Turkey. In considering the

---

<sup>3</sup> <http://www.undpforblacksea.org/>

industry's consolidated structure, with four companies accounting for 86% of global market, the incorporation of the BSR in future deployment trends depends both on private sector strategy and the flexibility of authorities at a regional and local level to upgrade their territories, promote them in a consistent manner, and effectively negotiate partnership terms with cruise lines.

This argument is consistent with the recent experience of a series of regional practices from the Southeast Asia, the Baltic Sea and the Mediterranean. In terms of developing new itineraries, investing in port facilities, undertaking place marketing, and assessing the visitors' impact, these examples illustrate the usefulness of supranational bodies and international associations as flexible networks with a clear agenda and a visionary mission founded on shared values (Gibson, 2011). Without ignoring challenges that arise from the current economic climate, geopolitical conditions and the lack of a well-established brand for the whole area, intra-regional collaboration in the case of the BSR should be examined as a means to foster sound policies aimed at enhancing cruise tourism product quality, competing for market share, and increasing mutual benefits for all countries and parties involved.

The countries that surround the inland sea and compose a cultural mosaic of various traditions have had their own distinctive approaches to policy-making for mass and alternative tourism, with some of them recording substantial, if not drastic (in some cases) increases of international tourist arrivals over the last decade (Lukovic et al., 2010). It is a fact, however, that the BSR has not yet capitalized on its proximity and close relationships with Mediterranean destinations, maintaining a cruise tourism market share consistently less than one per cent within the whole Mediterranean.

It can also be said that partnership building may be difficult, when territorial variations shape the ways in which each country in the region tackles the debate of cruise tourism (Lukovic et al., 2010). Countries like Bulgaria, Georgia, Romania, Russia, Turkey, Ukraine and Greece are basically preoccupied with the expansion of their sea cruise destinations, some are gradually making their path to the market of river cruises (Bulgaria, Moldova, Romania,

Serbia, and Ukraine), while others can only examine how they can gain secondary benefits from the expansion of cruises in the BSR (Armenia and Azerbaijan).

Nevertheless, there have also been encouraging signs. From an institutional perspective, there are ongoing deliberations among the Black Sea port authorities and other stakeholders, especially with respect to a recently established project under the brand name 'Cruise Black Sea' (CBS)<sup>4</sup>. With the explicit aim of strengthening cooperation between the participants in the field of cruises development in the BSR and promoting the regional ports internationally as a united cruise destination, the CBS project appears to provide an adequate framework for conducting marketing research with a regional focus and playing an industry-specific, yet by no means negligible role in cultivating or stabilizing bilateral relationships.

Interestingly, the CBS initiative has not only been associated with an increasing awareness across the BSR of the importance of multiculturalism as a term that captures conceptually both the essence of the region's history and the major source of tourist attraction for cruise passengers. More importantly, it has also coincided with a pattern of growth for 2013, with more cruise lines arriving at the BSR in order to take advantage of ongoing improvements in port infrastructure, the relatively short sailing distances among the Black Sea ports, and the wealth of cultural and natural attractions allocated among 20 destinations (Gibson, 2011).

The time is appropriate for encouraging the dialogue between the main parties involved in the region's cruise tourism (basically including port authorities and cruise lines) because of late signs of growth in the region's overall tourism sector and particularly in cruise tourism. Multiculturalism is not merely a concept that summarizes what makes the BSR a composition of attractive tourist destinations.

---

<sup>4</sup> <http://port-burgas.bg/en/%E2%80%98black-sea-cruises%E2%80%99-nominated-in-the-most-prestigious-international-chart-of-the-cruise-exhibition-seatrade-med-cruise-convention-2012/>

People in cruise industry need to deal with this condition in a daily routine, because doing regional business means doing regional partnerships (Gibson, 2011). Port authorities are right to believe that a unified brand will help the cruise industry regionally, but this could be part of a greater strategy incorporating in a systematic manner the concerns and interests of various localities and stakeholders.

What the examples of other regions show is that complex problems can rarely be understood without collaboration, let alone solved. On these grounds, further attention should be accorded to additional factors that will definitely shape the future of cruise tourism in the BSR. Among these we could enumerate connections between ports and airports across the BSR; development of itineraries, fly-cruise operations and homeports. Moreover, beyond developing common tariff plans and visa arrangements, a priority in itself should be the development of shore activities on the basis of common quality standards and with the aim of promoting further the tourism product of each locality and country (Gibson, 2012).

## 5. Conclusions

The cruise ship industry is one of the largest components of tourism and is experiencing rapid growth. Cruise lines are seeking new routes and ports. Each year, the average size of ships is larger, with many carrying more than 2000 passengers and 1000 crew. At the same time, smaller ships are able to bring tourists to new ports which were previously inaccessible or off the beaten path.

This is how new cruise destinations, such as the Black Sea region, are becoming the center of discussion when it comes to organic growth in this sector. From the analysis of the situation in the BSR region, we retain the importance of dialogue and common action among all the countries and stakeholders involved, to ensure that all the values and concerns are addressed and to delineate the negotiation position to be taken in dealing with cruise lines and other partners.

The cruise industry has constantly adapted to all sorts of changes imposed by the socio-economic conditions. Nowadays, this sector is still in full effervescence, remains

dependent on external factors, not only social and economic, but also politic factors. On an ending note, we would say that, despite the instability and continuous change of the world it operates in, the cruise ship industry as a whole continues to fascinate the human imaginary. All is possible through the incredible technological advances reunited in these outer ordinary pieces of infrastructure called cruise ships, the bearers of promised wonders across the waters of our planet.

## 6. References

- [1] TNS, *2012 Cruise Market Profile Study*, Report prepared for Cruise Line International Association, 2012.
- [2] CLIA (Cruise Lines International Association), "Cruise Industry Overview – Marketing Edition 2012", *Cruise Lines International Association*, Press Room Research, 2012.
- [3] Gibson, P., „Cruise Operations Management: Hospitality Perspectives”, Elsevier, Amsterdam, 2006.
- [4] Gibson, P., „The Globalisation at Sea: Cruise Sector Growth and its Externalities”, presented in the Handelsblatt Kreuzfahrtkongress, Hamburg, 2011.
- [5] Gibson, P., „Cruise Travel – Which challenges lie Ahead?”, presented in the 20th World Travel Monitor Forum, Pisa, 2012.
- [6] Grenier, A.A., „The Nature of Nature Tourism”, *Publication of the Social Sciences*, University of Lapland, Rovaniemi, Finland, 2004.
- [7] Jaakson, R., „Beyond the Tourist Bubble? Cruiseship Passengers While in Port”, *Annals of Tourism Research*, 2004, vol. 31, no. 1, pp. 44-60.
- [8] Lois, P., Wang, J., Wall, A., Ruxton, T., „Formal Safety Assessment of Cruise Ships”, *Tourism Management*, 2004, vol. 25, p. 93-109.
- [9] Lukovic, T., Bozic, K., „Seasonality: A factor of Crisis or Development in Cruise Tourism?”, *Cruise Sector Challenges*, Gabler Verlag, 2010, pp. 25-37.
- [10] Mancini, M., „Cruising: A Guide to the Cruise Line Industry”, Thomson-Delmar Learning, New York, 2004.
- [11] Petrick, J.F., Li, X.R., Park, S.Y., „Cruise Passengers' Decision Making Processes”, *Journal of Travel & Tourism Marketing*, 2007, vol. 23, no. 1, p. 1-14.
- [12] Ward, D., „Complete Guide to Cruising & Cruise Ships 2008”, Berlitz Publishing, London, 2007.



## Global Money Laundering - Impact on Economic Stability

Sav Irina

Tomis University - Constanta

[irina.sav58@gmail.com](mailto:irina.sav58@gmail.com)

### Abstract

*Money laundering, as global phenomenon is an issue of considerable importance for today. Political leaders, civil servants in government and business elites in the public sector usually commit it. They carry on the forbidden activities by creating over-pricing contracts, phantom companies or using fronts and paying for contracts not or poorly executed. It is these worry which stimulates this discourse and which stimulates this piece to support for more global actions against the scourge of money laundering across the world.*

**Keywords:** organized crime, corruption, illegal funds, anti-money laundering, white-collar crime

**J.E.L. Classification:** F38

### 1. Money laundering - financial support of the global underground economy and organized crime

Illegally obtained funds are laundered and moved around the globe using and abusing shell companies, intermediaries and money transmitters. In this way, the illegal funds remain hidden and are integrated into legal business and into the legal economy.

Money laundering is a main operation of the underground economy, and can be defined as a criminal act which is to legalize illicit sourced profit by concealing its nature in the way that is less likely to attract attention [1].

Money laundering is a real hidden cancer that allows criminal activity to seeps through all sectors of legitimate business, making detection of, and enforcement against such activities extremely difficult and unknown.

Money laundering is the exchange or factoring of the proceeds of criminal acts to disguise their origins.

The consequences of money laundering are detrimental to business environment, economic development, government, and the rule of law. Money laundering increases the demand for cash, makes interest and exchange rates more volatile and uncertain, and causes high inflation and financial turmoil. The drainage of financial resources from ordinary economic growth is detrimental for the global economy. Most importantly, money laundering empowers corruption and organized crime.

One common example of money laundering is the movement of profits from drug trafficking, prostitution, corruption and other criminal activities through a series of bank or brokerage accounts to make them appear to be proceeds of legitimate business activity. This process is of critical importance, as it enables those perpetrating the criminal activities to enjoy these profits without revealing their sources, thereby making detection of the criminal activity less likely.

Fig.1 Money Laundering Methods[2]



Illegal money can be moved by all manner of means. Individuals have been convicted of laundering for transporting diamonds bought with the proceeds of crime and destined for criminal groups; cash

deposited in a checking account can be withdrawn worldwide with debit cards; even simple methods, such as wire transfers, can facilitate money laundering. Economic and financial globalization has also made the life of a launderer easier. The high volume of legal funds circulating around the globe makes the movement of dirty money less conspicuous. And the globalization of financial-services companies' means that money placed in a bank branch in a less regulated jurisdiction is easily transferred internally within the organization to a branch in a more regulated jurisdiction.

## 2. Money laundering – history and recent years

Money laundering is not a modern phenomenon. In his excellent book "Lords of the Rim", historian Sterling Seagraves describes how, more than 3,000 years ago, merchants in China hid their wealth for fear that rulers would take the profits and assets they had accumulated through trade. The techniques he describes "converting money into readily movable assets, moving cash outside the jurisdiction to invest it in a business, and trading at inflated prices to expatriate funds" are used today by sophisticated money launderers[3].

The term "money laundering" allegedly originated in a scam set up by Al Capone in Chicago in the 1920's in which he set up a Chinese laundry through which he passed the profits of criminal activities in order to disguise their origins. The term money-laundering nowadays means precisely that: disguising the origins of money, so that the profits of, for example, illegal drugs sales cannot be traced back to their origins. For law enforcement agencies around the world the struggle against money laundering has become one of the focal points of the struggle against organized crime. The idea is that organized crime will find it increasingly difficult to operate if it cannot transfer its ill-gotten gains from the criminal underworld into the legal "upper world" [4].

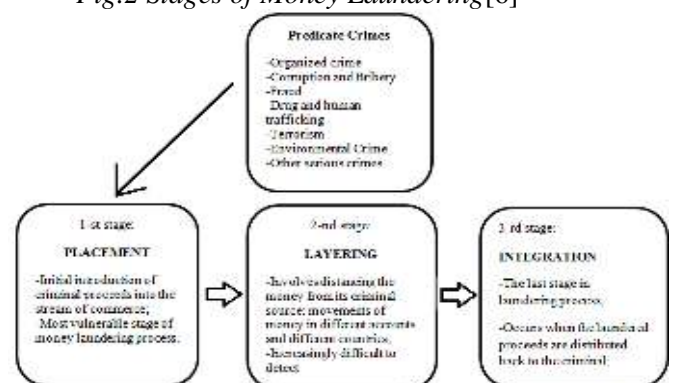
The words "white-collar crime" was coined in 1939 during a speech given by Edwin Sutherland to the American Sociological Society. Sutherland defined the term as "crime committed by a person of respectability and high social status in the

course of his occupation." Although there has been some debate as to what qualifies as a white-collar crime, the term today generally encompasses a variety of nonviolent crimes usually committed in commercial situations for financial gain. Many white-collar crimes are especially difficult to prosecute because the perpetrators use sophisticated means to conceal their activities through a series of complex transactions. The most common white-collar offenses include: antitrust violations, computer and internet fraud, credit card fraud, phone and telemarketing fraud, bankruptcy fraud, healthcare fraud, environmental law violations, insurance fraud, mail fraud, government fraud, tax evasion, financial fraud, securities fraud, insider trading, bribery, kickbacks, counterfeiting, public corruption, money laundering, embezzlement, economic espionage and trade secret theft. According to the Federal Bureau of Investigation, white-collar crime is estimated to cost the United States more than \$300 billion annually [5].

Modern money laundering refers to a financial transaction scheme that aims to conceal the identity, source, and destination of illicitly-obtained money.

Money laundering is the criminal act of filtering illegally obtained ("dirty") money through a series of transactions designed to make the money appear legitimate ("clean"). Money laundering often involves three steps:

Fig.2 Stages of Money Laundering[6]



First, the money is deposited typically into a financial institution such as a bank or brokerage. Next, the money is separated from its illegal origin by layers of often complex transactions, making it more difficult to trace the "dirty" money. The third step is integration. This is where the freshly "cleaned" money is mixed with legally

obtained money, often through the purchase or sale of assets.

The forms and dimensions of this type of crime have evolved and have become more sophisticated as a result of the rapid growth of globalization, integration, and economic liberalization, as well as dramatic developments in the provision of financial information, in technology, and in communications.

The history of money laundering in the last years has been something of an 'arms-race' between the law enforcement agencies and financial organized crime with each side developing new techniques and methods versus detection systems in a spiral of competitions.

### 3. Money laundering – a threat to economic and financial stability

Without doubt, organized crime is the most threatening factors to human security and to developments of states [7].

The use of the financial-banking systems to launder money leads to the undermining of the individual financial institutions and, in the end, of the whole financial system. In many jurisdictions, money laundering is seen as an "activity based" offense. If not controlled, money laundering may undermine the efforts towards a free and competitive market and will affect the development of a sound economy.

Economies with growing or developing financial centers, but inadequate controls are particularly vulnerable as established financial center countries implement comprehensive anti-money laundering regimes [8].

Fig.3 Risks given by money laundering[9]



Most disturbing of all, money-laundering fuels corruption and organized crime. Political leaders, civil servants in government and business elites in the public sector usually commit it. These are people who are entrusted with managing public funds for the benefit of the larger society but they turn around to betray such trust and confidence reposed on them and cart away huge sums of money stashing it in foreign banks that convey with them.

Corrupt public officials need to be able to launder bribes, kick-backs, public funds and, on occasion, even development loans from international financial institutions. Organized criminal groups need to be able to launder the proceeds of drug trafficking and commodity smuggling. Terrorist groups use money-laundering channels to get cash to buy arms. The social consequences of allowing these groups to launder money can be disastrous. Taking the proceeds of crimes from corrupt public officials, traffickers and organized crime groups is one of the best ways to stop criminals in their tracks.

Criminals are now taking advantage of the globalization of the world economy by transferring funds quickly across international borders.

Secrecy jurisdictions - a term we often use as an alternative to the more widely used term tax havens - use secrecy to attract illicit and illegitimate or abusive financial flows.

A global industry has developed involving the world's biggest banks, law practices and accounting firms which not only provide

secretive offshore structures to their tax- and law-dodging clients, but aggressively market them. 'Competition' between jurisdictions to provide secrecy facilities has, particularly since the era of financial globalization took off in the 1980s, become a central feature of global financial markets[10].

Fig.4 Example for money laundering  
( source: Global Financial Integrity)



#### 4. Is money laundering a global problem?

Organized crime also has an impact at the social level, where it often leads to the development of an alternative, underground, economy, which is untaxed and unregulated.

Money laundering is an illegal activity carried out by criminals which occurs outside of the normal range of economic and financial statistics. Along with some other aspects of underground economic activity, rough estimates have been put forward to give some sense of the scale of the problem.

Using 1996 statistics, these percentages would indicate that money laundering ranged between US Dollar (USD) 590 billion and USD 1.5 trillion. The lower figure is roughly equivalent to the value of the total output of an economy the size of Spain [11].

Globalization has been accompanied not only by the growth of the gray economy but that of a black economy as well. According to the UN, organized and unorganized crime now generates annual sales on the order of 3% of the world's GDP, about \$1 trillion, half of which is in drug sales, which have boomed over the last decade, stimulated by an abundant supply and diversification into synthetic narcotics [12].

Recent figures from the International Monetary Fund (IMF) suggest that the amount of global criminal activity that involves a financial component is near \$2

trillion. The OECD (Organization for Economic Co-operation and Development) has estimated that money laundering now exceeds \$2 trillion annually. These are good base figures from which to begin – but remember that these are probably just the starting points [13].

#### 5. The global fight against money laundering (AML) and the financing of terrorism (CFT)

Money laundering and the financing of terrorism are financial crimes with economic effects. They can threaten the stability of a country's financial sector or its external stability more generally. The methods used to launder proceeds of criminal activities and finance illicit activities are in constant evolution: as the international financial sector implements the FATF standards, criminals must find alternative channels.

Criminalization of money laundering, or the movement of proceeds of criminal activity through the legitimate financial system, occurred in many countries throughout the 1970s and 1980s, and was internationally standardized through a number of conventions: the Vienna Convention of 1988 and the Palermo Convention of 2000. Anti-money-laundering laws were developed at the same time, and generally place a legal responsibility on financial institutions to avoid accepting laundered money through due diligence investigations of their customers and customers' source of funds[14].

The Financial Action Task Force on Money Laundering (FATF), a 36-member inter-governmental body established by the 1989 G-7 Summit in Paris, has primary responsibility for developing a worldwide standard for AML and CFT. It works in close cooperation with other key international organizations, including the IMF, the World Bank, the United Nations, and FATF-style regional bodies (FSRBs).

The global anti-money laundering policy took a preventive focus, which involves protecting the proper functioning of the financial system from pollution by laundering schemes.

Effective anti-money laundering and combating the financing of terrorism regimes are essential to protect the integrity of

markets and of the global financial framework as they help mitigate the factors that facilitate financial abuse. Action to prevent and combat money laundering and terrorist financing thus responds not only to a moral imperative, but also to an economic need"[15].

Money launderers and terrorist financiers exploit both the complexity inherent in the global financial system as well as differences between national AML/CFT laws and systems, and they are especially attracted to jurisdictions with weak or ineffective controls where they can more easily move their funds without detection. Moreover, problems in one country can quickly spread to other countries in the region or in other parts of the world.

Strong AML/CFT regimes enhance financial sector integrity and stability, which in turn facilitate countries' integration into the global financial system. They also strengthen governance and fiscal administration. The integrity of national financial systems is essential to financial sector and macroeconomic stability both at the national and international levels.

In order to help national governments implement effective AML/CFT regimes, the FATF issued a list of recommendations which set out a basic, universally applicable framework of measures covering the criminal justice system, the financial sector, certain non-financial businesses and professions, transparency of legal persons and arrangements, and mechanisms of international cooperation. In February 2012, these recommendations were revised and updated (The FATF Recommendations). In February 2013, the FATF adopted a revised common Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems. The first assessments under the new Methodology have now started. The work of the FATF, as well as the IMF's AML/CFT efforts, have been supported by the G-7 and the G-20, most recently in the context of initiatives to address the 2008–2009 international financial crisis and its aftermath.

Because laundering money almost always requires it to pass through one or more banks, the primary strategy against it is to require banks to perform certain checks and monitor

transactions to make sure their accounts are not being used for money laundering. In some cases, they may have to file a suspicious activity report (SAR) with law enforcement following a high-risk transaction. In extreme cases, they might refuse to do business with a suspicious client.

In recent years, there have been a number of high-profile Western bank scandals over money laundering. Most notably, HSBC admitted to violating the Bank Secrecy Act by failing to monitor over \$200 trillion in wire transactions between its Mexico and U.S. subsidiaries, among other crimes. \$881 million in drug money from the Sinaloa and Norte de Valle drug cartels were found to have been moved through HSBC-Mexico's accounts to HSBC-USA via the unmonitored wire transactions[16].

## 6. Conclusions

1) Criminals are now taking advantage of the globalization of the world economy by transferring funds quickly across international borders. Rapid developments in financial information, technology and communication allow money to move anywhere in the world with speed and ease. This makes the task of combating money laundering more urgent than ever.

The deeper "dirty money" gets into the international banking system, the more difficult it is to identify its origin. Because of the clandestine nature of money laundering, it is difficult to estimate the total amount of money that goes through the laundry cycle. Estimates of the amount of money laundered globally in one year have ranged between \$500 billion and \$1 trillion. Though the margin between those figures is huge, even the lower estimate underlines the seriousness of the problem governments have pledged to address

2) From the perspective of international political sociology, two general conclusions can be drawn from this analysis of the current dynamics of conflict surrounding the treatment of tax illegalizes in anti-money laundering:

a/ Countries should comply with all FATF standards. According to a 2013 OECD report, many FATF countries are poorly compliant on key standards designed to prevent money laundering.

b/ Bankers who knowingly commit crimes and allow bank accounts to be used to shelter criminal money should be held personally accountable. To date, enforcement has generally focused on moderate-sized fines and promises by banks to improve compliance. No bank should be "too big to jail"[17].

## 7. References

- [1] FATF-GAFI, "What is Money Laundering?" 15 April 2011, retrieved from [http://www.fatf-gafi.org](http://www.fatf-gafi.org;);
- [2] "The Prevention of Money Laundering Act, 2002", May 2014 , <http://www.erevise.com>;
- [3] Nigel Morris - Cotterill, Foreign Policy May/June 2001, "Money Laundering";
- [4] John Lea, 2005"Money laundering and criminal finance", retrieved from <http://www.bunker8.pwp.blueyonder.co.uk/or/gcrim/3807.htm>;
- [5] "White-Collar Crime: an overview", retrieved from [http://www.law.cornell.edu/wex/white-collar\\_crime](http://www.law.cornell.edu/wex/white-collar_crime);
- [6] "The Prevention of Money Laundering Act, 2002", May 2014 , <http://www.erevise.com>;
- [7] United Nations Office on drugs and crimes, UNODC and organized crime, 3 may 2011, <http://www.unodc.org/unodc/en/organized-crime/index>;
- [8] European Union, Phare Project RO02-IB/JH-08 , "Training Manual on Anti-Money Laundering and Countering the Financing of Terrorism";
- [9] Irina Sav, "Parfumul banilor murdari", Ed. Nautica, 2010, ISBN 978-606-8105-22-2, pag.37;
- [10] Tax Justice Network – Financial Secrecy Index, 2014;
- [11] Cyprus Fiduciary Association, George Papanicolaou, "Money Laundering – How big is the problem?", retrieved from [http://www.cfa.org.cy/index.php?option=com\\_content&view=article&id=105:money-laundering-how-big-is-the-problem](http://www.cfa.org.cy/index.php?option=com_content&view=article&id=105:money-laundering-how-big-is-the-problem);
- [12] Guilhem Fabre- Prospering on Crime: Money Laundering and Financial Crisis, Working Paper No 9, 2005;
- [13] Peter Lilley, "Dirty Dealing: The Untold Truth about Global Money Laundering, International crime and terrorism", British Library Cataloging in Publication Data, 2006;
- [14] "Illicit Financial Flows. Analytical Methodologies Utilized By Global Financial Integrity", 2003, retrieved from <http://www.gfintegrity.org>;
- [15] Min Zhu, Deputy Managing Director of the IMF, "The IMF and the Fight Against Money

- Laundering and the Financing of Terrorism" September 5, 2014, retrieved from <http://www.imf.org/external/np/exr/facts/aml.htm>;
- [16] "Money Laundering", retrieved from <http://www.gfintegrity.org/issue/money-laundering>;
- [17] Global Financial Integrity, "Money Laundering", retrieved from <http://www.gfintegrity.org/issue/money-laundering>.

## Foreign Trade of Multinationals in Romania

Scutaru Liliana

„Ștefan cel Mare” University of Suceava  
Faculty of Economics and Public Administration  
[lilianas@seap.usv.ro](mailto:lilianas@seap.usv.ro)

### Abstract

*The paper analyzes the exports and imports generated by multinational companies operating in Romania in relation to the country's total trade. It is also examined the orientation of FDI towards the main economic sectors. The analysis of Romania's foreign trade and trade balance values reveals that approx. 70% of Romanian exports and about 60% of imports are generated by subsidiaries of multinationals located in Romania. The conclusion is that imports and exports generated by these firms affect directly the trade balance, the main component of the current account of balance of payments. Throughout the analyzed period, the values of imports are superior to the values of exports, resulting in a negative balance of trade. By analyzing the distribution of FDI by main economic sectors it is found the reorientation of foreign investors during the crisis to economic sectors that are more exposed to speculation and financial risks, contributing to Romania's exposure to volatility in foreign markets.*

**Keywords:** foreign direct investment, exterior trade, exports, imports, competitiveness

**JEL Classification:** F10, F21, F23

### 1. Introduction

Foreign direct investments (FDI) and their effects on the economies of countries in which are located were studied over time by many economists. It is widely accepted idea that FDI influences the foreign trade of the recipient country, thereby contributing, in most cases, along with the influence of other macroeconomic indicators, to the economic growth of the countries. The effects of FDI

on foreign trade of host countries have been studied, for example, by Rock [1] which showed that FDI affects the size and channeling of the trade flows in these countries. Solomon and Ingham [2] concluded that, despite the fact that FDI located in a country attract significant imports needed in the production process, the subsidiaries of multinationals export fewer goods with high added value and require advanced manufacturing technologies. Mucchielli [3] argues that FDI can influence the exports of the host country through their own exports and through the modification of export specialization of the host country. Bouteiller and Fouquin [4] showed that FDI contributes to export growth with high added value. Almeida and Fernandes [5] and Keller [6] showed that there is a strong positive correlation between trade and FDI through the technology that they promote. Albu [7] states that in countries where FDI stock is high, the foreign trade is expanding and has a high level of efficiency, which may contribute to a relatively stable economic growth in the host country. Pelinescu and Rădulescu [8] argue that FDI plays a key role in re-specialization of economies and in increasing their export potential, while contributing to increased production. In turn, Acaravci and Ozturk [9] show that there is a causal relationship between FDI, exports and economic growth in countries where FDI is localized.

The researches of Romanian specialists Zaman, Vasile et al. [10] examine a range of effects of FDI realized in 2003-2010 in Romania, highlighting the negative effects on the trade balance, a ratio of 1:2 of reinvested earnings and expatriate one and the unfavorable impact of the energy sector intermediaries on competitiveness. The study highlights the importance of foreign investment in manufacturing, as the main sector of the economy and the unsatisfactory

structure of FDI mainly targeting low technological level branches and of environment from Romania.

## 2. Exports and imports generated by multinational companies in Romania

Foreign direct investment (FDI) made by multinationals in Romania has a major influence on the foreign trade of the country, contributing about 70% of its volume. Orientation of FDI as sectoral structure is of major importance for a country's foreign trade.

In Romania, according to NBR reports, between 2003 and 2012, the FDI presents an interest especially for manufacturing industries, followed by the financial and insurance services, construction and real estate transactions, the energetic sector and trade sector. Within this structure, foreign investors have shifted during that period from manufacturing to other sectors. Thus, if in 2003 the manufacturing sector had a share of 51% in foreign investors' preferences, the percentage gradually decreased to 46% in 2004, to 37% in 2005, reaching almost 32% in 2012 [11].

As a result, reorientation occurred towards financial and insurance services (showing an increasing trend from 11% in 2004 to 18.5% in 2012) to the construction and real estate transactions (with an increasing trend from 6.4% in 2006 to 9.2% in 2012), also to the energetic sector (an increase from 4.2% in 2005 to 9.7% in 2012) and of course the commercial sector with a share of about 11-12% between 2008-2012.

The predominance of FDI in services sectors of financial intermediation, insurance, consulting firms or trade in goods can cause imbalances on the trade balance, especially in times of financial crisis, when grow speculation and financial risks in international markets. Romania is part of the global economic cycle and therefore it is exposed to volatility of foreign markets.

Analysis of the impact that firms with FDI component in Romania produce on the commercial trade of the country can be seen in the light of the two approaches [10]:

- as share of exports and imports of these firms in total exports and imports of Romania;

- as net amount resulting from the difference between exports and imports generated by these multinationals.

Table no. 1. The evolution of exports of FDI enterprises, 2008-2012  
- Million Euros -

	Exports (FOB) of FDI enterprises				
	2008	2009	2010	2011	2012
Mining and quarrying	n.a.	n.a.	582	613	623
Manufacturing	18.560	17.264	21.934	26.135	25.327
Electricity, gas, water	n.a.	n.a.	371	509	479
Professional, scientific, technical and administrative activities	n.a.	n.a.	47	64	61
Agriculture	n.a.	n.a.	334	546	488
Commerce	1.985	1.827	2495	3.338	3.546
Constructions	n.a.	n.a.	48	67	42
Hotels and restaurants	n.a.	n.a.	3	2	2
Financial agents	n.a.	n.a.	39	74	42
Information technology and communication	n.a.	n.a.	66	32	22
Transports	n.a.	n.a.	28	36	37
Other activities	581	552	3	2	3
Total	21.126	19.643	25.887	31.418	30.672

Source: NBR, Reports regarding FDI, 2009 - 2012

Reorientation of FDI since 2003 from manufacturing industries to more volatile

sectors of the Romanian economy, vulnerable to financial crises (about 49% of the stock of



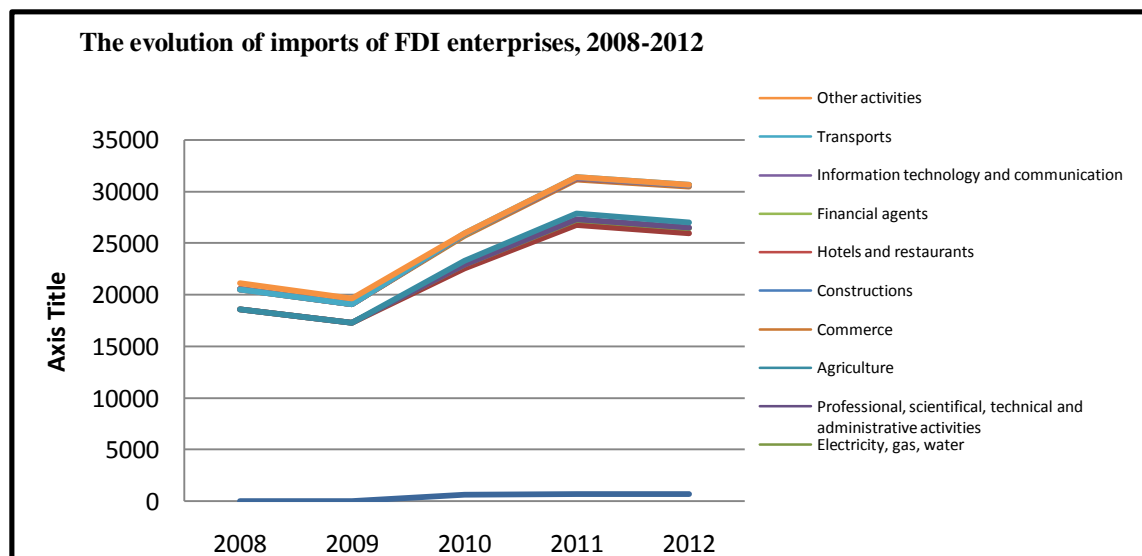
FDI attracted by Romania in 2012) resulted in the crisis year 2009 in chain reactions on foreign trade, having as effect producing trade imbalances, Romania being made to bear the sudden reduction of supply and demand in foreign markets, particularly in the EU market.

The exports of firms with FDI component in Romania come mainly from manufacturing branches, having as sub-branches the transport means, metallurgy, textiles and leather, furniture and wood products, plus a wide range of services, the most important being the commercial and financial services. During the period 2003-2011 changes have occurred in the main classes of goods exported, reflected in the

declining share of low-technology goods in favor of the other two groups, namely medium technology and intensive technology [12].

Imports also result from manufacturing industries and commerce, to which are added the energetic sector, information technology and communications, professional and technical activities, construction and transport. It should be noted that Romania exports more raw materials it imports, which means a lack of added- value products. This is compounded by insufficient capitalization of agricultural potential in the fact that food exports are exceeded by imports in the same range.

Chart no. 1. 2012 The evolution of exports of FDI enterprises during 2008-2012



Source: NBR, Reports regarding FDI, 2009 – 2012

Table no. 2. The evolution of imports of FDI enterprises, 2008-2012  
- Million Euros -

	Imports(CIF) of FDI enterprises				
	2008	2009	2010	2011	2012
Mining and quarrying	n.a.	n.a.	696	551	672
Manufacturing	20.493	15.155	18.849	22.120	21.412
Electricity, gas, water	n.a.	n.a.	378	591	715
Professional, scientific, technical and administrative activities	n.a.	n.a.	218	106	121
Agriculture	n.a.	n.a.	91	217	173
Commerce	10.358	6.214	7.138	8.883	9.375
Constructions	n.a.	n.a.	145	145	159
Hotels and restaurants	n.a.	n.a.	13	15	17
Financial agents	n.a.	n.a.	467	465	303
Information technology and	n.a.	n.a.	71	136	148

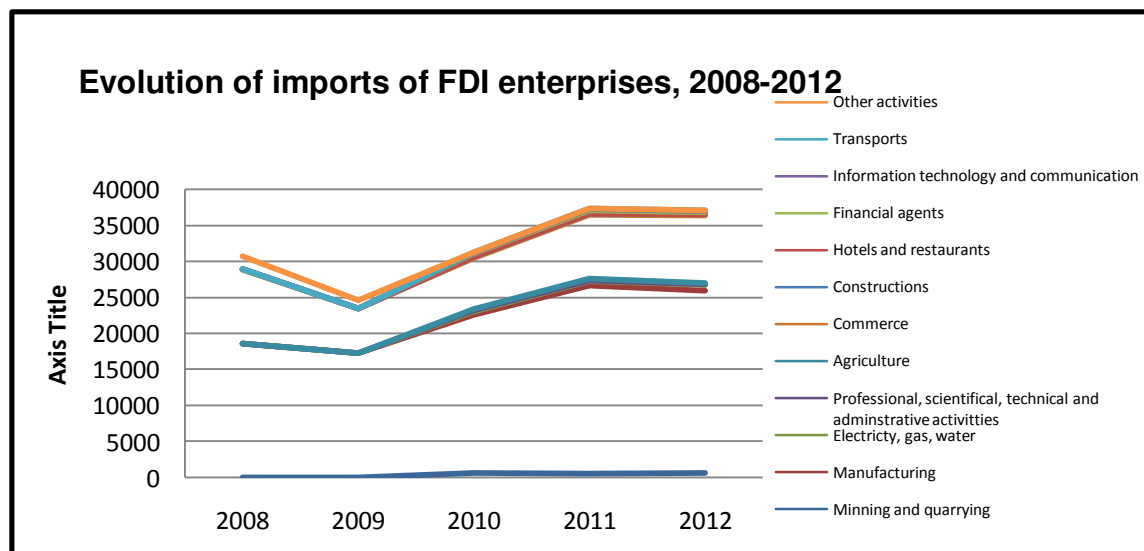
communication					
Transports	n.a.	n.a.	100	115	88
Other activities	1.864	1.156	15	14	14
Total	32.715	22.525	28.181	33.358	33.197

Source: NBR, Reports regarding FDI, 2009 – 2012

From the analysis of Tables 1 and 2 it can be noted that the greatest impact on Romanian trade is exercised by the manufacturing and commercial sector showing higher values in terms of imports

than exports. The first conclusion that emerges is that subsidiaries of multinational companies located in Romania imports more than exports, contributing to the trade balance deficit.

Chart no. 2. The evolution of imports (CIF) of FDI enterprises, 2008-2012



Source: NBR, Reports regarding FDI, 2009 – 2012

The analysis of Romania's foreign trade in the period 2006-2012 and the values of the trade balance shows that about 70% of Romanian exports and about 60% of imports are generated by subsidiaries of multinationals located in Romania. This aspect inherently leads to the conclusion that imports and exports by these firms directly affect the trade balance. The trade balance is the main component of the current account of balance of payments and, therefore, it is, in turn, directly influenced by the trade balance. It is noted that throughout the period the value of imports are superior to the values of exports, resulting in a negative balance of trade. Since 2010 both imports and exports meet again new increases in 2012 being still insignificant.

The lowest share of FDI exports and imports recorded in 2009, when the economic crisis was felt very strongly in Romania. However, the positive effect of this development is reflected on the trade balance which decreased by more than half the deficit, contributing in turn to reducing the current account deficit.

In the context of performance analysis of foreign trade, export competitiveness is given by the relationship between these and the national income realized on the whole value chain of production value. The competitive advantages of a national economy foster the success in the foreign market, which leads to its intensive specialization. Therefore, an economy is more competitive to export, as it obtains through international trade, higher incomes, which is the premise of well-being.

Table no. 3. The share of FDI exports and imports in Romania's foreign trade  
-Million Euros -

Year	Exports (FOB)			Imports (CIF)			Commercial balance	Current account
	Total	Exports ISD		Total	Imports ISD			
		Value	% of total economy		Value	% of total economy		
2006	31437	18734	72,5	43192	23768	58,6	-11755	-10156
2007	36434	20563	70,8	53847	29675	59,2	-17413	-16714
2008	42479	21127	73	60929	32715	62,6	-18450	-16157
2009	36147	19643	69,8	43312	22525	60,1	-7165	-4913
2010	43982	25950	72,4	51155	28181	62,5	-7173	-5493
2011	52527	31418	71,4	59596	33358	62,6	-7054	-5924
2012	52545	30672	70,3	59599	33197	62,6	-6250	-5843

Source: After NBR, Annual FDI reports, 2007-2012 and Reports regarding the balance of foreign trade, 2006-2012

Much of Romanian manufacturing industries have increased the competitiveness of export industries, winning new markets. There are a number of key products exported by Romania during 2003-2011 which provides nearly 50% of total export value, which gives a certain level of competitiveness and diversification compared to other countries.

The most significant increase is recorded by transport equipment manufacturing industry, considered medium-high technology. However, Romanian manufacturing industries still use mostly intensive labor of medium-low technology "characterized by chains of value highly fragmented and / or producing of raw materials and intermediate base goods." [12].

In conclusion, we suggest that, to support the Romanian economy and its export competitiveness, it is required the involvement of the Romanian state in creating an export strategy to support increased production and export of products and services incorporating high added value, exploiting in this way the advantage of multinational companies before local firms, given by the possession of superior technology and managerial expertise, being the promoters of technical progress and of new technologies worldwide.

### 3. Conclusions

Exports of firms with FDI component in Romania come mainly from manufacturing

branches, plus a wide range of services, the most important being the commercial and financial. During the period 2003-2011 there have occurred changes in the main classes of goods exported, reflected in the declining share of low-technology goods in favor of the other two groups, namely medium technology and intensive technology.

Imports also result from manufacturing industries and commerce, plus the energetic sector, information technology and communications, professional and technical activities, construction and transport. Romania exports more raw materials than it imports, which means a lack of added – value of the products. This is compounded by insufficient capitalization of agricultural potential which results from the fact that food exports exceeded imports in the same range.

Gradual reorientation of FDI after 2003 from manufacturing industries to more volatile sectors of the Romanian economy vulnerable to financial crisis resulted in the crisis year 2009 chain reactions on the foreign trade, resulting in the production of trade imbalances, Romania being made to bear the sudden reduction of supply and demand in foreign markets, particularly the EU market.

The analysis of Romania's foreign trade in the period 2006-2012 and the values of the trade balance show that about 70% of Romanian exports and about 60% of imports are generated by firms with FDI component in Romania. These determine the trade balance, which for Romania, is the main

component of the current account of balance of payments, directly influencing it. Import values are superior to the values of exports, resulting in a negative balance of trade.

The lowest share of FDI exports and imports recorded in 2009, when the economic crisis was felt very strongly in Romania. However, the positive effect of this development is reflected on the trade balance which reduces to less than half the deficit, contributing in turn to reducing the current account deficit.

Much of Romanian manufacturing industries increased their level of export competitiveness, winning new markets, particularly in countries of Western Europe. There are a number of key products exported by Romania during 2003-2011 which provides nearly 50% of total export value, which gives a certain level of competitiveness and diversification compared to other countries. However, Romanian manufacturing industries still use mostly intensive labor of medium-low technology, being characterized by chains of highly fragmented value and producing raw materials and intermediate base goods.

We suggest that, to support the Romanian economy and its export competitiveness, it is required the involvement of the Romanian state in creating an export strategy to support increased production and export of products and services incorporating high added value, exploiting in this way the advantage of multinational firms before local firms, given by the possession of superior technology and managerial expertise.

#### "ACKNOWLEDGMENT

This paper has been financially supported within the project entitled „SOCERT. Knowledge society, dynamism through research”, contract number POSDRU/159/1.5/S/132406. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. Investing in people!”

This paper is part of the first interim report research from the postdoctoral research project "SOCERT. Knowledge society, dynamism through research".

#### 4. References

- [1] **Rock, M. T.**, "Cross-country Analysis of the Determinants of U.S. Foreign Direct Investment in Manufacturing in Less developed Countries", Ph. D. Dissertation, University of Pittsburgh, 1973.
- [2] **Solomon, R. F., Ingham, K.P.D.**, "Discriminating between MNC Subsidiaries and Indigenous Companies: A Comparative Analysis of British Mechanical Engineering", *Oxford Bulletin of Economics and Statistics*, vol. 39, 1977, pp. 127-138.
- [3] **Mucchielli, J. L.**, "IDE et exportations: compléments ou substituts?", *Problèmes économiques*, nr. 2751, 2002.
- [4] **Bouteiller, E., Fouquin, M.**, "Le développement économique de l'Asie Orientale", Edition La Découverte, Paris, 2001.
- [5] **Almeida, R., Fernandes, A. M.**, "Openness and Technological Innovations in Developing Countries. Evidence from Firm-Level Surveys", *World Bank Policy Research*, Working Paper No. 3985, August, 2006.
- [6] **Keller, W.**, "International Trade, Foreign Direct Investment and Technology Spillovers", *NBER Working Paper*, No. 15442, October, 2009.
- [7] **Albu, L. L.**, "Foreign Trade and FDI as Main Factors of Growth in the EU", *Romanian Journal of Economic Forecasting*, Vol. 2, June, 2013, pp. 7-17.
- [8] **Pelinescu, E., Rădulescu, M.**, "The Impact of Foreign Direct Investment on the Economic Growth and Countries' Export Potential", *Romanian Journal of Economic Forecasting*, Vol. 4, December, 2009, pp. 153-169.
- [9] **Acaravci, A., Ozturk, I.**, "Foreign Direct Investment, Export and Economic Growth: Empirical Evidence from new EU Countries", *Romanian Journal of Economic Forecasting*, Vol. 15, Issue 2, June, 2012, pp. 52-67.
- [10] **Zaman, G., Vasile, V., Matei, M., Croitoru, C., Enescu, G.**, "Aspecte ale impactului ISD din România asupra exporturilor și dezvoltării durabile", *Romanian Journal of Economics*, Institute of National Economy, vol. 33(2(42)), Decembrie, 2011, pp. 1-60.
- [11] **\*\*\*BNR**, "Investițiile străine directe în România", Rapoarte anuale, 2009 – 2012.
- [12] **Țurlea, G., Cojanu, V., Alexoaci, A., Neculau, G., Petrariu, R.**, "Avantajele competitive ale României pe piața internă a UE", *Studii de strategie și politici*, Institutul European din România, nr. 1, 2013, pp. 1-115.

# Effects of the US Financial Crisis on Nine Representative Countries

Stoian Andrei

Academia de Studii Economice, Bucuresti

[stoianandrei@gmail.com](mailto:stoianandrei@gmail.com)

## Abstract

*The financial crisis from the United States has influenced the wellbeing of many countries, some being more exposed and some coping better with the effects. The sovereign debt crisis from the European Union that was a consequence of this and further deepened the bad economic conditions throughout the world. Indicators like gross domestic product growth, inflation, equity indexes, reserves, savings or unemployment rate can shed more light on the effects that the crisis has had in the world, with nine representative countries taken as case studies.*

**Keywords:** financial crisis, GDP growth, inflation, unemployment, reserves

**JEL Classification:** E21, E24, E31, F62, F63

## 1. Introduction

After many years of economic boom, starting with 2007, the US and subsequently the world was hit by a very powerful financial crisis that left scars on many of the economies. In Europe, this led a sovereign debt crisis starting with 2009 that affected many of the countries from the Old Continent.

Although some regions and economic sectors are still trying to recover from the turmoil, the effects of the crisis were felt like ripples throughout the globe. Some countries were hit more and others less, depending on the linkages that existed between US and the most affected countries (Stoian, 2014) and also depending on the economic conditions and stability within those countries.

In order to assess the effects, there are six core indicators proposed in the paper that can bring light on the actual consequences. These are: the gross domestic product (GDP)

growth rate on a yearly basis, the annual inflation, the equity indices, changes in the total reserves of a country, the gross savings evolution as a part of the GDP and the unemployment rate.

Also, the indicators will be applied to some of the most representative countries in the world, in order to perform an assessment on their evolution in the period before, during and after the crisis.

## 2. Data Selection

The indices that will be considered are 'GDP growth (annual %)', 'Inflation, consumer prices (annual %)', 'S&P Global Equity Indices (annual % change)', 'Total reserves (includes gold, current US\$)' out of which the annual change was derived, 'Gross savings (% of GDP)' and 'Unemployment, total (% of total labor force) (modeled ILO estimate)' as defined by the World Bank under its indicators.

They can show how each country has evolved and has been impacted by the financial crisis. One should be able to see the effects of the US financial crisis but also those of the EU debt crisis that emerged afterwards.

Also the countries chosen for the analysis are: Argentina, China, Cyprus, United Kingdom, Greece, Korea, Rep., Romania, Russian Federation and the United States of America. These are some of the countries that played central roles in the US financial crisis (US and UK) or in the EU sovereign debt crisis (Greece and Cyprus), together with a representative from Latin America (Argentina – a country that suffered from a financial crisis in 2001), two from Asia (China, one of the biggest economies of the world and South Korea, one of the former Asian tigers (Stoian and Becherescu, 2014b) that was also hit by a financial crisis in 1997), and two emerging markets, the Russian Federation one of the biggest and

with a lot of influential power and Romania, a representative of the Central and Eastern European developing countries' block.

Going forward, each of the indices will be analyzed for all 9 countries, for the period 2005 and 2012-2013, depending on data availability. The period contains the period before the US crisis, during the US and EU financial crisis and going up to the present with the last existing data.

### 3. GDP growth rate

The Gross Domestic Product growth rate is a very important quantifier of the effect that the financial crisis has had in the world. For the countries under the analysis this can show how the different regions have been impacted and how the health of the country's economy has evolved.

Performing this analysis for the 9 countries under the scope (Table 1), one can see a sharp decline that started in 2008 and that has reached negative territories for 2009, the worst year after the crisis. 2011 and 2012

are also showing worse numbers than the previous 2010 year, mainly due to the appearance of the European debt crisis that has also placed its mark on the world. The worst hit country was Greece, with an onward decline in the GDP starting from 2008, which was also at the core of the European debt crisis. Argentina, the Republic of Korea and China kept positive growth level, showing that the impact of the crisis was milder for the two regions, still showing a descending trend of GDP growth which could cause problems especially to China (the growth rate has decreased to half from 2007 – the peak year, to 2013). The United States and United Kingdom have managed to recover from the 2008 and 2009 contractions showing also the strong linkages of these 2 economies. Cyprus has started to feel the turmoil with 2012 when a crisis also unfolded for this country. Romania was hit for 2009 and 2010 highlighting that there is a delay in the transition of the crisis for this country.

Table 1 - GDP growth rate

Country Name	2005	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	9.20	8.36	8.00	3.10	0.05	9.14	8.55	0.95	2.95
China	11.31	12.68	14.16	9.63	9.21	10.45	9.30	7.65	7.67
Cyprus	3.91	4.13	5.13	3.63	-1.67	1.30	0.40	-2.40	-5.40
United Kingdom	3.23	2.76	3.43	-0.77	-5.17	1.66	1.12	0.28	1.74
Greece	2.28	5.51	3.54	-0.22	-3.14	-4.94	-7.11	-6.97	-3.86
Korea, Rep.	3.92	5.18	5.46	2.83	0.71	6.50	3.68	2.29	2.97
Romania	4.29	8.72	6.26	7.86	-6.80	-0.94	2.31	0.35	3.50
Russian Federation	6.38	8.15	8.54	5.25	-7.82	4.50	4.26	3.44	1.32
United States	3.35	2.67	1.79	-0.29	-2.80	2.51	1.85	2.78	1.88

Source: World Bank, Data, Indicators, GDP growth (annual %)

### 4. Inflation – consumer price index

The inflation shows the increase in the price of goods and services in the economies and can also show how the 9 countries reacted throughout the period, by pumping more money in the economy to stimulate the growth, but also by decreasing the buying power of the population if not correlated with the growth of the gross domestic product.

The highest levels of the inflation can be observed for 2008 (Table 2), the first year

after the crisis unfolded for all of the countries excepting Argentina and the United Kingdom. In Argentina the last years seem to show that the country is on a dangerous upward spiral, with the inflation reaching two digits. UK has also seen a spike in the inflation in 2011, correlated with the debt crisis in the EU and many internal disruptions in the banking system. Russia has recovered from the 14.11% rate in 2008 to a level of 5-8 percent, however the current situation does not look favorable due to the

political tensions and economic sanctions applied. All countries excepting Argentina seem to have a downward tendency of the inflation levels in the last years, highlighting

a general inclination of price reduction in order to be competitive and maintain the level of business within the markets (Blanchard et al., 2013).

Table 2 - Inflation

Country Name	2005	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	9.64	10.90	8.83	8.58	6.28	10.78	9.47	10.00	10.60
China	1.82	1.46	4.75	5.86	-0.70	3.31	5.41	2.65	2.63
Cyprus	2.56	2.50	2.37	4.67	0.37	2.38	3.29	2.39	-0.40
United Kingdom	2.05	2.33	2.32	3.61	2.17	3.29	4.48	2.82	2.55
Greece	3.55	3.20	2.90	4.15	1.21	4.71	3.33	1.50	-0.92
Korea, Rep.	2.75	2.24	2.53	4.67	2.76	2.96	4.00	2.19	1.31
Romania	8.99	6.58	4.84	7.85	5.59	6.09	5.79	3.33	3.99
Russian Federation	12.68	9.68	9.01	14.11	11.65	6.86	8.44	5.07	6.76
United States	3.39	3.23	2.85	3.84	-0.36	1.64	3.16	2.07	1.46

Source: World Bank, Data, Indicators, Inflation, consumer prices (annual %)

## 5. Global equity indices

The S&P Global Equity Indices (annual % change) measure the U.S. dollar price change in the stock markets and is a worthy indicator of the impact of the financial crisis on the corporations and business environment throughout the countries.

Table 3 highlights the very negative year of 2008, the one following the US financial crisis, with huge drops in the value of the companies listed on the stock exchanges. A 38.49% decrease in the US, 49.52% decrease in the UK and more than 50% decrease in the

other countries show the main financial impact of the crisis and the burdens on the major companies which were required to raise more capital and were hit by deteriorating credit ratings and worsening balance sheet numbers. 2013 shows a strong recovery for most of the countries, the exception being Cyprus, still feeling the turmoil of the debt crisis. Romania and Russia seem also to be very connected with the western investors and are being strongly impacted, either in a negative or positive way by the developings in the western world.

Table 3 - Global equity indices

Country Name	2005	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	45.39	57.65	0.67	-56.16	97.84	55.32	-30.22	-15.87	29.59
China	13.31	80.72	66.61	-52.70	66.26	6.91	-21.67	17.17	7.26
Cyprus	ND*	ND*	ND*	ND*	ND*	ND*	-71.91	-41.25	-56.82
United Kingdom	4.70	26.06	5.16	-49.52	35.25	5.24	-6.05	5.84	14.43
Greece	14.13	36.07	28.56	-66.50	22.10	-43.75	-58.35	24.66	46.42
Korea, Rep.	58.83	13.30	27.66	-55.62	67.25	25.26	-10.90	18.88	3.15
Romania	58.74	54.23	32.84	-72.18	26.15	-6.58	-18.16	9.80	27.29
Russian Federation	64.94	61.98	21.94	-73.43	106.63	21.67	-23.38	7.70	-1.70
United States	3.00	13.62	3.53	-38.49	23.45	12.78	0.00	13.41	29.60

Source: World Bank, Data, Indicators, S&P Global Equity Indices (annual % change)

\*No data

## 6. Total reserves change

The total reserves of a country comprise of holdings of monetary gold, special drawing rights, reserves of IMF members held by the IMF, holdings of foreign exchange under the control of monetary authorities and gold reserves. These can show the precautionary insurance against volatility in capital flows and the buffer for any external shocks (Jeanne, 2007).

Again, one can observe in Table 4 that 2008 was the period when the countries took the biggest hit in terms of reserve drop, with the highest level for Cyprus of 88.56%. Many of the countries tried to defend their currency in the light of high volatility in the financial markets and increasing retreats of funds from the markets. A general overview

shows that the level of reserves was increasing at a very high pace before the crisis, especially in the emerging markets (a reason why these managed to cope better with the ripples of the aftermath), however a decline in the growth rate of this particular attribute can be seen in the last years. 2011 and 2012 also show a worsening of the conditions due mainly to the European debt crisis. China has managed to accumulate huge reserves due the strategy of keeping the RMB undervalued (Morrison and Labonte, 2013) which would help exports of the country. Another point worth mentioning is that of Argentina, which seems to be on a worsening trend in the last three years (this can be observed also with other indicators).

Table 4 – Total reserves change (yearly percent change)

Country Name	2005	2006	2007	2008	2009	2010	2011	2012	2013
Argentina	42.84	14.03	44.12	0.51	3.50	8.75	-11.38	-6.58	-29.36
China	33.46	29.99	43.08	27.14	24.76	18.79	11.70	4.08	14.55
Cyprus	7.68	34.15	9.49	-84.56	27.52	-10.89	3.98	0.33	-23.07
United Kingdom	-1.68	7.90	21.76	-7.42	25.51	23.76	14.79	11.26	-0.74
Greece	-15.54	24.61	27.99	-4.33	57.21	15.79	6.16	7.59	-20.56
Korea, Rep.	5.70	13.58	9.78	-23.23	34.18	8.03	5.06	6.77	5.48
Romania	34.21	39.83	32.34	-0.51	11.60	8.26	-0.01	-2.77	4.53
Russian Federation	44.36	66.66	57.62	-10.97	3.06	9.08	3.80	8.12	-5.23
United States	-1.16	17.44	25.54	5.94	37.43	20.99	9.89	6.89	-21.90

Source: World Bank, Data, Indicators, Total reserves (includes gold, current US\$)

## 7. Gross Savings

The gross savings show how the population reacted throughout the crises and also point the expectances for the future conditions. Taking out of the gross national income the consumption component one can see what each country was anticipating.

Table 5 highlights the different trends in each country as per the economical group that they are part of. Argentina, Cyprus and

Greece show a tendency of decrease in the savings behavior, while China and Romania managed to increase their positions being uncertain of the future conditions and having a more precautious view. UK, USA and Russia kept their levels of savings at roughly the same level showing that this indicator is not very influenced by the crises in their countries.

Table 5 – Gross Savings

Country Name	2005	2006	2007	2008	2009	2010	2011	2012
Argentina	21.52	23.69	24.28	22.46	17.81	19.40	19.62	17.23
China	47.96	51.52	51.84	53.35	53.12	52.23	50.12	51.01



Cyprus	13.75	13.37	8.71	11.14	6.14	7.78	ND	ND
United Kingdom	15.21	14.65	15.91	16.02	12.64	12.20	13.41	10.86
Greece	12.28	12.55	10.41	7.48	5.19	5.49	5.37	10.43
Korea, Rep.	33.54	32.70	33.09	32.93	32.84	35.03	34.82	34.60
Romania	14.69	16.11	17.65	19.92	21.19	21.19	22.46	22.18
Russian Federation	31.07	30.66	30.13	31.54	22.67	27.19	30.05	28.12
United States	17.97	19.23	17.39	15.59	14.47	15.17	15.94	16.54

Source: World Bank, Data, Indicators, Gross savings (% of GDP)

## 8. Unemployment rate

The unemployment rate refers to the share of the labor force that is without work out of the total labour force. This can show how the crisis affected the jobs market and how the daily lives of the people from the countries has been impacted.

Argentina (very atypical with the rest of the indicators) and Russia, managed to increase their employment level, in spite of the crisis which had a positive impact on the population. China, the Republic of Korea and Romania managed to keep relatively constant

the level, showing that although there were sectors more badly hit by the crisis, there were others that improved and compensated. This may relate to relocation effects of crisis with many companies searching for a cheaper labor-force or products. Cyprus, Greece (reaching 24% in 2013), UK and US saw an increase in the unemployment rate (Center for European Studies, 2013), with the first two being badly hit by the EU debt crisis, while the last two feeling the repercussions of the subprime meltdown from the US (Table 6).

Table 6 – Unemployment rate

Country Name	2005	2006	2007	2008	2009	2010	2011	2012
Argentina	10.60	10.10	8.50	7.80	8.60	7.70	7.20	7.20
China	4.10	4.00	3.80	4.40	4.40	4.20	4.30	4.50
Cyprus	5.30	4.50	3.90	3.60	5.40	6.30	7.90	11.80
United Kingdom	4.70	5.50	5.40	5.40	7.80	7.80	7.90	7.90
Greece	9.80	8.90	8.30	7.70	9.50	12.50	17.70	24.20
Korea, Rep.	3.70	3.40	3.20	3.20	3.60	3.70	3.40	3.20
Romania	7.20	7.30	6.40	5.80	6.90	7.30	7.40	7.00
Russian Federation	7.10	7.10	6.00	6.20	8.30	7.30	6.50	5.50
United States	5.20	4.70	4.70	5.90	9.30	9.70	9.00	8.10

Source: World Bank, Data, Indicators, Unemployment, total (% of total labor force) (modeled ILO estimate)

## 9. Conclusions

The US subprime mortgage crisis has laid its footprint on the world economy, with the effects reverberating up to the present moment. One of the main events that followed was the sovereign debt crisis from the European Union and together with other regions of the world add up to the large number of people and countries affected by

the crisis.

By analyzing the six main indices that relate to GDP growth, inflation, equity indices, reserves, savings and unemployment for 9 representative countries of the world, one can highlight that 2008 was the year that took out the highest drops in those economies being followed by 2011 and somehow 2012, mostly for the countries in Europe. The United States and United

Kingdom, suffered one of the highest drops in their history, however they eventually managed to recover and seem to be on the right track at the current moment. Argentina, although it seems that it endured well the crisis, is on a downward spiral within the last 3 years, that can lead to a great tumult if precautionary measures are not taken. The data also shows the economic drops from Greece and Cyprus in the last period, both still fighting to recover. The Republic of Korea seems to be the most stable country of the analyzed set and shows that the tough lessons from the 1997-1998 crisis were mostly learned (Stoian and Becherescu, 2013a). China, although a very solid economy throughout the period, seems to be losing pace and should focus on different ways to reverse the current trend. Russia is also a country that is losing the pace and needs is very sensitive to external shocks. Romania seems to have handled well the crisis and is on a positive trend, however the data shows the dependence and high impact of external shocks (especially from the main trading partners), that can either create very positive or very negative influences, effects being exacerbated on both ways.

- 200-211, ISSN-L: 2286-0452;  
[7] Stoian A. (2014), "Measuring the evolution of the financial globalization", *Network Intelligence Studies*, 2014, issue 4, pages 273-285, ISSN-L: 2344-1712

## 10. References

- [1] Blanchard O., Dell'Ariccia G, Mauro P. (2013), "Rethinking Macro Policy II: Getting Granular", IMF Staff Discussion Note, April 2013, SDN/13/03;
- [2] Center for European Studies (2013), "From reform to Growth", Eburon Academic Publishers, 2013, ISBN 978 90 5972 765 6;
- [3] Jeanne O. (2007), "International Reserves in Emerging Market Countries: Too Much of a Good Thing?", *Brookings Papers on Economic Activity*, 2007, vol. 38, issue 1, pages 1-80;
- [4] Morrison W., Labonte M. (2013), "China's Currency Policy: An Analysis of the Economic Issues", Congressional Research Service, July 22, 2013, CRS Report for Congress, RS21625;
- [5] Stoian A., Becherescu R. (2013a), "From Tulips to Black Swans – Have the Financial Rules Changed?", *Ovidius University Annals, Economic Sciences Series*, Volume XIII, Issue 1, 2013, pages 97-100, ISSN 1582-9383;
- [6] Stoian A., Becherescu R. (2013b), "Financial Crises of the last two decades and the issues to be addressed", *CrossCultural Management Journal*, vol. 27, issue: 1 (June) / 2013, pages

## BRIC in the Global Economy

Toma Sorin-George

*Faculty of Administration and Business, University of Bucharest*

[tomagsorin62@yahoo.com](mailto:tomagsorin62@yahoo.com)

Grădinaru Cătălin

*Faculty of Administration and Business, University of Bucharest*

[gradinarubusiness@gmail.com](mailto:gradinarubusiness@gmail.com)

Stanciu Costel

*University Nicolae Titulescu Bucharest*

[costelstanciu@yahoo.com](mailto:costelstanciu@yahoo.com)

### Abstract

*The actual state of globalization expresses the fact that there is a tough competition between the neoliberal capitalism, tipified by the United States of America, and the state capitalism, illustrated by China. Brazil, Russia, India and China form the so-called BRIC group of countries. The BRIC represent one of the key engines of expansion for today's global economy.*

*The aims of our paper are to briefly present and analyse the increasing role played by BRIC in today's global economy.*

**Keywords:** BRIC, globalization, capitalism, global economy

**JEL Classification:** F02, F6

### 1. Introduction

The globalizing tendencies of capitalism emerged at the end of the nineteenth century. Globalization is essentially „the geographic extension of competitive markets, a process dependent on the removal of state barriers to this, and the overcoming of distance through technology” [1, p. 3]. The process of globalization has started after the fall of the communist regimes from Eastern and Central Europe. The „accelerated globalization” scenario is based on an increase by 50 % of the pace of globalization until the year 2020 whereas the „diverging globalization” scenario predicts stagnation in globalization [2]. A so-called „guarded globalization” appeared in the last years as governments,

especially of developing nations, are increasingly protecting national interests [3].

The recent financial and economic crisis has shown that “in response to the collapse of the export-oriented global economy, many governments have fallen back on their markets, revving them up via stimulus programs that put spending money in the hands of consumers” [4, p. 160]. Coupled with a retreat from the globalized production chains, this led to deglobalization.

The actual state of globalization expresses the fact that there is a tough competition between the neoliberal capitalism, tipified by the United States of America (USA), and the state capitalism, illustrated by China. State capitalism has become popular also in other emerging markets such as Brazil, but its extent varies from one country to another.

In fact, Brazil, Russia, India and China form the so-called „BRIC”, a term coined by Jim O’Neill, economist at Goldman Sachs, in 2001 [5]. He created the acronym in order to better describe the collective grouping of the four above mentioned emerging-market economies.

The aims of our paper are to briefly present and analyse the increasing role played by BRIC in today's global economy.

The structure of our paper is as follows. The next chapter deals with BRIC and the global economy. The paper ends with conclusions.

### 2. BRIC and the global economy

Three decades ago, Kenichi Ohmae anticipated the emergence of a global economy dominated by the so-called “triad

power” namely the three major blocks of developed countries, located in North America, Western Europe and Southeast Asia [6]. But, things have dramatically changed since the mid 1980s.

The rapid spread of globalization favored the appearance of new market economies all over the world. Most developing countries reached significant rates of economic growth, especially after 1990 (Table 1 and 2). In the 1980s, “GDP growth in the developed and in the emerging worlds was essentially the same”, but “between 2000 and 2010, average growth in the emerging world rose to the point where it was three times higher, driven largely by the Asian economies” [7, p. 5]. China regained its historical place among the economic superpowers. Other countries, such as India, South Africa or Indonesia, also witnessed substantial economic growth rates.

Table 1. The average rate of economic growth (%) in the developing countries, in the period 1982-2001

	Ten-Year Averages	
	1982-1991	1992-2001
Developing Countries	4.3	5.6
Africa	2.3	2.6
Asia	6.9	7.5
Middle East and Europe	3.3	3.7
Western Hemisphere	1.8	3.4

Source: [8, p. 28]

Table 2. The average rate of economic growth (%) in the developing countries, in the period 1996-2005

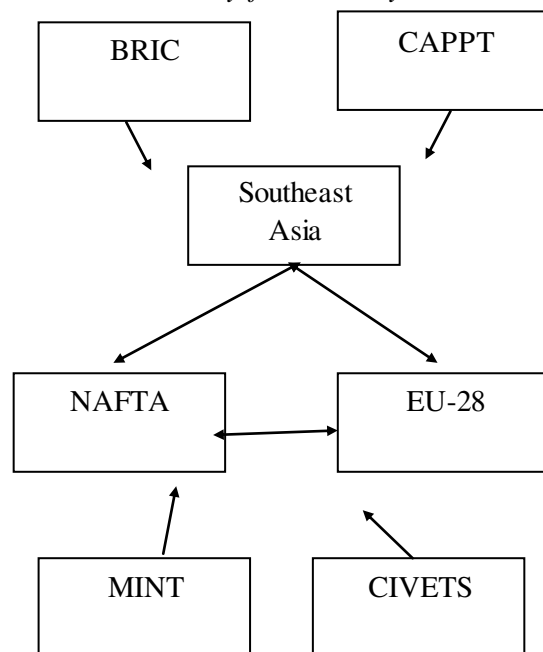
	Average 1996-2005
Commonwealth of Independent States	4.2
Emerging and Developing Asia	6.9
Emerging and Developing Europe	4.0
Latin America and the Caribbean	2.9
Middle East, North Africa, Afghanistan and Pakistan	4.9
Sub-Saharan Africa	5.4

Source: [9, p. 206-208]

The first decade of the twenty-first century has shown that “the world is undergoing a profound rebalancing in terms of the relative weight key countries and regions carry in the global economy” [10, p. 1]. Mainly, “the sustained growth of rising powers, including the grouping known as the BRICS (Brazil, Russia, India, China and South Africa) is reshaping global governance arrangements” [11, p. 1]. Moreover, the BRICS, “a bloc of countries which span four continents and have recorded impressive economic growth, has emerged as a powerful group and caused developing countries to wonder whether development models other than the Washington Consensus espoused by the IMF and the World Bank should be adopted” [12, p. 2].

Therefore, other centers of economic power have emerged all over the world in the age of globalization, such as BRIC, MINT (Mexico, Indonesia, Nigeria and Turkey), CAPPT (Chile, Argentina, Peru, Philippines, Thailand) or CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa) (Figure 1). For example, China and India together accounted for over 20% of world gross domestic product (GDP) in 2012 [13] and MINT could account for around 10% of world GDP by 2050 [14].

Figure 1. Economic centers of power at the global level in the beginning of the twenty-first century



Source: authors' contribution

In this new world order, the BRIC group represents one of the key engines of expansion for today's global economy [15] and China is "the most prominent case of a non-capitalist area to be integrated into the global capitalist economy over the past twenty-five years" [4, p. 7]. In the period 2000-2013, the GDP of the world's ten largest economies increased significantly, especially in the USA and China (Table 3 and 4). Also, the top has suffered some major changes as BRIC became much more powerful.

*Table 3. The world's ten largest economies in 2000 (US\$bn) based on Purchasing Power Parity (PPP)*

No.	Country	GDP (PPP weights)
1.	USA	9,963
2.	China	5,230
3.	Japan	3,319
4.	India	2,104
5.	Germany	2,082
6.	France	1,458
7.	United Kingdom (UK)	1,425
8.	Italy	1,404
9.	Brazil	1,214
10.	Russia	1,120

Source: [5]

*Table 4. The world's ten largest economies in 2013 (estimation) based on PPP (US\$bn)*

No.	Country	GDP (PPP weights)
1.	USA	16,720
2.	China	13,390
3.	India	4,990
4.	Japan	4,729
5.	Germany	3,227
6.	Russia	2,553
7.	Brazil	2,416
8.	UK	2,387
9.	France	2,276
10.	Mexic	1,845

Source: [16]

At an average rate of just over 3% per annum from 2011 to 2050, the world economy will double its size by 2032, and double again by 2050 [17]. In this scenario, China will overtake the USA as the largest

economy of the world by 2017 in PPP terms (Table 5). Also, India will become the third economic superpower by 2050, a long way ahead of Brazil (Table 6).

*Table 5. The world's ten largest economies in 2030 (US\$bn) based on Purchasing Power Parity (PPP)*

No.	Country	GDP (PPP weights)
1.	China	30,634
2.	USA	23,376
3.	India	13,716
4.	Japan	5,842
5.	Russia	5,308
6.	Brazil	4,685
7.	Germany	4,118
8.	Mexico	3,662
9.	UK	3,499
10.	France	3,427

Source: [17, p. 2]

*Table 6. The world's ten largest economies in 2050 (US\$bn) based on Purchasing Power Parity (PPP)*

No.	Country	GDP (PPP weights)
1.	China	53,856
2.	USA	37,998
3.	India	34,704
4.	Brazil	8,825
5.	Japan	8,065
6.	Russia	8,013
7.	Mexico	7,409
8.	Indonesia	6,346
9.	Germany	5,822
10.	France	5,714

Source: [17, p. 2]

Without any doubt, the BRIC have been among "the key beneficiaries of corporate-driven globalization, owing their rise to the marriage between global capital and cheap labor that has followed the fuller integration of formerly non-capitalist or dependent capitalist countries into the global capitalist system over the last 30 years" [18, p.1]. In the future, the BRIC will represent "a fifth of the global economy and in two decades will overtake the G7" [19, p. 7].

### 3. Conclusions

The BRIC have consolidated and expanded

their role in the last decade all over the world. Moreover, this group of countries could become a key player in the future global economic architecture.

Our paper has shown the progressive relevance of BRIC in the global economy. Also, it contributes to a better understanding of the increasingly important position of BRIC in the highly competitive economic environment.

#### 4. References

- [1] Panitch, L., Gindin, S., *The Making of Global Capitalism: The Political Economy of American Empire*, Verso, London, 2013.
- [2] Bohmer, M., Weisser, J., Hoch, M., Schneidenbach, T., *Globalization report2014: Who benefits most from globalization?*, GED, Bertelsmann Stiftung, Gutersloh, 2014, <http://www.bfna.org/sites/default/files/publications/Globalization%20Report%202014.pdf>
- [3] Bremmer, I., „The New Rules of Globalization”, *Harvard Business Review*, January 2014, <https://hbr.org/2014/01/the-new-rules-of-globalization/ar/1#article-top>.
- [4] Bello, W., *Capitalism's Last Stand? Deglobalization in the Age of Austerity*, Zed Books, London, 2013.
- [5] O'Neill, J., “Building Better Global Economic BRICs”, Goldman Sachs, *Global Economics Papers*, No: 66, 2001, <http://www.goldmansachs.com/korea/ideas/brics/building-better-pdf>.
- [6] Ohmae, K., *Triad Power: The Coming Shape of Global Competition*, The Free Press, New York, 1985.
- [7] Watt, E. C., Ellard, F., Hussain, I., Shen, J., Urwin, R., Vecht, S., “Are Emerging Markets the Next Developed Markets?”, Black Rock Investment Institute, August 2011, <http://www.blackrock.com/investing/literature/whitepaper/are-emerging-markets-the-next-developed-markets-us.pdf>
- [8] International Monetary Fund, *World Economic Outlook 2000*, October 2000, <https://www.imf.org/external/pubs/ft/weo/2000/02/pdf/append.pdf>
- [9] International Monetary Fund, *World Economic Outlook 2014*, October 2014, <http://www.imf.org/external/pubs/ft/weo/2014/02/pdf/text.pdf>
- [10] \*\*\*, *Globalization and World Order*, London Conference on Globalization and World Order, The Royal Institute of International Affairs, Chatham House, London, 2014, <http://www.chathamhouse.org/sites/files/chat>
- [11] Xiaoyun, L., Carey, R., “The BRICS and the International Development System: Challenge and Convergence?”, *IDS Policy Briefing*, Issue 55, March 2014, <http://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/3606/PB55%20The%20BRICS%20and%20the%20International%20Development%20System%20Challenge%20and%20Convergence.pdf?sequence=1>
- [12] Io Lo, V., Hiscock, M. (editors), *The Rise of the BRICS in the Global Political Economy*, Edward Elgar Publishing, Cheltenham, 2014.
- [13] \*\*\*, “The global economy: Welcome to the post-BRIC world”, *The Economist*, 06.05.2013, <http://www.economist.com/node/21577272>
- [14] O'Neill, J., *The BRIC Road to Growth*, London Publishing Partnership, London, 2013.
- [15] Spence, M., *The Next Convergence: The Future of Economic Growth in a Multispeed World*, University of Western Australia, Crawley, 2011.
- [16] *CIA Factbook 2013*, CIA, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html>
- [17] PwC Economics, *World in 2050. The BRICs and beyond: prospects, challenges and opportunities*, January 2013, [http://www.pwc.com/en\\_GX/gx/world-2050/assets/pwc-world-in-2050-report-january-2013.pdf](http://www.pwc.com/en_GX/gx/world-2050/assets/pwc-world-in-2050-report-january-2013.pdf)
- [18] Bello, W., The BRICS: Challenges to the Global Status Quo, *Foreign Policy in Focus & TheNation.com*, 29.08.2014, <http://fpif.org/brics-challengers-global-status-quo/>
- [19] De Almeida, P. R., *The Brics role in the global economy*, 2009, <http://www.pralmeida.org/05DocsPRA/1920BricsRoleEnglish.pdf>

# Foreign Direct Investment and Its Worldwide Distribution in Recent Years

Voiculeț Alina

"Constantin Brâncoveanu" University of Pitești

[alinav06@yahoo.com](mailto:alinav06@yahoo.com)

## Abstract

*Foreign direct investment flows are a key component of the issues manifested in the world economy, as they are financial resources targeted to a specific investment area, allowing those who invest to develop operations they can control and make decisions for. No doubt the main reason that urges a company to globalize its activities remains profit maximization.*

*In recent years, the economic openness of many developing countries has included them as a strong potential investment market among the investment locations considered by the international business community, by transnational corporations.*

*However, the global economic recession and the increased uncertainty of investment have led to a steady fall in global foreign direct investment in recent years.*

**Key words:** globalization, transnational company, foreign direct investment, host country, economic recession.

**JEL Classification:** F23

## 1. Introduction

A current feature of global economy, undoubtedly one of the key players in the international business environment, transnational companies have proven the main capital carrier abroad in recent decades, related to creating and amending various types of capital flows.

The main expansion method of transnational corporations in various fields of activity has been and still is foreign investment capital.

It is estimated that when an investment involves transferring to an investing company the possibility of control and decision-making upon the activity of a

foreign company where an investment goes to, it means it is about a foreign direct investment.

Foreign direct investment (FDI) is defined according to the UNCTAD as investment involving a long-term bond, reflecting the long-lasting interest and control of an economy resident unit over a business unit being resident in another economy. Foreign direct investment implies that an investing company exercises significant influence over the management of a foreign enterprise.

## 2. Development of Foreign Direct Investment Flows Worldwide

In recent years, foreign direct investment has been some of the most important features of world economy and of globalization.

Foreign direct investment flows are a key component of the phenomena manifesting in the global economy, as they are financial resources oriented towards a certain investment region, allowing those who invest to develop operations upon which they have control and power of decision.

The development of foreign direct investment flows is triggered by the following "specific objectives"[1]:

- ✓ to FDI providing countries:
  - supply of raw materials and energy resources from host countries;
  - use of production factors available in receiving countries;
  - possibility of selling products to the markets of host countries.
- ✓ to FDI receiving countries:
  - obtaining high technology;
  - creating new jobs;
  - developing new branches;
  - performing management;
  - reengineering with effects upon production modernization and technical progress generation.

Global foreign direct investment flows remain one of the main manifestation forms of globalization, which is so easy to prove if one reflects on the fact that over 50% of everything that is currently being produced around the world, be it products or services, are accomplished by subsidiaries of transnational corporations, i.e. by companies resulting from foreign direct investment.

By means of foreign direct investment, globalization has become an everyday part of the life of each of us, either by the products or services purchased, or by even a work place, communication or leisure type [2].

Foreign direct investment achieved worldwide in 2013 increased by 11% versus the previous year, its total being \$ 1.451 billion (Table 1), as shown in the 2014 World Investment Report submitted by the United Nations Conference on Trade and Development (UNCTAD).

The foreign investment made in 2013 by economic entities in the field of development means 52% of total foreign investment flows, amounting to \$ 778 billion. A record amount was achieved in the majority of countries in Latin America, the Caribbean area and Africa.

*Table 1- Regional Distribution of FDI Inflows (2008 - 2013)  
- billion dollars -*

Region	2008	2009	2010	2011	2012	2013
Developed countries	1.032	618	703	880	516	565
Developing countries, a total of which:	668	532	648	724	729	778
Africa	59	56	47	48	55	57
Latin America and the Caribbean	211	150	189	243	255	292
Asia	396	323	409	430	415	426
South-East Europe and the CIS	117	70	70	94	84	107
<b>WORLD TOTAL</b>	<b>1.818</b>	<b>1.221</b>	<b>1.422</b>	<b>1.700</b>	<b>1.330</b>	<b>1.451</b>

*Source: Drawn up by the author based on data from the United Nations – UNCTAD – “World Investment Report 2014”, pp. 205-207*

Of the total foreign investment flows last year, 39% were directed to developed countries, most notably the U.S.A., Canada, Australia, Spain and the U.K.

Pursuant to the flow of foreign investment, China ranks second with a total of \$ 123 billion, followed in the category of developing countries by the Russian Federation and Brazil. Thus, the group of emerging countries, the BRIC's, manages to detach themselves versus highly developed countries economically speaking.

*Table 2 - Main FDI Destination Countries (2008 - 2013)  
- billion dollars -*

Economy	2008	2009	2010	2011	2012	2013
USA	306	143	198	223	160	187
China	108	95	114	123	121	123
Russian Federation	74	36	43	55	50	79
Canada	61	22	28	39	43	62
Brazil	45	25	48	66	65	64
Australia	47	27	35	65	55	49
Spain	76	10	39	28	25	39
Great Britain	89	76	49	51	45	37
Germany	8	23	65	59	13	26
<b>WORLD TOTAL</b>	<b>1.818</b>	<b>1.221</b>	<b>1.422</b>	<b>1.700</b>	<b>1.330</b>	<b>1.451</b>

*Source: Drawn up by the author based on data from the United Nations – UNCTAD – “World Investment Report 2014”, pp. 205-207*

After the sudden fall in 2012, FDI flows from developed countries increased by 9% in 2013. Both FDI inflows and outflows were only half the peak level reached in 2007. Developed countries achieved 39% of all FDI inflows and 61% of total FDI outflows [3].

The capital flow to North America was \$ 250 billion, an increase of 23% compared to 2012, which made the United States and Canada (Table 2) the recipients of the largest investment flows to developed countries in 2013. The increase was mainly due to large FDI inflows from Japan to the United States and a doubling of foreign direct investment of the United States to Canada. FDI outflows in North America reported a 10% decline compared to 2012, reaching approximately \$ 381 billion. Such decrease was due to higher cash accumulation abroad by US transnational corporations (e.g., an increase in reinvested earnings). The outflows from Japan rose for the third consecutive year, rising to nearly \$ 136 billion.

Capital inflows to Europe were \$ 251 billion (up 3% compared to 2012), the European Union countries attracting the bulk of these flows (\$ 246 billion). FDI outflows from Europe rose by 10% versus the previous



year, namely to \$ 328 billion, of which \$ 250 billion came from EU Member States. Additionally, Switzerland has become the largest direct investor in Europe.

Amid slow economic growth and slow regional growth, total FDI inflows to East and South-East Asia reached \$ 347 billion in 2013, by 4% more than in 2012. Capital inflows to East Asia increased by 2% up to \$ 221 billion, whereas in Southeast Asia they increased by 7% up to \$ 125 billion. FDI outflows from the region grew by 7%, reaching the \$ 293 billion level.

FDI inflows to Latin America and the Caribbean reached \$ 292 billion in 2013 and FDI outflows reached \$ 115 billion in 2013.

FDI flows to and from transition economies achieved a record level in 2013. The Russian Federation was the third largest FDI recipient in the world and the fourth largest investor in the world. In South-East Europe, the bulk of FDI inflows was driven by the privatization of state-owned enterprises in the services sector. In 2014, the FDI flow in transition economies is likely to be affected by the uncertainties related to the conflict in the region [4].

The development of foreign direct investment in 2013 was not uniform across regions and national economies. There were differences at the level of sectors, too. The investment in the primary sector was boosted by high product prices and industry consolidation. The investment in the services sector continued to grow, especially in the field of financial services. Services had the largest share of the total amount of mergers and acquisitions among countries in 2013, especially those related to greenfield projects.

### **3. Forecasts on the Development of Global Foreign Direct Investment Flows**

It is predicted that the global economy will have an economic growth of 3.6% in 2014 and 3.9% in 2015. In an optimistic scenario, UNCTAD experts estimate that FDI flows will increase in 2014 by 12.5%, thinking that they will reach \$ 1620 billion mainly due to the consolidation of economic activity worldwide. Much of the impetus will come from developed countries, with the FDI flows from these countries expected to grow by 35%.

The recovery of global investment flows is performed slowly, as it is hampered by the slow pace of economic growth and political uncertainty in many countries all over the world [5].

Capital flows to developing countries will remain constant over the next three years, being estimated that their level will report slight increases in 2014 and 2015 [6].

According to the *2013-2015 World Investment Prospects Survey* published by the UNCTAD in 2013, the general trends at sectoral level show a reduction in FDI inflows to the primary sector due to the consolidation of numerous acquisitions made by transnational companies in recent years [7]. In contrast, the investment in the secondary and tertiary sectors is forecasted to rise by about 50%.

### **4. Conclusions**

The process of production transnationalization has been enhanced by the unprecedented growth of foreign direct investment flows.

The main promoters of foreign direct investment are developed countries and transnational corporations that originate there. Developed countries have been the engine of world economic growth and the propeller of globalization. They have had a very active role in the growth of foreign direct investment and in the composition of today's global economy architecture.

Such an increase in direct investment in developed economies is explained by several factors. First, it is the direct result of the domestic capital creation process, largely absorbed by domestic markets, but on the other hand, in search of new markets. Secondly, these countries have been marked by political and social stability, clear and simple laws that have provided safety and security to investors. Moreover, these countries have removed barriers to foreign direct investment, ensuring their liberalization. Of course, liberalization has not been done suddenly and some countries have been forced to draw the attention of other states upon the removal of restrictions still existing and the need to promote more liberal policies regarding foreign investment regime.

Undoubtedly, the main reason that urges a company to globalize its work remains profit maximization. More precisely, the decision of corporations to operate across borders relies on three factors, namely: the need to purchase cheaper natural and human resources, the possibility of penetrating certain markets where exports could provide higher margins of profitability, and the third factor is determined by increasing the efficiency of all operations in a global vocation company.

In recent years, the economic openness of many developing countries has included them as a potential strong investment market among investment locations considered by the international business community, by transnational corporations. Developing countries need not only foreign capital but also modern management expertise, know-how and access to markets [8]. The interest such countries have in investors is primarily related to the masses of consumers whom they can address, and to the low costs of production factors, primarily of labor force, being able to ensure price competitiveness of products or services.

## 5. References:

- [1] Anghel, I. E., *Foreign Direct Investment in Romania*, Expert Publishing House, Bucharest, 2002, pp.53
- [2] Bonciu, F., *Foreign Direct Investment – before and after the World Economic Crisis*, Publishing House, Bucharest, 2012
- [3] United Nations, UNCTAD, *World Investment Report 2014. Investing in the SDGs: an action plan*, pp. 78
- [4] United Nations, UNCTAD, *World Investment Report 2014. Investing in the SDGs: an action plan*, pp. 71
- [5] <http://www.iem.ro/ro/publicatii/piaa-internaional/economia-rilor-lumii/579-succint-prezentare-a-evoluiei-fluxurilor-de-isd-la-nivel-global-in-anii-receni> [accessed on 5 November 2014]
- [6] United Nations, UNCTAD, *World Investment Report 2014. Investing in the SDGs: an action plan*, pp. 23-25
- [7] United Nations, UNCTAD, *World Investment Prospects Survey 2013-2015*, pp. 8-9
- [8] Bonciu, F., *Foreign Direct Investment and the New World Economic Order*, Universitară Publishing House, Bucharest, 2009

# Human Resource – a Strategic Resource in the European Transnational Corporations

Voiculeț Alina

"Constantin Brâncoveanu" University of Pitești

[alinav06@yahoo.com](mailto:alinav06@yahoo.com)

Belu Nicoleta

"Constantin Brâncoveanu" University of Pitești

[nicolbelu@yahoo.com](mailto:nicolbelu@yahoo.com)

## Abstract

*The growing importance of transnational corporations within the global and European economies has become a highly controversial topic. If for some they are popular whereas others argue against them, the fact remains that these giant companies constitute a reality of the current economy and are the most important agents in the world. Their activities have a strong impact on the global distribution of wealth as well as on the economic activity of the European economies. They bring huge benefits to consumers and economies across Europe. In this context, the work of these international companies involves increasing complexity of the actions they carry out, and especially supposes development and diversification of the tools used, for human resource management, in order to manage cultural, economic and institutional differences that influence their activity in each country. All these developments trigger a rethinking of the strategic role of human resources in an European transnational company.*

**Keywords:** transnational company, globalization, human resource management, the euomanager.

**JEL Classification:** F23, F60

## 1. Introduction

Transnational corporations constitute a distinctive feature of the current global economy, and without doubt one very important pawn in the international business environment.

In this context, globalization creates a number of opportunities related to profit increase and cost reduction; on the other hand, globalization generates challenges and threats that companies have not been challenged with up till now.

## 2. Transnational corporations - main actor in the process of globalization

It is clear that at present, transnational corporations are the main actors of globalization in the economic environment.

Transnational corporations, and EU corporations included, are seen as entities whose activity is done through subsidiaries located in different countries and regions of the world. The "transnational" feature is not an attribute of the weak companies, but of the modern, dynamic, profitable ones, thus corporations that trigger economic progress.

It might have been good that once these corporations became the largest business in the world, with economic and financial power higher than some developed countries, the scope of their concerns would have included also the social and cultural responsibilities meant for such a progress, in which case, not only would the citizens of the host country benefit but also the very image of the transnational corporation itself.

These companies have generated new economic mechanisms, transformed the *status quo*, leading the production, distribution, exchange and consumption offshore.

The true dimension of the complexity of this economic universe we all live today can be better perceived once it is understood that transnational corporations constitute the real agents of globalization. Thus, as the local and

national markets open up towards the global economy, it is increasingly evident that these companies are entities coordinating international economic relations.

Globalization is primarily a consequence of businesses going global.

Globalization is a form of competitive advantage that can be obtained by a company when expanding its business to other parts of the globe.

The specialists consider that beyond the expansion of the operation across national borders, the success of organizations in the global context is provided by the effective use of human capital. This means that investment in human capital in order to ensure, maintain, develop and motivate human resources is the main premise that companies need to exploit in order to ensure competitive advantage.

The lack of coherence at the human resource level within organizations makes it impossible for many to adapt to changes in the international environment; human resource activities should thus be understood in relation to all the other activities performed by the organization. This is why, in a globalized era, people, and not companies themselves, form the adaptive mechanism that determines how corporations respond to environmental challenges. Human resource management, as a strategic management process is more difficult to achieve in comparison to promoting technical progress or lacking financial resources. Corporations having learnt how to lead its people, applying a good management of human resources, have gone one step further than others as to ensure and maintain the quality of the human resources which stands for a long-term strategic process.

In the context of business internationalization, human resources have had key role, being considered one *strategic partner* that can decisively influence strategy development and expansion of multinational companies, both at headquarters and branch level.

The rapid changes induced by globalization create huge new opportunities for those able to find appropriate responses to new conditions, but at the same time expose those who cannot adapt to new and serious risks. It is increasingly clear that today's corporate survival is contingent on their

ability to completely reorient both in terms of their own internal organization and of their relations with their environment.

### **3. Human resource management in transnational corporations**

In the last century, the European economic strength began to diminish. Dominated by the U.S., China and India in many industries, the economy of the *old continent* fought hard to keep up. Some corporations have managed to increase their advantage by recurring to the latest technologies. Royal Dutch Shell which is worth 228 billion dollars, Nestle - 199 billion, Gazprom - 190 billion, Vodafone - 145 billion, BP - 136 billion are but a few examples.

Within the crisis, companies in Europe work on increasing the complexity of the actions they carry out, especially the development and diversification of human resource management that they use in order to manage the cultural, economic and institutional variables, influencing their activity in each country. All these developments implied rethinking *the strategic role of human resources* in a company, being addressed as the main competitive advantage of the corporations.

Large international corporations, and therefore European, have understood the importance of human capital to maximize profit.

We are currently witnessing the development of a *multicultural workforce* as a result of interference of different national cultures in Europe [1].

The activity within the European competition framework involves even a redefinition of the role of the human resources department of a company, which is characterized by:

- the ability to react in a highly competitive market in the global business structures;
- close ties with the firm's strategic plans;
- involving both managers and employees in the formulation and implementation of the objectives;
- quality-orientation, customer-oriented service, as well as focusing on

productivity, teamwork and workforce flexibility.

Strümpel identifies the main ideas within the European attitudes out of which this new transnational European management stems out [2]:

1) *the value of religion as a source of moral obligation decreases*: the involvement of individuals, groups and organizations in discussing and reformulating moral rules is emphasized and, simultaneously, the democratization of the norms as well as of economic, social and political values. The modernization process is more advanced in northern European countries, with a more pronounced technological development;

2) *the re-democratization of political systems* by generalising direct forms of participation of individuals and groups, as well as in unconventional political actions;

3) *the value of multiple social relations increases*: there are several relevant social relationships outside work and family, such as partners, friends or volunteer organisations. The particular lifestyles, some quasi-familial have major consequences through their emotional support as they also constitute collective training. These changes are present in countries like Denmark, the Netherlands and Germany than in-Italy, Spain and Ireland.

4) *labour value is equivalent to the value of free time*: the educational explosion and changing nature of work, be it organizational or technological, confer intrinsic value (work provides a sense of fulfillment). Work and leisure are complementary and mutually motivating.

5) *general orientation towards success*: success becomes a distinctive value, rewarded through personal development. This orientation is highly individualistic. Confidence coexist, however, with the responsibility to others, and the value of increased self-development requires equal opportunities for all, thus attributing greater importance to social justice.

6) *quality of life is the new philosophy*: values such as peace, human rights, environmental protection or the fight against poverty constitute a new dimension of the economic and social morals.

Keeping the convergence of profound guiding values within the culture of the European organizations, however located on

the surface of the social and economic life, this organizational culture is characterized by a great diversity in terms of management, organizational forms and practices, human resource policies, entrepreneurial behaviour and industrial relation union systems.

Going from the Nordic countries (Sweden, Denmark, United Kingdom) to the south (Belgium, France, Italy, Spain), cultural needs related to work, organization and society are substantially different. Thus the low tolerance of uncertainty and preference for large distances that explain the development of hierarchical bureaucracy in France, Italy and Spain. The preference of these companies or of the Portuguese for community values would justify the degree of individualism which is much lower than in the UK, Netherlands, Germany and Denmark. In some countries, commitment to work and career is a source of social prestige (France), in others there is a tendency to distinguish between the roles of women and men (Spain). In the Nordic countries (Sweden, Denmark and the Netherlands), concern for others and concern for a clean environment constitute high priority.

Western European countries are currently classified in: Anglo-Saxon countries (U.S., UK, and somewhat Netherlands), Nordic (Sweden, Denmark and Norway), German (Germany and Austria) and Latin (France, Belgium, Italy and Spain). From this point of view, Latin European states are heavily prone to bureaucracies and perceive organizations as authority systems in which managers exert great influence on the internal orientation of power, holding a leading political role. In northern European countries, management is well placed: specialized managers are strategic leaders and organizers of the corporation. In southern countries, managers are assigned a public role in the society and constitute a real *business elite*.

#### 4. European management styles

European excellence depends not only on the professional knowledge accumulated in specialized institutions, but also on the ability to see the big picture, to communicate and to take initiatives. The new generation of Euro-managers is characterized by high international mobility and the predilection of the transnational corporation for global

interaction. Within this context, competence is more important than nationality and both central offices and subsidiaries are serviced by a mix of employees of different nationalities. Values paramount in achieving career success are leadership, dedication, a certain lifestyle and constant challenge whereas the requisite skills to succeed as managers are social skills and effectiveness of conceptualization.

To adapt the training to the specific needs of each manager, Pierre Casse's study "Multicultural Training Manager" becomes particularly relevant as he associates cultural (regional) meanings to traditional management types (table 1): *the factual manager* decides based on the available information, *the intuitive one* is imaginative and innovative and switches from one idea to another, *the analytical type* is analytical and systematically evaluates the various alternatives, whereas *the normative manager* is idealistic and mainly concerned with procedure deduction.

Table 1 - Management styles and their European cultural significance

Management style	European cultures
<i>The Factual:</i> focuses on the present situation, now-and-here, recording facts and appreciates performance, and makes informed decisions based on their own investigations and helps the subordinates by clarifying the facts, while waiting for each one to find his/her own way.	<ul style="list-style-type: none"> <li>• individual significance;</li> <li>• theory-oriented;</li> <li>• inconsistency.</li> </ul>
<i>The Intuitive:</i> focuses on the future and setting goals; assesses performance based on the potential of the individual, decision making is imaginative and risky, characterised by successive attempts and errors; motivates the subordinates by describing their ideal situation.	<ul style="list-style-type: none"> <li>• they love working with ideas;</li> <li>• creative and imaginative;</li> <li>• they approve of exploring new ways.</li> </ul>
<i>The Analytical:</i> relates to past, present as well as future, developing	<ul style="list-style-type: none"> <li>• deductive;</li> <li>• prefers rigid</li> </ul>

strategies and tactics, evaluating individual performance according to the situation; constitutes both manager and ambience; decisions are due to systematic assessments of options depending on the analysis of advantages and disadvantages, and employee training is a gradual process of the type: "Here is what should be done in order to get the desired result."	organizational structures; <ul style="list-style-type: none"> <li>• centralized decision-making process.</li> </ul>
<i>The Normative:</i> coordinates based on the evaluation of the past, insists on performance appraisal and mutual understanding. Decisions are closely linked to value systems that exist within the team, organization and society; considers training a way to determine the drawbacks and qualities of the employees and an opportunity to change them in the right direction.	<ul style="list-style-type: none"> <li>• overly critical;</li> <li>• appreciates the quality of life;</li> <li>• attracting conflicts.</li> </ul>

Source: Ciobanu, I., *Mutations and changes within the strategic management of human resources in transnational corporations*, 2007

Contemporary styles of leadership are mixtures in different proportions of the following extreme cases:

a) *the authoritarian style* is manipulating people for the job by continuous monitoring of the utilized processes and removing any bottlenecks; the unilateral communication presupposes passing instructions to the subordinates. Human interaction is reduced, and is dominated by fear and distrust, and the main motivator is the economic needs. This style is considered exploitative - autocratic.

b) *the paternal style* can be summarized as "toil hard and the company will take care of you" and is supported by cultures such as the Japanese culture. The focus is on the strict control of employees, accompanied by

the concern about their general welfare. Managers communicate little with the subordinates and relations are dominated by the ruling of chiefs over fearful and cautious subjects, decisions are made at well structured levels and after centralized consulting, they are transformed in regulations. Employees have the opportunity to speak and are generally motivated by economic and expression needs (the latter being status, belonging and fulfillment of duties). This type is classified as autocratic but benevolent.

c) *the participatory style* builds substantial confidence among the employees, but the management remains in control. General decisions are taken centrally, and the corresponding ones at the specific lower levels. The targets are set after the main issues have been discussed and after establishing the action planning along with the staff. Motivation comes not only from economic needs but is also of an expressive nature, such a desire for new experience, etc.

d) *the democratic style* is based on extensive communication between individuals and groups at all levels and human friendly relations based on mutual trust in all matters. Except for urgent cases, the objectives are established by participating groups and decisions are made at all levels, integrative by interconnecting and overlapping obligations of various groups. Employees are influenced and motivated by the group.

Studies and research on leadership styles adopted by European managers indicate diverging trends at the national level:

- in the UK, managers use a very stressed participative style. This is due, on the one hand, to traditional political democracy and on the other hand, to the weak central government involvement in corporate current transitions preferring instead to delegate a decision-making authority and give autonomy to middle and lower managers;

-in France and Germany a more authoritarian style is preferred as they focus on tasks and processes;

-in Scandinavian countries, participative styles are widespread and supported by a strong trade union representation on the Board of Directors as well as management interaction with employees on the design and change of job place.

To maintain optimum operation of these corporations, a strong yet flexible backbone is necessary. This role is played by the organizational structure of the company, prepared to adapt to new economic challenges; the transnational organizational structure of a company is determined by several aspects: the size of the organization, the types of products offered, the size of the covered geographical area, the level of coordination imposed by the business.

The organization of the company, the size of the company and the age of the management team members exert significant influence on the attitudes of leadership styles, but European managers are generally consistent advocates of participation and democracy in the labour process.

## 5. Conclusions

A global strategy means increasing interdependencies between geographically separate activities of the subsidiaries and parent companies [3]. At the same time, it involves optimizing the local advantages of each branch to meet market demand conditions in question, according to the motto "Companies need to think globally but act locally." Natural consequence of this is the trend of specializing the branches in a type of production that harness the comparative advantage of the host country [4]. For example, labour -intensive manufactures are located in geographic areas with cheap labour, research and development labs are built near majour universities in countries with a high scientific and technological potential. In this way, large companies have entered a new stage of globalization, a multinational redistribution of production factors.

Globalization has surpassed traditional paradigm of using and combining classical factors of production: natural resources, labour and capital only at the national level. Today, majour corporations of the world seek to obtain advantages in production, marketing and research by combining all inputs on a planetary scale, due to the intensification of economic globalization. Achieving this objective is supported by the position multinational corporations have come to own in the world economy.

## 6. References:

- [1] Ciobanu, I., *Mutations and changes within the strategic management of human resources in transnational corporations*, course notes, 2007
- [2] Ciobanu, I., *Mutations and changes within the strategic management of human resources in transnational corporations*, course notes, 2007
- [3] Pepenel M., Voicu I.I., 2010, "The Organisational Structure of Telecommunications Companies. Case study: The OTE Group", *European Journal of Interdisciplinary Studies –ASE*, ISSN 2067-3795, Volume I, Issue 3
- [4] "The influence of globalization on human resource management" [Online] <http://incomemagazine.ro>



**Section I**  
**International Affairs and European Integration**

\*\*\*

**Subsection 2**  
**European Integration**

## The Impact of E.U. Founds between 2007-2013

Ciobanu Carmen Liliana

*Doctoral School of Economics and Business Administration*

*Alexandru Ioan Cuza University, Iasi, Romania*

[carmenciobanu@ymail.com](mailto:carmenciobanu@ymail.com)

### Abstract

*Absorbing European funds represents for Romania a chance to recover from the social and economical gaps and becoming a competitive state in relation to the other UE members. The reduced degree of absorption is associated with the reduced capacity to administrate spending these funds. Potential conflicts of interest frauds and investigations reported in the media are the effects of lack of exercising effective control over the management of these funds from the responsible institutions.*

*The concept aims at the overall impact of the benefits generated by a particular project, on a larger number of individuals than the main beneficiaries of a particular department, on a regional or national level. The ex -post impact studies the program impacts, by referring to identified needs of programs and show if the positively generated effects are sustainable after program implementing.*

**Keywords:** founds, budget, programs, absorption, payments.

**J.E.L. Clasification:** C13, C15, F36

### 1. Introduction

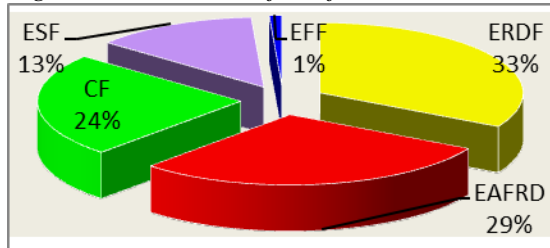
Economic differences are a fundamentally dramatic presence, chronic, in the whole world economy, by being the source of many conflictual situations in international economic and political relations. Regional policy of transferring resources from the rich to the poor regions represents both an instrument of financial solidarity and a powerful engine for economic integration. Latest EU enlargement is a challenge in achieving the objectives of regional policy

and structural instruments supporting efficiency competitiveness, sustainable development, economic and social conversion of areas in need. Romania joined the EU in 2007 provided the opportunity to reduce social and economical disparities existing between Romania and the other Member States with the European Cohesion Policy. EU enlargement and the accession of Romania led to various impediments a shortcoming is the inability to absorb EU funds aimed at reducing regional disparities. [1]

### 2. Absorption rate at operational programs level

Before the expansion, the first ten of the most dynamic regions had a level of prosperity, in terms of GDP per person, nearly three times higher than the last ten less developed regions. These inequalities have various causes and may result in permanent handicaps imposed by geographic remoteness or the recent social and economic changes. One of the priorities of the regional policy is raising living standards in the new member states to the European Union average as quickly as possible. Regional policy of transfer of resources from the rich to the poor is both an instrument of financial solidarity and a powerful engine for economic integration. Solidarity and cohesion are the values promoted by the EU regional policy. Solidarity aims that from policy the residents and the lagging regions will benefit, compared to the EU social and economic average. Cohesion implies benefits for all, so that differences in income and prosperity in poorer countries and regions are reduced. [2]

Figure 1 - Structure of EU funds 2007-2013



Source: Personal contribution

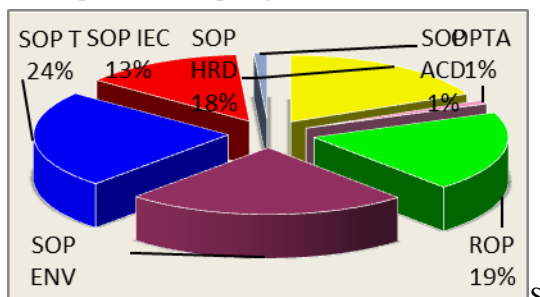
On the economic level, it was estimated that European funds could increase GDP by 3.8% if they were used as anticipated for 2015. Romania's net contribution to the EU budget was higher than the benefits: between 2007-2012 Romania has contributed 7.91 bn. euros to the EU budget and the Commission has made payments of 7.81 billion euros.

Losing opportunities for achieving the objectives of economic competitiveness, creation of jobs and the efficient use of human resources and inefficient use of partial funding for SMEs, presumes the maintenance of a reduced economic competitiveness, lack of jobs and continuing labor migration.

At the social level, in terms of absorption of funds, Romania was far behind all European countries, continuing to have a disadvantaged rural area due to underdevelopment of regional and local transport infrastructure and social infrastructure (lack of modern medical centers, extended and equipped, rehabilitation of schools or training centers). The urban environment lost the opportunity to benefit from solid plans and integrated development of infrastructure and services.

On the political level it was noted the decrease of public confidence in the ability of Romanian state institutions to effectively manage such programs.

Figure 2 - Allocation of European funds operational programs 2007-2013



Source: Personal contribution

Sectoral Operational Programme Increase

of Economic Competitiveness

The European Commission approved on July 12, 2007 for the period 2007-2013 for the SOP IEC funded by European Regional Development Fund (ERDF) a budget of about 3 billion euros in the financial support of the Community of 2.55 billion euros.

The main goal was to increase the average annual 5.5% GDP / employee, allowing Romania's average productivity to increase to 55% of the EU average productivity and increase the contribution of SMEs to GDP by 20% by 2015, increasing the total expenditures on research and development to 3% of GDP in 2015, creating 400 new jobs in research and development sector, a 30% reduction in emissions by using renewable energy sources. 16 162 projects were submitted of which 7018 were approved, of which 5071 were signed financing contracts.

On 30/04/2014 internal payments were made to beneficiaries amounting to 4.720 mil. Euros of which interim payments from the EC worth 930 mil. Euro, representing 36.41% of the allocation from 2007 to 2013 according to sources of the Ministry of European Funds.

Regional Operational Program (ROP). According to EU regulations, the regions of Romania are eligible under the "Convergence" objective because their GDP is lower than the GDP of the EU GDP average of 75%. In 2007-2013, Romania benefits from 19.667 million euros from the Structural and Cohesion Funds of the EU, of which 3.726 million euros will be allocated to the ROP. The funding sources of the Regional Operational Program are: ERDF (3726.02 million), national public funds (EUR 657.56 million) and the expected private funding (184.76 million euros). According to sources from the official website of the Ministry of European Funds, on 30/04/2014, 9120 projects were submitted, of which 4,208 were approved, of which 3799 were signed financing contracts. On 30/04/2014 internal payments were made to beneficiaries amounting to 8.668 mil. Euros, of which the EC interim payments amounting to 1,779 mil. Euro representing 44.87% of the allocation from 2007 to 2013 according to sources of the Ministry of European Funds. Number of projects submitted and approved on POR is much smaller compared to the number of projects

submitted and approved the SOP IEC.

Infrastructure Sectorial Operational Program Environment (SOP ENV). SOP ENV is one of the largest operational programs developed under the NSRF. EU contribution to the SOP ENV is approximately 23.5% of total structural funds allocated for Romania under the "Convergence" and the Cohesion Fund for 2007-2013, reaching approximately 4.512 billion Euro.

Together with SOP Transport, SOP ENV is receiving an allocation from ERDF and CF. ERDF will contribute to achieving environmental objectives with 1.236 billion euros (27.4% of the total Community contribution to the ESOP), and FC by about 3.275 billion euros (72.6%). Add a national contribution of about 1.098 billion euros. 664 projects were submitted of which 477 were approved, of which 454 were signed financing contracts.

Sectorial Operational Program Human Resources Development (SOP HRD). The financial plan of SOP HRD has been prepared in accordance with the financial plan from the NSRF. ESF allocation for SOP HRD is 3.476 million euros, representing 85% of the total program. National contribution is estimated at 613 million euros.

14 943 projects were submitted, of which 4043 were approved, of which 3284 were signed financing contracts. On 30/04/2014 internal payments were made to beneficiaries amounting to 7.660 million. Euro, of which the EC interim payments amounting to 999 mil. Euros representing 28.75% of the allocation from 2007 to 2013 according to sources of the Ministry of European Funds.

Transport Sectorial Operational Program (SOP T). For 2007-2013, the European Commission approved on July 12, 2007 for Sectorial Operational Program Transport (SOPT) funded by European Regional Development Fund (ERDF), a budget of 5.7 billion. EUR of which support Community worth 4.56 bn. Euro. 182 projects were submitted of which 111 were approved, of which 101 were signed financing contracts. On 30/04/2014 internal payments were made to beneficiaries amounting to 5.824 mil. Euros, of which the EC interim payments amounting to 1.383 mil. Euro representing 31.23% of the allocation from 2007 to 2013

according to sources of the Ministry of European Funds.

Operational Program Administrative Capacity Development (OP ACD). OP ACD has been developed based on an allocation of 208 002 622 euros ESF, national co-financing. 1,371 projects were submitted of which 455 were approved, of which 453 were signed financing contracts. On 30/04/2014 internal payments were made to beneficiaries amounting to 483 mil. Euros, of which interim payments from the EC worth 114 mil. Euros representing 54.63% of the allocation from 2007 to 2013 according to sources of the Ministry of European Funds.

Operational Program Technical Assistance (OPTA). In 2007-2013, OPTA, priority axes and intervention are fully funded through ERDF contribution of EUR 150 million, about 85%, the remaining 15% being supported by national funds in the amount of EUR 26.45 million. 173 projects were submitted of which 154 were approved, of which 146 were signed financing contracts. On 30/04/2014 internal payments were made to beneficiaries amounting to 208 mil. Euros, of which interim payments from the EC worth 58 mil. Euros representing 33.89% of the allocation from 2007 to 2013 according to sources of the Ministry of European Funds.

The low absorption of European funds makes the development of Romania, as an EU member state, to suffer losses in economic, social and political.

This low rate is justified by the low information at the level of the economic actors, poor management, corruption, bureaucracy, changes in the process of necessary documentation, data submission, "Corrigenda to the Guidelines for Applicants", lack of motivation of the personnel involved in performing structural funds lack of standardized documents and procedures for the various management authorities (AM), procurement procedures and the long period of evaluation of projects, leading to delays.

Although these issues have been identified and reported to the central government level, by adopting the National Strategy for Anti-Fraud Protection of EU Financial own interests in Romania, the results are far below expectations. [3]

On 30/04/2014 internal payments were

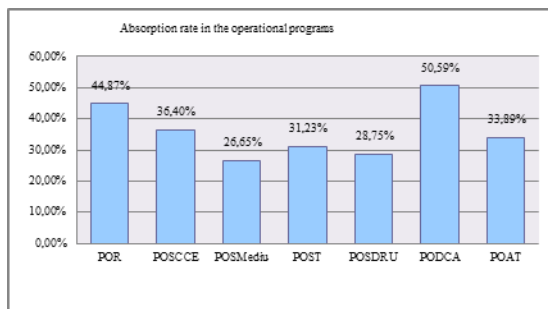
made to beneficiaries amounting to 6.879 mil. Euros of which interim payments from the EC value of 1250 mil. Euros representing 28.33% of the allocation from 2007 to 2013 according to sources of the Ministry of European Funds.

One of the reasons explaining the low absorption rate is the lack of a motivation of the officials involved, leading to congestion and delays in the project cycle. Another issue is non-unitary interpretation of institutions, changing the rules during the game, changes, transparent procedures, generating delays and negative impacts on projects. Internal Rate of absorption of European funds is assessed through two indicators (Newsletter of the Structural Instruments, p. 4), namely:

Domestic payments made by the Managing Authorities to beneficiaries (funds sent in advance to start projects and reimbursements for expenses incurred) against European allocations 2007-2013 (absorption nationally);

Sum payment or reimbursement requests directly from the EC in relation to European allocations 2007-2013 (external absorption).

Figure 3



Source: Personal contribution

The main challenge in the elaboration of pragmatic documents is that Romania must have a coherent, real, finance and enforceable strategy. In November 2010, the European Commission published its first ideas on the future of EU cohesion policy after over the program period ending in 2013. The European Commission encourages Member States of the European Union to strive to increase access to finance, competitiveness, development of links between sectors, encouraging entrepreneurship, sharing best practice between EU countries, reducing bureaucracy, guaranteeing loans. Current absorption rate at December 30, 2013 was 33.47% and the amounts required to be reimbursed Romania EC were 6.43 bn. Euro.

The EC reimbursed rate is 26.49%, of the total amounts reimbursed to Romania EC 5.09 bn. Euros according to data provided by the Ministry of European Funds:

- 69 environmental (water supply infrastructure, waste water treatment, waste management, district heating systems, flood protection and coastal erosion);
- 20 transport (road, rail and sea infrastructure);
- 1 research project (ELI-NP).

Figure 4: reimbursements rate at operational programmes level



Source: Personal contribution

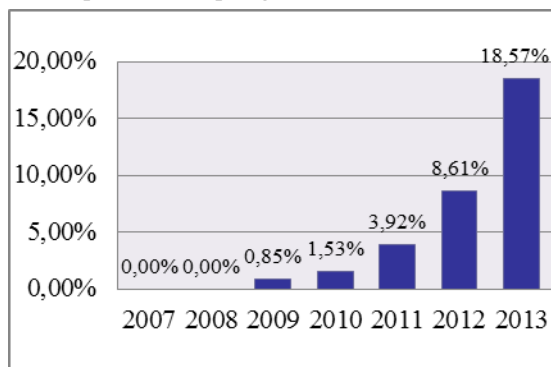
The main problems identified in the absorption of EU funds are:

1. Long periods of filing applications and receiving files responses;
2. Absence of uniformity and consistency in the evaluation process (grid ambiguous);
3. Long periods between the time of approval of applications funded and effective contracting;
4. Large delays in reimbursement of money spent, leading to the postponement of planned activities and blocking subsequent reimbursement requests;
5. Failure VAT recovery by certain categories of beneficiaries, leading to additional costs of contractors;
6. Communication Failure of Managing Authorities and Intermediate Bodies with applicants and beneficiaries of funds;
7. Changing the terms of the contracts by successive changes imposed by the Managing Authority;
8. Funding of projects discontinued by unresponsive from the state and the lack of fluidity of activities;
9. Initial verification by the Managing Authorities inefficient procurement procedures and poor supervision IB activity, which led to suspension three operational programs (ROP, POSCCE, SOP Transport) in October 2012.

10. The main reasons for the low absorption of funds at the level administrative level are:

- Excessive bureaucratic procedures that must be supported by the beneficiaries throughout the implementation process, which results in very large delays;
- Inefficient human resources despite the necessities of competent institutions, demotivating personnel and wage policies;
- The absence of clear rules on which to conduct a series of procedures;
- Low administrative capacity at regional and central level and low capacity problem IBs at regional level to assess and select projects based on the needs of the areas in which they operate.

Figure 5. Absorption Rate from 2007 to 2013 total operational programs



Source: Personal contribution

### 3. Analysis of the implementation of EU funds in the 2007-2013 period at national level

Absorption of structural and cohesion funds reached 33.47% at the end of 2013 the European Commission requested amount to be refunded Romania reaches EUR 6.43 billion. Rate reimbursements Romania by the EC is currently about 26.5%, 3.5 times higher than that recorded in May 2012. [4]

In the period 1 January 2007 to 2013 in December 2013, according to data provided by the Ministry of Public Finance, Romania contributed to the EU budget by 9.2 billion euros, but Brussels has entered our country about 20.4 billion euros form of structural and cohesion funds, direct payments, plus lower allocations for preparation for accession to the Schengen Area. Romania is a net beneficiary of EU funds with a positive balance of about 11 billion euros, the 7-year membership to the European Union.

Agriculture is the sector which brought Romania the most money Europeans from 2007 to present.

Romania has received about 5.1 billion euros in structural funds and cohesion funds in the current programming period. Only in 2013, Romania had been reimbursed approximately 2.9 billion euros, an amount greater than that received in all the years of 2007-2012 which was about 2.2 billion.

In the first ten months of 2013, Romania recorded the largest increase in the amounts reimbursed by the European Commission all Member States: the structural and cohesion funds received by our country was 131% higher than in 2007-2012.

### 4. Analysis of the implementation of EU funds in the period 2007-2013 in the south – east region

This region than the other regions, is an important task coordinating regional development projects, the absorption of EU funds but has no administrative powers. Counties ingredients are Braila, Buzau, Constanta, Galati, Tulcea and Vrancea. Regional Development Agency of South-East Development Region (ADRs) aims to regional development by creating and maintaining institutional partnerships intra-regional, inter-regional and international. Headquarters Regional Development Agency South East is in Braila Municipality.

The most developed county of Constanta county region is followed by the counties of Galati, Braila and Buzau. Less developed counties of Tulcea and Vrancea region remain. Economic and social changes that took place in Romania since the 90s have caused significant changes in the demographic, the number and structure of the population. [5]

In terms of GDP / capita in 2007, the South East Region is 81% of the national average, a slight decrease. From Constanta county region presents an index that surpasses the national average. With a value of EUR 13,286,000 Gross Domestic Product (GDP) achieved in 2007, ranked sixth nationally, Southeast Region contributes 10.6% to the national GDP, while based on population, this indicator is below the national average. The GDP / capita in 2007

was 4,700 Euro / capita is lower than the national average of 5,800 euro / inhabitant. Oscillating trend GDP value was the result of privatization, liquidation of state enterprises without economic sustainability, internal and external investment effort by European funds by establishing organizations, upgrades and retrofits. A strong development gap between urban and rural areas. The rural development failures are due to inadequacies of infrastructure facilities and urban migration of young people or abroad.

## 5. Conclusions

Absorption of EU funds for Romania is a chance to recover from the economic and social disparities to become a competitive state in comparison with the rest of EU countries. Low uptake is associated with the ability to regulate the spending of these funds. Potential conflicts of interest frauds and investigations reported in the media are the effects of lack of exercising effective control over the management of these funds from institutions.

By joining the European Union, Romania had a number of benefits like access to European funds, a balanced economical growth, development of regional infrastructure, access to the European Union's know-how on regional development policies, increased attractiveness to foreign investors and eliminating the risk of cross-country course and a significant reduction in the risk of being in general (currency risk).

The downside of joining the E.U. also has a number of effects, that affect Romania : Pressures over the budget or sacrificing national targets, given a possible mismatch between national and EU-funded projects, Budgetary costs due to co-financing requirement, domestic currency due to low absorption capacity, costs subsequent maintenance investment projects made with community support and effects on the labor market.

In this context, the performance of the spending of EU funds may have consequences for the next financial period 2014-2020 the EU and the related allocations. [6]

It would not be surprising that in the near future to note that Romania will become the

only net contributor to the EU budget.

## 6. Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”

## 7. References

- [1] Pavelescu, R, Dobrilă, M., 2012 ”Propuneri pentru absorbția eficientă a fondurilor comunitare” ACRAFE, București;
- [2] Miklos Bakk, Jozsef Benedek, 2010, *Politicele regionale în România*, Editura Polirom;
- [3] Victor Boștineanu - *Ultimii pași – Absorbția Fondurilor Structurale și de Coeziune 2007-2013*, 2013;
- [4] \*\*\* Ministerul Fondurilor Europene - [www.fonduri-ue.ro](http://www.fonduri-ue.ro);
- [5] \*\*\* Site-ul Asociației Consultanților din Romania pentru Accesarea Fondurilor Europene - [www.acrafe.ro](http://www.acrafe.ro);
- [6] \*\*\* Site-ul oficial al Uniunii Europene - EUROPA - <http://www.europa.eu>;

# Social Policies regarding the Integration of Persons with Addictive Behavior into the Labor Market from Romania

Damean Doru Claudiu  
*Ovidius University of Constanța, Faculty of Theology*  
Popovici Dumitru Dănuț  
*Ovidius University of Constanța, Faculty of Theology*  
[dameanclaudiu@yahoo.com](mailto:dameanclaudiu@yahoo.com)

## Abstract

*The present article analyzes the factors which create the premises of the transition into a new stage of social policies' development process from our country related to the integration of addictive behavior persons, drug users into the labor market.*

*The analyze of the factors that contribute to achieve these results, highlights the fact that Romania is into a continuous process of modernization and accommodation of social policies in accordance with the European requirements into the field.*

**Keywords:** drug users, integration, labor market, legislation, methodology.

**J.E.L. Classification:** Z00

## 1.Introduction

The legislative context and the structures which have developed and are still developing at the moment, have constituted an important step for the drug users, due to the fact that it has been initiated a special system of protection for these persons.[1]

This system has faced and still, it is facing with a number of issues such as: the lack of work opportunities for people with addictive behavior, the inequity of access to the fundamental services, to the social protection services or benefits, lack of equal chances, limited community services or services which have not been adapted in totality to the special needs of this group etc.

All these problems which characterize the access to a work place, to education, to the professional/vocational training, as well as

other fundamental social services for people with addictive behavior, have affected their welfare, have increased their inclusion into the sphere of marginalized people, and sometimes even their social exclusion.[2]

For people with addictive behavior - the facets included by this phenomenon are multiple and include: insufficient income, exclusion from educational community, exclusion from labor market, exclusion from a decent habitat, exclusion from the assurance of a good health state, exclusion from the social and family life, etc.

Therefore, it is very important to ensure to these people equal chances in order to participate to social life, specific to an inclusive society, by developing services of professional/vocational training, by creating the opportunities for getting a job, by strengthening the community's role, of civil society generally, through awareness of responsibilities towards the drug users at society level, of target group or family, for increasing the level of social integrity/participation of this category.[3]

In order to create the European social model which begins to outline with more clarity, in order to create an inclusive society, namely of a prosper society being economic, social and political active, with an increased level of collective and individual responsibility, social cohesion and an increased level of opportunities in order to achieve the strategic objective established at Lisbon, we have to give the adequate importance as well to the people with an addictive behavior.

Therefore, the connection with the discussed thematic area within the programs is eloquent, regarding the changes of life, work and welfare of drug users and of major



tendencies and implications resulted by these approaches, mainly by the social integration prism of target group of drugs addicted people.

## **2. Situation nationwide**

By establishing the Antidrug National Strategy, as well as by country reports, it has been established the bases of active social protection and social integration of drug users. Simultaneously, the last records of European Commission with respect to Romania's progresses, highlights the fact that there are preoccupations for improving the active social protection and efforts are being made for social integration of people with addictive behavior. [4]

The guidelines, the directive principles, the provisions and objectives taken into consideration within this strategy, which represents the fundament for the protection and the integrity of drug users, have been realized in conformity with the European requirements into the field. There have been realized important steps in order to guarantee a more active participation into the community life by the people with addictive behavior, and assisting them to manage their lives independently, taking into the consideration their own desires, preventing the worsening and reducing the consequences of drug consumption, avoiding or removing any negative forms which could change the life of these persons.[5]

Nevertheless, there have not been projected methodologies for evaluating the competences of drug users, for evaluating their training level and qualifications in order to establish the principal areas of access into the labor market in order to occupy a work place in accordance with the training level and skills of drug users.

As a result, we consider that the scientific community should bring as well its contribution for studying this issue, and projecting those methodologies for correlating between the request and the offer of labor force for drug users, because in the end, after analyzing the elements which facilitate, as well the elements which obstruct the social integration of addictive drug users, to be established the main directions of action for a better social integration of this segment of population.

All these actions are particularly important, taking into the consideration the type of society that our country has to build, namely, it has to be inclusive from the economic and social point of view, cohesive and with a raised level of opportunities for all society's members.

These studies are imperious necessary; their importance is recognized by all social partners: Government, governmental and non-governmental departments, trade unions, research institutes, civil society, international organizations which are dealing with this issue.

Thus, it begins to be perceived the importance for studying this direction of action, which shows a concern from all actors for supporting people with addictive behavior, particularly in terms of the social inclusion of this vulnerable category of people, by efficient economic and social policies.

Simultaneously, it has to take into the consideration the worldwide and European experience, as well as the requirements of the European Union's strategies in the field, for a more pronounced affirmation of the balance between economic, political and social dynamic of European construction.[6]

## **3. The way how the national policy is harmonizing into the field**

During the last years, simultaneously with the increased preoccupation for the social component, E.U. has launched a commune program of reducing poverty and promoting the social inclusion as main tool of commune social establishment. Thus, after the Summit from Lisbon, The European Council has structured a strategic objective for the next decade, which is focusing on the idea of realizing one of the most competitive and dynamic economy in the world, based on knowledge, capable of sustainable economic increase and with an increased social cohesion.[7]

Simultaneously, after the Summit from Nysa (2010), it has been required that all the countries have to establish national strategies of promoting social inclusion and consequently, National schemes by which to increase the level of social inclusion. Therefore, in Romania has been established strategic objectives that have to meet the

U.E.' priorities of establishing an active society, social cohesion, intended to offer opportunities for all citizens.

These strategic objectives are present in:

- Antidrug National Strategy;
- National Anti-Poverty and Social Inclusion Promotion Plan (NAPSIPP)
- Strategic objectives from Government Program for 2005-2008;
- National Action Plan for employment (NAPE);
- National Development Plan 2007-2013;
- some documents such as: JIM Joint Inclusion memorandum; JAP-Joint Assessment Paper;
- tangential in development objectives of the millennium;
- the strategies of government organs with attributions into the field such as: NAA – National Agency Anti-drug, health Ministry, Labor Ministry, Ministry of Family, Chances Equality, Ministry of Education and Research etc.

During the last years, there have been made efforts in order to give equal chances to people with addictive behavior, the U.E. members have organized actions in order to improve the life's quality for addictive drug users, for living an independent life as well as for participating to the social life.[8]

Thus, the proposed project is included into this national and international context, coming to meet the fulfilment of the objectives taken into consideration, simultaneously it could be constituted by an ordinary continuation of elaborated studies and researches until present, as well as by a modality of operative instrumentation which, by its capability of adjustment to the dynamic of social environment, could lead to the increase of social and economic policies' effectiveness with an impact on the social inclusions from the point of view of drug users.

#### **4. Results and benefits**

The main result obtained represents those two methodologies, namely the methodology of competence evaluation (skills and abilities) of drug users for employment appropriate to the qualification and training of people with addictive behavior, as well as the opportunities' choosing methodology regarding the work places which are suitable

to be occupied by people with addictive behavior.

Projecting these methodologies is particularly important, because it would ensure the mediation of this process in order to connect the labor request and offer, in a scientific way, based on well-established methodologies.

By analyzing the elements which obstruct, as well as those which facilitate the social integration of drug users, we have to appreciate the efficiency of some programs/policies realized in order to increase and promote social inclusions of dependent drug users, having repercussions as well on the poverty's reduction, particularly in its extreme forms: severe poverty, extreme poverty, marginalization and social exclusion of dependent people.

Another important result would be realized by providing a database which could be permanently updated, as for the situation of dependent drug users (provided and classified by age, sex, types of used drugs, level of dependence, types of institutionalization, county, regions, rights and facilities offered to drug users, protection and services provided to this category of population).

Since both social inclusion of people with addictive behavior, and poverty or the integration of this segment of population include more aspects, another important result would be the motorization of some indicators by more fields of activity (training, education, health, police, employment) – indicators which will contribute to the completion of social indicator system. By disseminating the main results, either by leaflets, or by presenting in a seminary, the main results and realizing some copies on CD, more drug users would be informed, it would promote the increase of social solidarity, developing public conscience for offering equal chances to people with addictive behavior and raising their level of social inclusion.

Obviously, the results of efforts made by the society for solving this problem will be completed in a positive way if it will be given an increased attention for preventing drug consumption by youth.[9]

The prevention is seen as "a continuous process of promotion of increase and individual's potential, of family and

community, in order to reduce the probability of raise and the appearance of problems related to the drug/alcohol consumption abuse".

In order to eradicate the scourge of drug addiction it is necessary to be performed efficient measures of prevention, which have to involve all the aspects of the emotional interpersonal and social spectrum, and there where appears the abuse in alcohol or drug consumption.

It has been found that most efficient strategies and methods are those combined: "there is not a single approach that could be suitable for a certain group".[10]

The most known classification of preventing strategies and methods are those realized by O.S.A.P. (Office for Substance Abuse Prevention – U.S.A.), Kumfer, Gerstein&Green. [11]

In Romania the preventive actions of drugs illicit consumption are well rooted in principles elaborated after it has been achieved an experience in this field.

Preventing strategies are particularly important and include the next levels:

a)Primary prevention, based on pre-contemplation (change strategies) and contemplation, having as reason drug uselessness;

b)Secondary prevention, which is designed for groups/people which present an increased risk for drug consumption, those who either have already experimented, or because of the social-economic and cultural environment's particularities, are more exposed to this phenomenon (for example drug users' children)

c)Third prevention based on training, action, maintenance, the reason being the treatment.[12]

The primary prevention aims to elaborate some actions of information of the target group regarding the drugs' harmful effects, as well as training of personal self-assertion, having as target group, particularly youth who have not been exposed to drug consumption.

The advantage of this strategy is that it is carried in schools and offers the access of a large number of students. It should be started in kindergartens and continued during the entire period of education in order to build a firm attitude and certitude about the harmful drug consequences.

The secondary prevention includes activities for minimalize the damages caused by drugs and the identity of persons who present an addictive behavior. Most often, the secondary prevention is known as a prime form of intervention which consists in an early identification of youth who consume alcohol and which present a raised level for becoming dependent drug users. These actions aim to reduce alcohol consumption and it is realized by motivational counseling or by group counseling.

The third prevention is focused on people which have already become dependent drug users. This form of intervention involves medical treatment, facility of re-integration and rehabilitation of dependent drug users. The main goal is to obtain the abstinence of the dependent drug user.[13]

From all preventing modalities which have been presented, the most efficient is the first one. The firmer is the intervention, the more eloquent are the results, the social costs are more reduced and the social benefits are greater.

## 5. Conclusions

The changes which have occurred in Romanian society on political and economic plan involve solving many problems; one of the most serious problems is the social and professional re-integration and reinsertion of people with addictive behavior, drug users.

For solving this social problem it is necessary that first of all to realize a change into the perception of people related to this social problem, because it has to be known and, after it has to be solved directly. Without these essential transformations into the way of thinking and the social mentality it is inconceivable the promotion of social policies such as elaborating an authentic strategy of prevention and combating illicit drugs consumption in Romania.

## 6. References:

[1] Ioan, B., *Consumul de droguri și toxicomania: aspecte bio-psiho-sociale, medico-legale și legislative*, Ed. Junimea, Iași, 2003, pp. 88-97.

[2] Abraham, P., *Asistența și reabilitarea persoanelor consumatoare de droguri*, Ed. Național, București, 2004, p. 105.

[3] Rădulescu, S. M., *Sociologia consumului și abuzului de droguri*, Ed. Lumina Lex, București, 2006, pp. 76-81.

[4] Abraham, P., *Standardele sistemului național de asistență medicală, psihologică și socială a consumatorilor de droguri*, Agenția Națională Antidrog, România, 2005, pp.78-81.

[5] Abraham, P., *Drogurile: reglementări internaționale și interne*, Ed. Dacia, Cluj-Napoca, 2004.

[6] Community Strategic Guidelines 2007-2013.

[7] Treaty of Lisbon was signed on 1 December 2009.

[8] Abraham, P., *Standardele sistemului național de asistență medicală, psihologică și socială a consumatorilor de droguri*, Agenția Națională Antidrog, România, 2005.

[9] Trifan, Gabriela, *Moartea albă*, Ed. Olimpiada, Brăila, 2003, p.119.

[10] Abraham P. (coord.), *Drogurile-aspecte juridice și psihosociale*, Ed. Mirton, Timișoara, p. 42.

[11] Elisabeth B. Robertson, Susan L. David, Suman A. Rao, *Preventing Drug Use among Children and Adolescents*, apud Sorin M. Rădulescu, *Sociologia consumului și abuzului de droguri*, Ed. Lumina Lex, București, 2006, p. 280.

[12] Măruțoiu, C-tin, Pop, A., *Droguri*, Ed. Napoca Star, Cluj-Napoca, 2002, pp.75-76.

[13] Abraham P., Fuică L., Nicolăescu V., *Prevenirea consumului de droguri. Ghid pentru profesori*, Ed. Detectiv, București, 2005, p. 21-23.

# Regional Development in Romania under the Impact of Internal Requirements and Exigencies of the European Union

Hurjui Marcela Cristina

*University "Stefan cel Mare" Suceava, Romania*  
*Faculty of Economics and Public Administration*  
[marcelah@seap.usv.ro](mailto:marcelah@seap.usv.ro)

Hurjui Ioan

*University "Stefan cel Mare" Suceava, Romania*  
*Faculty of Economics and Public Administration*  
[ioanh@seap.usv.ro](mailto:ioanh@seap.usv.ro)

## Abstract

*The study focuses our research on how Romania reacts as a member state of the European Union on the recent economic crisis that has gripped the EU regions. Given the Romanian economy, we try to identify the extent in which convergence indicators reflects Romanian economic reality and from the budgetary implications, to evaluate Romania's absorption rate of European funds and its contribution to the EU budget.*

**Keywords:** region, regional policy, regional development, cohesion, regional disparities, financial instruments, decentralisation.

**JEL Classification.** F36, F63

## 1. Introduction

On different levels - local, regional, national and European- regional policy deals with the coordination of different sectors, the collaboration between decision-making levels and the balance of financial resources. At present regional development on a national level is to follow a certain course of action which is characteristic to the continuous changes caused by the restructuring of production and the increase in competitiveness on a national and local level. The interest in the growth of the macroeconomic stability is typical both of small and big countries, and in Romania the accession to the European Union has caused an increase in this interest in the issues of regional economic development.

The recent world recession, especially that one which aggravated in certain

European economies and which is a threat for the core of the European Union, is a challenge to all the member states and to the whole European context, in particular.

## 2. Regional disparities

The region, as administrative – territorial distinct unit, in Romania is still present since the nineteenth century. We can say that the evolution of changes and territorial and administrative transformations of the regions in Romania continued until 1998 when, by the appearance of the law no.151/1998 (Law on regional development in Romania), the new regions are called regions of development or statistical regions and they are established by voluntary association of counties and they are corresponding to statistical units NUTS II.[1]

According to the schedule below, we can say that regional policy is to be found in the economic, social, cultural and eco-friendly, it aimed at various problems.

Compared to other EU-27 member states, Romania has a relatively low level of regional disparities. In absolute terms, interregional disparities are relatively low, compared to the EU-27 (an index of 82 compared to the old member states such as Fanta-127 or Germany or with an index of 123). However, in relative terms, the disparities have reached levels comparable to those in Belgium, Slovakia, and France.[2]

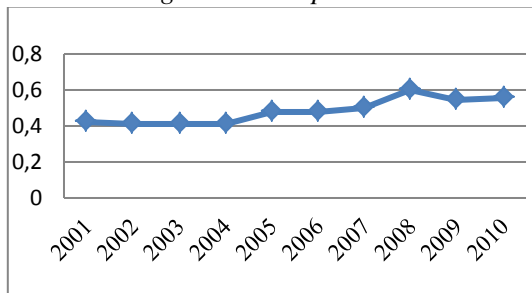
Given the availability of statistical data, we consider 2001-2010 as a analysis period. The ranking of Romanian regions by GDP / capita in PPS. (euro / capita), indicates the high value of the indicator in the Bucharest-Ifov, compared to other seven regions. The

results obtained on standard deviation, on variation coefficient of GDP / capita, suggest an unfavorable evolution of the sigma convergence degree at the level of the 8 NUTS 2 regions of Romania, in the period 2001-2010.

In conclusion, we can say that the Romanian regions manifest an divergence process between 2001-2010.

The situation reflected at the regional level can be clearly observed, using numerical and graphic presentation of the phenomenon. Thus, in the case of the coefficient of variation of GDP/capita, there is a noticeable increase in sound level, which is indicated by increasing the degree of spread or dispersion.

Fig. 1. The degree of dispersion of the Romanian regions in the period 2001-2010

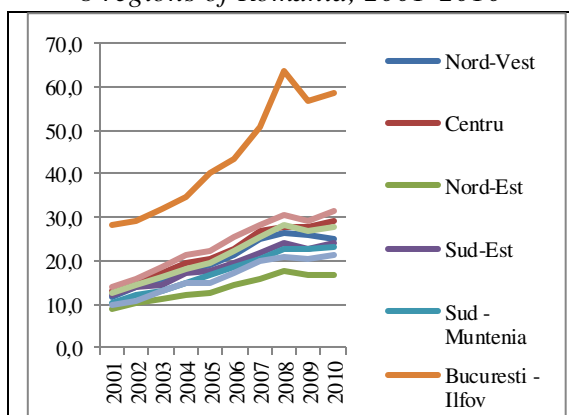


Source : author's calculations based on Eurostat data

In conclusion, we can say that the Romanian regions, demonstrated a process of divergence in the period 2001-2010.

The following chart gives a suggestive image on the 8 development regions in the GDP / inhabitant at nationwide.

Fig. 2. The evolution of unemployment in the 8 regions of Romania, 2001-2010



Source: Eurostat, [http://epp.eurostat.ec.europa.eu/portal/regional\\_statistics/data/database](http://epp.eurostat.ec.europa.eu/portal/regional_statistics/data/database)

We notice that there has been a status swivel the rate of unemployment and a substantial increase after economic crisis produced in 2008, appearance due to economic recovery policies taken in response to crisis.

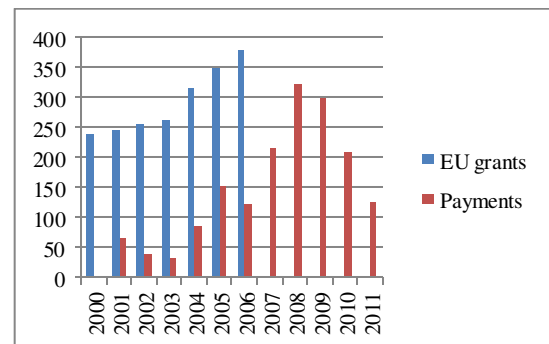
### 3. Budgetary implications

Institutional structure has been developed for a national and a regional level, according to Law. 151/1998 updated by Law 315/2004 on regional development in Romania.[3]

Romania continued to receive and also to co-finance, pre-accession funds after 2006. In 2007-2011, Romania has received (and provided co-financing) community funding through the three pre-accession instruments.

European Union through the Phare program allocated, 4.093 billion euro with an absorption rate of 85.26% from Romania. The following figure highlights the evolution ISPA allocations and payments for the period 2000-2011. We can see that the highest amount was allocated last year before accession to the EU, and in 2008 were paid 322.9 million euro, about 10 times more than in 2003.

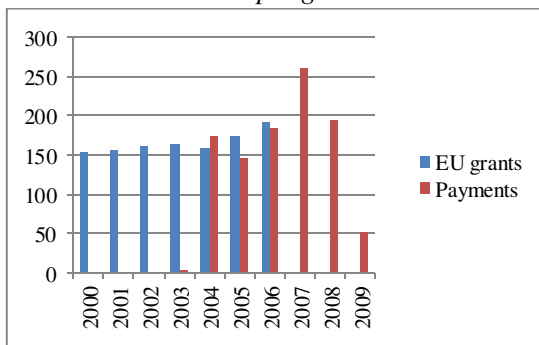
Fig. 3. Allocations and payments by ISPA 2000-2011



Source: author's calculations based on [http://www.mfinante.ro/ispa\\_preaderare.html?pagina=ispa](http://www.mfinante.ro/ispa_preaderare.html?pagina=ispa)

Next figure gives a more eloquent on the way have been allocated and have been paid annual amounts under the SAPARD program. The amounts have begun to be allocated in the year 2000, but the first payment has been made only in the year 2003. The largest value has been charged in the year 2007, 261 million euros, then the proceeds are getting smaller and smaller.

Fig. 4. The amounts allocated to and paid under the SAPARD program 2000-2009



Source: processed by the author based on [http://old.madr.ro/pages/dezvoltare\\_rurala/sapard/raport-final-implementare-raport-sapard-ro.pdf](http://old.madr.ro/pages/dezvoltare_rurala/sapard/raport-final-implementare-raport-sapard-ro.pdf)

Table no. 1. Structural and Cohesion Funds allotted to Romania, the objectives and the years, for the period 2007-2013(- million euro in prices 2004 -)

	2007	2008	2009	2010	2011	2012	2013	Total
<b>Convergence</b>	782	1.123	1.499	1.773	1.875	1.979	2.083	11.115
<b>Cohesion Fund</b>	419	590	778	915	966	1.018	1.070	5.755
<b>Territorial cooperation</b>	56	56	56	56	56	56	56	394
<b>TOTAL</b>	1.258	1.769	2.333	2.744	2.898	3.054	3.209	17.264

Source: adapted from National Strategic Framework [http://www.fonduriue.ro/res/filepicker\\_users/cd25a597fd62/Doc\\_prog/CSNR/1\\_CSNR\\_2007-2013\\_\(eng.\).pdf](http://www.fonduriue.ro/res/filepicker_users/cd25a597fd62/Doc_prog/CSNR/1_CSNR_2007-2013_(eng.).pdf)

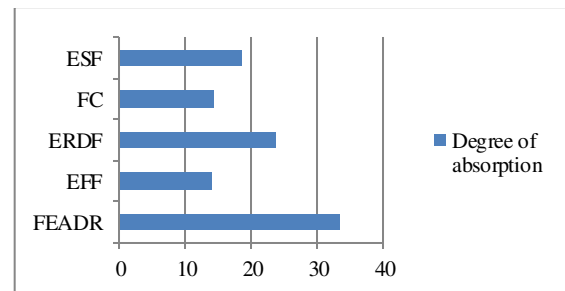
With an average of 26.30%, Romania faces serious challenges in terms of structural and cohesion funds absorption. The highest degree of absorption is recorded by the European Agricultural Fund, with a percentage of 33.36%, while the opposite is the European Fisheries Fund and the Cohesion Fund with an absorption below 14.5%.

The need to improve the absorption of EU funds becomes more urgent in the context of fundamental change in the fiscal policy approach. Furthermore, the reduced efficiency of automatic stabilizers is an additional constraint for Romania.

Degree of absorption of structural and cohesion funds is highlighted and the following figure.

Considering the above-mentioned decision of the European Council and the 2007-2009 financial package that comes with the Accession Treaty of Romania, in January of 2006, the European Commission informed the Romanian authorities, the indicative allocation of Structural and Cohesion Funds to be given to Romania, by objective and by year for 2007-2013 period, as shown in the following table.

Fig. 5. Degree of absorption of Structural and Cohesion Funds 2007-2013



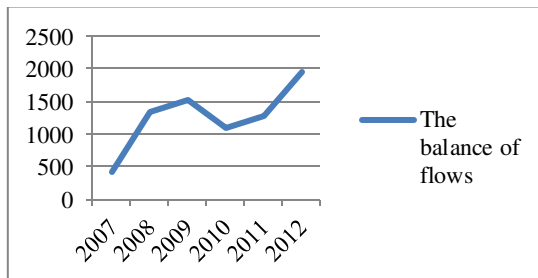
Source: processed by the author based on [http://www.consiliul-fiscal-absorbti-fondurilor-europene\\_4735](http://www.consiliul-fiscal-absorbti-fondurilor-europene_4735)

In terms of membership, starting with 2007, Romania shall ensure payment of its contribution to the EU budget financing in the own resources system. To determine national net position in relation to the community budget, each member state uses the tool called "net financial balance". Since the first year of accession, Romania was a net beneficiary in the financial relationship with the EU, registering a positive balance. The amounts paid by Romania to finance the EU

budget are about 1,150 millions for 2007, reaching in 2012, 1,426 millions. By the end of 2012, Romania has contributed to the Community budget to EUR 7.666 million. The overall result was always a positive balance at the end of 2012 amounted to a surplus of 7.653 million euros.

Fluctuation in financial balance in the period 2007-2012 is shown in the following figure.

*Fig. 6. The balance financial flows of Romania in relation with the EU 2007-2012*



Source: The convergence program of Romania  
[http://ec.europa.eu/europe2020/pdf/nd/cp2013\\_romania\\_ro.pdf](http://ec.europa.eu/europe2020/pdf/nd/cp2013_romania_ro.pdf)

The first model of territorial administrative reorganization based on the territorial functionality criterion and it is authored by Professor Radu Sageata. Alternatively, another option in administrative reorganization of the territory is the investing of the eight development regions with administrative status by turning them into counties and the Romanian Academy level, was developed in 2013 the study " The administrative - territorial division, regional development in the EU and in Romania " under the direction of Acad, Ion Paun Otiman, in which are proposed six new regionalization variants , four new and two optimization models of existing regions. In the future, Romania should develop a system of administrative regions of socio-economic development or shall continue the ongoing process of administrative decentralization based on the expansion and improvement of local autonomy, issue to be solved urgently .[4]

Research in how Romania reacts as a member of the European Union , starting from the initial economic development conditions, led us to conclude that the progress of Romanian economy, analyzed in terms of the degree of economic development through GDP and GDP/population is

reflected in its oscillatory dynamics but positive and superior compared with the EU, affected since 2009 and with a favorable evolution of GDP/capita throughout the investigated period. The structural convergence, analyzed in terms of the degree of diversification of production, reflects the diminishing role of agriculture in our country and the manifestation of a modernization process of the national economy. The foreigner direct investments indicates an openness towards European market due to EU integration, they registered a growth of 8% in 2010 compared to 2003.

At the level of the 8 development regions of Romania, development disparities manifest both within the regions and between them. Considering the analysis period 2001-2010 , we find notable differences in terms of GDP/capita, 6 of the 8 regions falling below the national average. This can be explained by disparities in labor productivity and inadequate structure of employment by economics sectors. The results on the degree of dispersion related to GDP/capita, estimated by the of variation coefficient, suggesting an increase in dispersion and the manifestation of a strong divergence process in the regions of Romania.

The budgetary implications arising from the financial allocation granted to Romania by the European Union through the pre-accession funds and subsequently through structural and cohesion funds, reflects the EU's concern for regional development and the degree of absorption of these funds indicates low concern for regional development in Romania.[5]

In consequence, with an average of 26.30 %, Romania faces serious challenges in terms of structural and cohesion funds absorption between 2007-2012. The highest absorption rate records the European Agricultural Fund with a percentage of 33.36 %, while the opposite is the European Fisheries Fund and the Cohesion Fund with an absorption below 14.5% .

#### 4. Conclusion

In Romania , the regional development policy has had a good start creating , relatively quickly, the institutions and mechanisms in line with the communautaire



acquis. We could appreciate that in Romania was created the institutional and legislative base for development and implementation of regional policy. The main problem that arises in the future is to make operational the existing laws and institutions ; the institutions must gain experience and adaptability to cope with the many demands that arise , including the european funds absorption. The low degree of absorption, in cohesion policy, implies focusing additional efforts from the Romanian authorities , process in which the year 2013 becomes essential .

The population and European governments efforts over 50 years was not just an exercise in integration but also one of disparities management between member states in the context of ever closer interdependence between them. Regional development should be considered by policy makers as a long-term process that requires constant attention and effective action .

## 5. References

1. Antonescu D., *Dezvoltarea regională în România- Concept, mecanisme, instituții*, Ed. OscarPrint, București, 2003
2. Niță I., *Integrarea României în Uniunea Europeană: acquis-ul comunitar, negocierile și Tratatul de aderare, impactul integrării*, Ed.Lumina Lex,București, 2005
3. Regulamentul Ispa 1267/99, [http://www.europa.eu.int/comm/regional\\_policy/funds/ispa/ispa\\_en.htm](http://www.europa.eu.int/comm/regional_policy/funds/ispa/ispa_en.htm)
4. Otîman P.I. (coord.), *Împărțirea administrativ-teritorială, dezvoltarea regională în Uniunea Europeană și în România*, București, Editura Academiei Române, 2013
5. Porfiroiu M., Profiroiu A., Popescu I., *Instituții și politici europene, Ed. Economică, București, 2008*

# The Financial Integration in Romania and in the New Member States of the European Union

Milea Camelia

*"Victor Slăvescu" Centre for Financial and Monetary Research,  
Romanian Academy, Bucharest,  
[camigheorghe75@gmail.com](mailto:camigheorghe75@gmail.com)*

## Abstract

*In the last 20 years, financial globalization has increased. In this context, I intend to analyze the index of financial integration in the period 2000-2013, in Romania compared with some of the new member states of the European Union, in order to see the level of the financial openness of our country compared to similar countries in terms of economic development, but some with different exchange rate regime. Thus, I find that in the period 2003-2009 compared with countries with flexible exchange rate regime, Romania has enjoyed a high degree of financial openness. However, compared to countries with fixed exchange rate regime, Romania has had an average position in terms of the financial integration index. The analysis of the foreign direct investment flows of Romania by direction shows a situation characteristic of a developing country, whose economy needs, besides national funds, also foreign capital in order to support growth.*

**Keywords:** financial openness, foreign direct investments, exchange rate regime, economic and financial crisis, euro area

**JEL Classification.:** F21, F31, F36, F65, G01

## 1. Introduction

In the recent years, in the context of the increase of globalization, domestic and international financial markets have deepened.

In an open economy, achieving financial integration is one of the main challenges for most central banks, along with maintaining the independence of monetary policy and

monetary stability [1]. Achieving these three objectives simultaneously is subject to the constraints of the impossible trinity, constraint supported by Tinbergen's rule according to which the number of objectives to be achieved must be equal to the number of tools available to the authorities.

Financial integration presumes the mobility of capital and it is achieved through the liberalization of the financial and capital account of the balance of payments.

Capital mobility is a prerequisite for ensuring the flexibility of the exchange rate, as banks and companies need specific financial instruments in order to cope with international prices volatility. In order to implement the capital and financial account liberalization, institutional, legislative and macroeconomic reforms are needed, meant to support the development of the financial markets.

In Romania, the liberalization of the capital and financial account took place gradually. Thus, it began in 2001 and, although it should have ended in 2004, it has been extended until early September 2006, when there have been canceled the last restrictions imposed by the National Bank of Romania to the movement of capital to and from Romania.

This last step in the process of capital account liberalization has given foreigners access to bonds and securities issued by the Romanian government.

## 2. The Financial integration in Romania and in some new Member States of the European Union

Based on the assumptions presented above, I intend to analyze the index of financial integration in Romania compared to other new Member States of the European Union, some with flexible exchange rate

regime, other with fixed exchange rate regime, in order to see which is the degree of financial openness of our country in comparison with similar countries in terms of economic development.

Thus, Bulgaria is a country that has as a target the fixed exchange rate, through a currency board regime, Estonia, Latvia and Lithuania had as a monetary policy strategy also the exchange rate targeting (Estonia and Lithuania by currency board regime) until joining the euro area in January 2011, January 2014, respectively January 2015 [2].

On the other hand, the Czech Republic, Hungary, Poland and Romania have the monetary policy strategy of inflation targeting, under a flexible nominal exchange rate against the euro.

Since 1998, when she gave up the fixity of the exchange rate relative to a basket of currencies, the monetary developments in Slovakia were guided toward implicit inflation targeting, until January 2009 when she joined the Eurozone (strategy pursued even between 2005 and 2008, when Slovakia was in ERM II) [3].

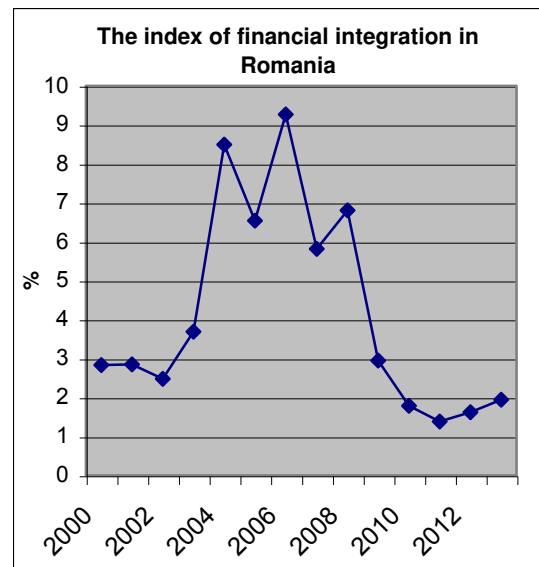
I calculate the index of financial integration according to Eurostat methodology [4], which is different from the methodology of Hutchison et al. [5], because it takes into consideration only foreign direct investments flows. Thus, the degree of openness of the capital and financial account (the financial integration) is measured as the ratio between the absolute sum of foreign direct investments inflows and outflows and GDP.

This method is influenced both by the economic policy and by the market sentiment and it is a way of assessing the actual level of openness of an economy to international capital flows and its changes over time.

If this indicator has a high value, it means that a country has a high degree of openness to cross-border capital transactions [6].

The calculi performed on annual data [7, 8] for Romania during the period 2000-2013 show a relatively low index of financial integration in most years. The maximum of the period has been recorded in 2006 (the year of the complete liberalization of the capital and financial account in Romania). Higher values of the foreign direct investments transactions in Romania have been between 2004 and 2008 (see figure 1).

Figure 1. The index of financial integration in Romania in the period 2000-2013



Source: UNCTAD and NBR data [7,8] and author's calculations

The year 2009 shows a significant decrease in the cross-border flows of foreign direct investments into and from Romania. The main reason is represented by the effects of the international economic and financial crisis, which have been displayed through the diminishment of the international liquidity, but also through the increase in the risk aversion of investors. This situation has developed until 2011 inclusively. A slight improvement in Romania's cross-border flows of foreign direct investments has been recorded in 2012 and 2013 (see figure 1).

When I disaggregate Romania's foreign direct investments in inflows and outflows, I find, in each year of the analyzed period, a significant predominance of the inflows. The situation is characteristic of a developing country, whose economy needs capital to support growth, and whose internal funds are not sufficient, so she resorts to capital on the international market.

The imports of foreign capital in the form of foreign direct investments is in the national interest of Romania as long as foreign investors are serious, comply to the legislation and state institutions, support fair competition, respect the principles of business ethics.

Also, foreign direct investments serve the national interest when they direct towards areas of national interest, and they have

positive effects on economic, commercial, social, fiscal and budgetary, natural, foreign policy, research and development, innovation, environmental, educational, medical, cultural fields, in a word, when they support the economic growth and the industrial development of the country.

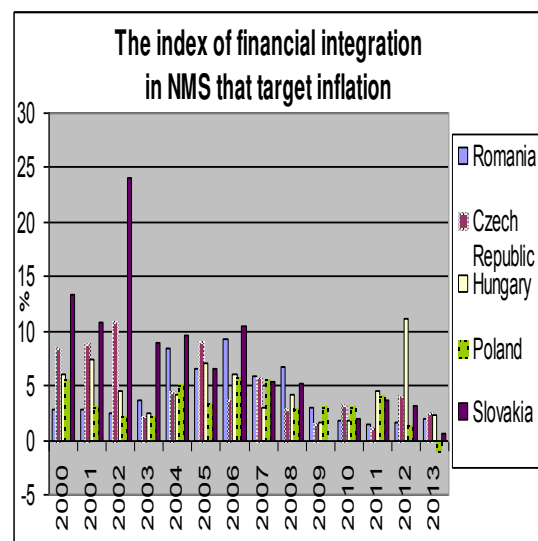
In order to appreciate the evolution of foreign direct investments flows in the new Member States of the European Union, I have examined also their trend of economic growth. Thus, all the analyzed countries (those with flexible exchange rate regime as well as those with fixed exchange rate regime) have showed the same trend, namely, the reduction in GDP in 2009 and 2010, followed by recovery in 2011, decrease in 2012 and increase in 2013. Therefore, the evolution of the financial integration index has been due to the trend of foreign direct investments.

Comparing the index of financial integration of Romania with the indices of the other countries with flexible exchange rate regime, I find that between 2000 and 2002, the opening of Romania towards cross-border capital transactions was the lowest (see figure 2). As our country has made progress towards financial and capital account liberalization, the financial integration has increased. Thus, in the period 2003-2009, within the group of countries with flexible exchange rate regime, Romania had the second place and even the first place in 2007 and 2008. Between 2010 and 2012, Romania's inflows and outflows of foreign direct investments as a share of GDP have been significantly reduced compared to the other countries in the group. In 2013, the situation has deteriorated in terms of financial integration also in the other countries with flexible exchange rate regime (see figure 2).

Slovakia recorded the highest level of financial integration among the countries with flexible exchange rate regime, until 2005, the year when she entered into the ERM II, which meant giving up the exchange rate flexibility (see figure 2). Even while Slovakia was in the ERM II, the cross-border transactions with foreign direct investments of this country to GDP were high, in the context of economic growth. But in 2009, when she joined the eurozone, the foreign direct investments flows have suffered a

significant setback, situation encountered also in the case of GDP. Although Slovakia's entry into the euro area synchronized with the beginning of the display of the economic and financial crisis effects, I believe that this significant reduction of foreign direct investments flows in and from Slovakia in 2009 occurred rather as a result of the shock of integration into the euro area, given that the other countries in the group have not suffered such severe cuts.

Figure 2. The index of financial integration in the new Member States of the European Union that target inflation, in the period 2000-2013



Source: UNCTAD data [7]

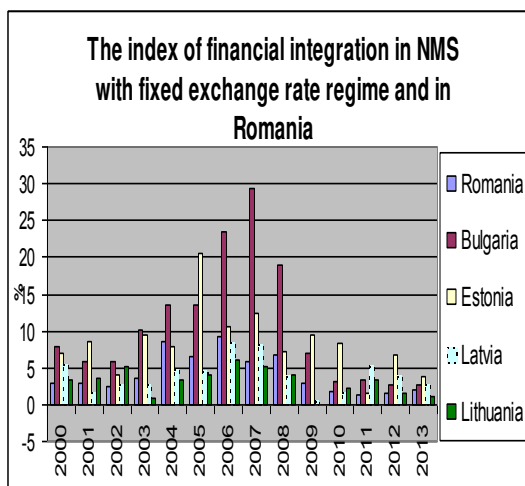
A particular development has Hungary, which after the setback of 2009 and 2010 registers high values in 2011 and 2012, ranking first among the countries with flexible exchange rate regime. An explanation could be the reduction of economic growth rate and even the negative growth rate recorded in 2012.

Analyzing the index of financial integration in the countries with fixed exchange rate regime and in Romania, I notice much higher levels of the index of financial integration and a more significant reduction in 2009 (see figure 3) compared to that of the countries with flexible exchange rate regime, due to the international economic and financial crisis. Therefore, countries with flexible exchange rate regime absorb shocks smoother.

Bulgaria and Estonia have the highest values of the financial integration index

almost over the whole period analyzed. If in Bulgaria the effects of the crisis cause the decrease of foreign direct investments flows since 2008, in Estonia the foreign direct investments evolution seems not to have been affected by the crisis. As in the case of Slovakia, in Estonia also, in the year of entry into the euro area (2011), there is a drastic reduction of the index of financial integration and an improvement in the next years (see figure 3). Estonia's evolution is largely due to the dependence of its financial system on the European financial markets.

Figure 3. The index of financial integration in the new Member States of the European Union that target the exchange rate and in Romania, in the period 2000-2013



Source: UNCTAD data [7]

As in the case of countries with flexible exchange rate regime, when I compare the index of financial integration in Romania with those of NMS with fixed exchange rate regime, I see that between 2000 and 2002, Romania's openness to cross-border transactions with foreign direct investments was the lowest (see figure 3). As our country has made progress towards financial and capital account liberalization, financial integration has improved. However, during 2003-2013, compared to the group of countries with fixed exchange rate regime, Romania has had values that situated her in the middle.

### 3. Conclusions

Analyzing the evolution of the index of financial integration in Romania compared to

other new Member States of the European Union, I find different situations depending on the exchange rate regime. Thus, compared to countries with flexible exchange rate regime, Romania has enjoyed a high degree of openness of the capital and financial account, in the period 2003-2009. But, compared to countries with fixed exchange rate regime, Romania had an average position in terms of the value of the financial integration index.

Another aspect noticed is the fact that foreign direct investors have considered our country as riskier compared to the other analyzed countries beginning with 2010, against the background of the international economic and financial crisis.

The analysis of Romania's foreign direct investments on inflows and outflows shows a situation characteristic to developing countries, whose economies need foreign capital to sustain growth because domestic funds are not sufficient.

I notice that in the group of countries analyzed, the countries with fixed exchange rate regime have a higher openness degree, foreign direct investors perceiving these countries as more stable and more attractive destinations from the macroeconomic perspective. Attracting capital is due to the confidence in the stability of the exchange rate and to the level of interest rates.

Increased capital mobility, under a flexible exchange rate regime, limits the scope of an independent monetary policy (the experience of Poland in 2000-2001) as a result of carry trade operations, which could be an explanation for the preference of investors for countries with fixed exchange rate regime.

Both Slovakia and Estonia are small and open countries. Considering that before the adoption of the euro, they recorded high levels of financial integration, I conclude that this type of country inspires confidence to foreign direct investors.

Another development worth mentioning is that, both in the case of Slovakia and Estonia, the entry into the euro area causes a significant reduction in foreign direct investments flows. I believe that the adoption of euro is seen as a shock by foreign direct investors, who reduce significantly their inflows and outflows that year, resuming them in the coming years. The investors act

cautiously, not knowing how the new eurozone member country adapts to the new challenges.

Despite all the benefits that can be brought by foreign capital in the form of direct investments, it is essential to avoid creating a dependency of the host country on foreigners, in order to preserve the national sovereignty.

#### 4. Acknowledgment

This paper has been financially supported within the project entitled "Horizon 2020 - Doctoral and Postdoctoral Studies: Promoting the National Interest through Excellence, Competitiveness and Responsibility in the Field of Romanian Fundamental and Applied Scientific Research", contract number POSDRU/159/1.5/S/140106. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. Investing in people!

#### 5. References

- [1] Nagy Á., „Importanța deciziilor de politică monetară din punct de vedere al trinității imposibile”, Sinaia, presentation, 2013
- [2] Pop N. et al., „Evaluarea politicilor macroeconomice ale țărilor membre ale UE, din punct de vedere al proceselor de convergență necesare adoptării euro”, research project Center for Financial and Monetary Research „Victor Slăvescu”, Romanian Academy, Bucharest, 2008
- [3] Pop N. et al., „Evaluarea politicilor macroeconomice ale țărilor recent devenite membre ale Uniunii Europene în vederea adoptării euro”, synthesis, Financial Studies no. 3(41), Center for Financial and Monetary Research „Victor Slăvescu”, Bucharest, ISSN 1582-8654, 2008
- [4]<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00124&plugin=1>
- [5] Hutchison M., Sengupta R., Singh N., „Indias Trilemma: Financial Liberalization, Exchange Rates and Monetary Policy”, University of California, Santa Cruz, 2010
- [6] Aizenman J., Sengupta R., „The Financial Trilemma in China and a Comparative Analysis with India”, Working Paper Series, 2012, available at: <https://escholarship.org/uc/item/2xn3238g>
- [7]<http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>

- [8] National Bank of Romania, Monthly Reports January 2005-June 2014, Bucharest, 2005-2014

# The New Dimension of Violence. Manifestations and Prevention

Mitra Mariana

*Ovidius University of Constanta, Faculty of Law and Administrative Sciences*  
[mariana\\_mitra@yahoo.com](mailto:mariana_mitra@yahoo.com)

## Abstract

*The family should be the most loved environment by all our fellow citizens. In addition, the family is one of the most effective factors involved in the training and continuous improvement of the human personality. The whole family is affected by the number of its members, by the parents' education abilities and by its social and geographical mobility. The family is very important: it provides us with security, it helps us develop, and it supports us in difficult times. Why does domestic violence exist? The reasons are multiple and difficult to specify for each case; one thing is certain: domestic violence is an issue of power, domination and control.*

**Keywords:** violence, family, restraining order, infanticide, maltreatment

**J.E.L. Classification:** K3

## 1. Introduction

Family violence or domestic violence is a pervasive, dangerous and hard to control phenomenon that, lately, has reached unimaginable dimensions. Unfortunately, we should be aware that domestic violence is a phenomenon with a negative impact on health, affecting not only the individual but also the communities where it occurs. Therefore, domestic violence is considered a community problem and it has a social nature; in addition, it is a public health issue, especially in reproductive health.

Family relationships hide a paradox. Considered the space of the deepest emotional relationships, a refuge from adversity, the family is the most active center of aggression because, within the family, everyone can uncover the true face of his/her personality. It seems that this form of aggression is extremely strong, stronger than

within any other community. However, unlike other cases, domestic violence is a group secret, heavily guarded and often mystified because of the solidarity in preserving a sacrosanct image of this institution.

Encompassing all forms of aggression that is exercised within the family (partner maltreatment within the couple, the abuse against children, parents, elders or other relatives, incest etc.), this form of violence is added to the wide wave of attacks taking place outside the family and, thereby, contributing to the generalization of a social environment dominated by fear, anxiety and conflict [1].

In Romania, according to the final report of the *Central European and Eurasian Law Initiative (CEELI)* of the American Bar Association on "Domestic Violence", over 800,000 women admitted that they were victims of domestic violence, taking into account the fact that this type of violence occurs behind closed doors and it is often hidden by the victim because they fear their abusers and feel embarrassed within the society. Therefore, it is impossible to quantify the real number of the victims of this type of violence. According to the same statistics, 95% of domestic violence victims are women.

## 2. Definitions of violence

The family is a form of social relations between people bound together by marriage or kinship. Family members are wives, parents and children and, sometimes, other people connected by kinship, including single and childless spouses, who constitute a family. In a sociological sense, the family - as a specific form of human community - means a group of people united by marriage, parentage, kinship,

characterized by a community life, mutual interests and support [2]. In the legal sense, the word family means a group of people who have rights and obligations that derive from marriage and kinship, including adoption, and other relationships similar to those of the family [3].

What are, nevertheless, the reasons that cause violence? Several theorists and specialists in the field have sought to answer this question since the 1970s, when the first studies and research were done in this area. From a clinical perspective, a widely accepted definition of domestic violence was laid down by Stark and Flitcraft: *"Domestic violence is a threat or challenge, which takes place in the present or which took place in the past, involving physical injury within the relationships between the social partners, regardless of their legal status or domicile. The physical or sexual assault may be accompanied by intimidation or verbal abuse; destruction of the property belonging to the victim; isolation from friends, family or other potential sources of support; threats made against other persons who are important to the victim, including children; theft; control over money, over the victim's personal belongings, food, travel, phone and over other care and protection sources."*

The most comprehensive definition is given by the World Health Organization, which defines violence as *"the intentional threat or use of physical force or power against oneself or another person, against a group or community, which causes an increased risk to produce injury, death, psychological damage, abnormal development or deprivation"*. In this definition, the World Health Organization defines violence in relation to health and wellbeing in the physical, mental and social sense.

According to the Romanian dictionary, violence means *"a vice of consent, which consists in the psychological coercion exercised upon a person in order to determine him/her to do a certain legal act"*. According to article 2 of Law 217 of 22nd May 2003 on preventing and combating domestic violence, domestic violence is defined as *"any physical or verbal*

*misrepresentation by one family member against another member of the same family, which causes physical, mental, sexual or material damage"*. Under this law, a family member means the spouse or a close relative, as defined in article 177 of the new Criminal Code. Under the new code, a family member means: a) ascendants and descendants, brothers and sisters, their children, and the persons who become such relatives by adoption, under the law; b) the spouse; c) persons who have established relationships similar to those between spouses or between parents and children, if they live together. The provisions of the criminal law relating to family members, under the limitations set out in paragraph (1), letter a), also apply, in the case of adoption, to the adopted person or to his/her descendants in relation with his/her natural relatives.

Domestic violence occurs when a family member attempts to dominate physically or psychologically another member. Domestic violence is a pattern of abusive behavior manifested by one partner on the other [4]. The basic cell of society, as it was called, the family has multiple meanings [5]. It is the main social form, based on marriage, which consists of spouses and of their descendants and ascendants. The family relationships represent an important aspect of the social life. The family is subject to continuous attention and defense in order to ensure, in this way, its normal development and conservation. Family relationships are based on friendship and mutual affection, moral and material support, which its members have to provide to each other.

### 3. Types of violence

The specialists within the field agree that violence is widespread, far more widespread than the polls show, for the mere fact that some acts are not reported to police or hospitals [6]. In domestic violence, the attacks on women, children, the elderly and among other relatives are well-known.

*Types of violence against women.* Specialized studies identified the following main forms of family violence: *Violence-aggression* – it occurs between two parties involved in an asymmetric (egalitarian) relationship, by the exchange of blows. It is bidirectional, mutual and public. Both



partners claim the same status of force and power. *Violence-punishment* – it occurs in complementary relationships where both partners are on equal footing. It manifests in the form of punishment, penalty, mistreatment, torture, neglect or lack of care. Violence-punishment is the most frequently encountered form of abuse, by which a person attempts to cause suffering to another person by stabbing, pushing, and causing injuries by using blunt objects, fists, feet etc. [7]. One partner claims a higher status to the other partner whom he/she considers inferior, subhuman, unworthy, abnormal or even evil. *Violence-punishment with latent symmetry* – it is a variance of violence-punishment, where the person forced to bear the punishment tries to fight back. Despite the unfavorable ratio of forces, he/she does not accept it and even shows an outright will to oppose, which often increases punishment. In this case, punishment also aims at removing the danger of symmetry. The behavior of the one who controls the relationship is chaotic, disjointed, confusing and fierce. However, the violence-punishment turns into aggression-violence. *Emotional violence* – it occurs when a person seeks to undermine another person's personality. He/she does so by using a whole series of means ranging from criticism and insults (which give rise to feelings of inferiority) to manipulation. *Psychological violence* – it is manifested by the installment of fear; by this means, the abuser ensures that he/she dominates the victim. The threat of violence can be directed to the victim or it may consist in the threat of suicide or it can be oriented both on the victim's property and on a loved person or pet. The abuser can take control through isolation and misinformation; he/she may be a subtle or direct person, he/she may subtly or overtly try to fulfill his/her purpose. This type of violence is the most common type of domestic violence, while sexual violence makes victims exclusively among women or children. Psychological violence includes six major components: fear, depersonalization, deprivation, the overload with responsibilities, degradation, and distortion of reality [8]. *Economic violence* - within this type of violence, the aggressor brings the victim to a financial position of dependence [9]. The economic abuse leads to the decrease of the victim's economic resources

and autonomy, the abuser bringing him/her to a financial position of dependence. It involves the control of the victim's access to money or personal items, food, transportation, telephone and other sources of protection or care wherefrom he/she could benefit [10]. This control generates dependency, isolation, the inability to choose, to make decisions and to maintain self-esteem. The economic abuse may involve granting only an allowance to the victim and preventing him/her from graduating his/her studies or from getting employment.

#### ***Types of violence against children.***

Along with physical abuse, emotional abuse and neglect, the sexual abuse is one of the worst forms of violence against children. The sexual abuse against a child requires the involvement of an immature/dependent child or teenager, by an adult, in sexual activities that the former is not able to understand and to consent knowingly, or in actions that violate the traditional rules of family life. Although sexual abuse contains elements of emotional and physical abuse, it is a special category of maltreatment of a minor. Sexual abuse can manifest itself in different ways. The first form is to determine or to compel the victim to have sexual intercourse against his/her will. The second form is the one that involves the undermining of a person's sexuality in order to criticize or ridicule his/her sexual performance and presentation, in an unfavorable manner. The manifestations of aggression are extremely diverse and they take place at different levels: pulsating, emotional, attitudes and behaviors including human nature modalities [11].

Sexual violence involves the intercourse without the consent of the other person, sexual humiliation, unpleasant touches and various injuries caused to victim during or in relation to sex, including marital rape [12]. The sexual abuse involves any kind of pain (verbal, visual, psychological) or any physical contact by a person who uses a child, a teenager or an adult in order to achieve sexual stimulation. The physical contact is, certainly, more serious than verbal pain. Nevertheless, it should be noted that any abuse causes trauma and it is considered a violation of the sacred and inviolable integrity of a person [13].

A general definition of sexual abuse is

given by Elena Ursa: "*Sexual abuse is reflected by subjecting someone to intrusive oral, genital or anal practices, sexual molestation, with or without genital contact, sexual exploitation*". Within this type of violence, the person is forced into sexual acts against his/her will, he/she is wounded in the sexual areas of his/her body, he/she is treated as a sexual object, he/she is touched physically in different parts of his/her body against his/her will, degrading and humiliating jokes or comments, with sexual references, are made at him/her.

The incest involves the sexual intercourse between father and daughter and also the sexual relations between other categories of relatives. It is characteristic of the families where either parent is absent from home or cannot perform his/her conjugal duties. Erich Goode distinguished, in this respect, between the incest initiated by older people on younger persons and the incest that occurs between the partners of the same age [14].

A child does not have the true freedom to say yes or no to an adult, especially to a family member. But the incest does not simply refer to the sexual relations between father and daughter; there are also rare cases of sex between mother and son, between brother and sister, uncle and niece etc. On the other hand, unlike rape, the sexual abuse against the children of one's own does not imply, necessarily, penetration or use of physical force. While rape is an isolated case, which manifests brutally, a child's sexual victimization (incest) may continue for months or years without anyone knowing what it is really going on within the family [15]. Any act of incest between parents and children is an act of violence or abuse directed against the latter. Given that small children are educated in the spirit of obedience and respect for parents, there are few cases of incest where the sexual relations between father and daughter are conducted in accordance with the latter's desire, the father being the one who commits this type of sexual abuse.

Regardless of the forms in which it manifests (being accepted, tolerated or obtained by violence, intimidation and terror) any act of incest has multiple traumatic effects on children, particularly in terms of his/her future development as an adult. The loss of self-esteem, of personal confidence

and the confidence in the elderly, physical and emotional frigidity, the incapacity to develop normal relationships with friends of the same age, subsequent tendencies toward abuse, suicide, alcoholism, drug abuse and prostitution are only some of the effects with particularly dramatic implications. To these there are added the stigma attitude adopted by others, which constitute a secondary form of victimization.

*The infanticide.* The infanticide is known since ancient times, especially in Eastern Asian societies. In most cases, it had a female specific character, being directed against the newly born girls in order to provide the workforce necessary to community survival and the defense capability against external enemies. In Romania, the infanticide is criminalized as a separate offense in article 200 of the Criminal Code. The former "Infanticide" from the old code, provided by article 177, and the current "Murder or harm of the newborn committed by the mother", provided by article 200 of the New Criminal Code, essentially involves committing a murder by the mother of her newborn child, the current regulation only mentioning a "state of mental disorder". The offense includes the offense of infanticide in the old Criminal Code and the acts of battery or other violence, injury, bodily injury, causing death to the newborn, committed by the mother who is in a state of disorder, while giving it a mitigating character. Article 200 of the New Criminal Code is also a form of domestic violence, only that the legislature sanctioned it, giving it a mitigating nature.

*The abandonment.* Along with the infanticide, another severe form of aggression against children is the abandonment, which represents an act of great aggressiveness of a particular type: aggressiveness by resignation. The abandonment of the child was at all times an abnormal and reprehensible act [16]. The most common forms of abandonment are: total abandonment - usually practiced in marital relationships by young girls, abandoned by their partners immediately after childbirth, by mothers-prostitutes, delinquent or divorced mothers; semi-abandonment - practiced by one or other of the parents after a divorce situation; concealed or cryptic abandonment - consisting in the emotional rejection of the

child by the his/her mother, the absence of her interest in the child's elementary needs.

**Types of violence against the elderly.** Doing a close technical study on this phenomenon, according to the amendment to the 1987 Older Americans Act, there were identified three categories of abuse against the elderly. First, the domestic abuse of the elderly usually occurs in their homes or in the caregiver's home. The abuser is usually a relative, a close friend or a paid caregiver. The second category, the abuse in institutions, refers to the abuse that occurs in a residential home (such as a nursing home), an orphanage or a home, which provides social assistance. In this case, the abuser concluded a financial contract in order to take care for the old person. The third and final form of abuse, the self-neglect, involves the old person's behavior by means of which he/she threatens his/her own safety or health. Self-neglect is present in an older person who refuses to provide himself/herself with adequate food, water, clothing, shelter, personal hygiene, medications, and even to take safety precautions.

The most widespread forms of violence against the elderly are met within the family [17]: passive neglect – simply ignoring the elderly by their children, without giving them the slightest material or emotional support, without visiting or inquiring about them; verbal or emotional abuse - consisting of insults and humiliation, treating them as infantile beings who have no right to personal dignity. Active neglect - involving the deliberate isolation of the elderly, deliberately refusing to give them food or the medication they need, their forced internment in hospices or homes for the elderly; physical abuse - consisting in their actual mistreatment, beatings and blows, which are often extremely serious, with even fatal consequences.

The abuse of the elderly may take various forms: violence (such as hitting, beating, thrusting, shaking, slapping, kicking, pinching or burning), drug misuse or physical constraints, the power by force and any corporal punishment are other examples of abuse. Forced sexual relations or sexual relationships with any person who cannot consent are still considered abuse. These include unwanted touching, any form of abuse or sexual harassment, such as rape,

sodomy, forced nudity and sexually explicit images. Emotional or psychological abuse: nicknames, insults, threats, intimidation, humiliation or harassment – enter in the same category. Treating the elderly like children, depriving them from verbal communication for punitive or demonstration purposes, isolating them from their family, friends, or regular activities are examples of emotional or psychological abuse. The neglect also includes the failure to pay the fee for asylum if there is a legal responsibility to pay it. The abandonment or leaving an old person by someone who has the physical and legal responsibility to assure his/her care is another form of abuse of the elderly. The illegal or improper use of the old person's funds, property or assets is also abuse.

#### 4. Conclusion

Within the Romanian society, domestic violence has long been governed separately, the legal provisions criminalizing any kind of violence, regardless of the relationship between the perpetrator and the victim being applied in such cases. This happened because, initially, domestic violence was considered a private matter for the family. Along the way, things have changed, and the question came to be considered a serious violation of human rights. Therefore, in recent years, the government's efforts to prevent and control this problem have intensified.

#### 5. References

- [1] Rădulescu, S.M., *Sociologia violenței (intra)familiale, victime și agresori în familie*, Ed. Lumina Lex, 2001, p.14.
- [2] Filipescu, I., *Tratat de dreptul familiei*, Editura All, București, 1996, p.1.
- [3] Albu, I., *Dreptul familiei*, Editura Didactică și Pedagogică, București, 1975, p.7.
- [4] Perrone, R., Nannini, M., *Violence et abuse sexuels dans la famille-une approche systematique et communicationnelle*, ESF Editeur, Paris, 1995, p. 57.
- [5] Nistoreanu, G., Păun, C. *Criminologie*, Editura Europa Nova, București, 1996, p.134.
- [6] Lyotard, J. F., *Condiția postmodernă a femeii*, Ed. Babel, București, 1993, p. 123.
- [7] <http://www.sex.dex.ro-2001-2005> Sex dex-un proiect Societatea de Educație contraceptivă și sexuală, retrieved on 6<sup>th</sup>

November 2014

- [8] Irimescu, G., Chapter "Violența în familie și metodologia intervenției" in *Asistență socială, studii și aplicații*, , Ed. Polirom, Iași 2005, p. 37.
- [9] <http://www.sex.dex.ro-2001-2005> Sex dex-un proiect Societatea de Educație contraceptivă și sexuală.
- [10] Stark, E., Flitcraft, A., *Women at Risk: Domestic Violence and Women's Health*, Sage Publication, United States 1996, p.18.
- [11] Păunescu, C., *Agresivitatea și condiția umană*, Editura Tehnică, București, 1994, p. 33.
- [12] Irimescu, G., idem, p. 40.
- [13] Cirillo, S., Blasio, P., *La famille maltraitante*, Paris, ESF Editeur, 1992, p.39.
- [14] Goode, E., *Deviant behavior, third edition*, New Jersey, Prentice-Hall, Englewood Cliffs, 1984, p. 57.
- [15] Finkelhor, D., *Sexually Victimized children*, New York, Free Press, 1979, p. 9.
- [16] Păunescu, C., *Agresivitatea și condiția umană*, București, Editura Tehnică, 1994, p. 34.
- [17] Hickey, T., Douglas, R.L., "Neglect and Abuse of Older Family Members: Professional's Perspectives and Case Experiences", in *The Gerontologists*, nr. 21, 1981, p. 67.

# Corruption – A Real Threat to Democracy and to the Rule of Law

Mitra Mariana

*Ovidius University of Constanta, the Faculty of Law and Administrative Sciences*  
[mariana\\_mitra@yahoo.com](mailto:mariana_mitra@yahoo.com)

## Abstract

*The efficient and proper functioning of a state is based on the fairness, probity and professionalism of those who hold positions within the local and central apparatus of state leadership. The workplace represents, most often, an individual's position within the society and it can provide more or less power. Enchanted by this power and by the desire to acquire material gains easily, some state officials misuse the power given by their workplace, and, thus, the proper functioning of state institutions suffer together with the other members of the society.*

**Keywords:** corruption, power abuse, civil servant, government institutions, bribery, different forms of corruption.

**J.E.L. Classification:** K3

## 1. Introduction

The danger of corruption has been acknowledged since ancient times. Corruption, in general, is an old tradition, some authors even considering that the human tendency towards corruption has always existed. Therefore, it would be a permanent and inevitable phenomenon manifested within human communities. The desire to acquire undeserved gains and, especially, to seek effective help in the everyday fight for existence, dates from ancient times.

In modern times, this is even more profound, as evidenced by domestic and international concerns in the field of preventing and combating corruption. In order to understand the manifestations of corruption, but also in order to analyze the existing laws in this area, it is necessary to acquire knowledge in the meanings, emergence and evolution of this phenomenon.

Corruption, as a ubiquitous phenomenon, can be analyzed in sociological, criminological and political terms, in parallel with international and internal statistics, through the three institutions involving justice, i.e. the Public Ministry, the Ministry of Interior and the Ministry of Justice.

The most important legal documents incriminating internal corruption are the Criminal Code [1] and the Law no. 78 of 2000 [2] with the amendments made in 2014. Internationally, the most important documents that criminalize corruption are the Criminal Law Convention on Corruption, adopted in Strasbourg, on 27th January 1999, ratified by Law no. 27 of 16th January 2002 [3], and the UN Convention against Corruption, adopted in New York, on 31st October 2003, ratified by Law no. 365/2004.

Under these documents, Romania has adopted a number of principle rules in the field of preventing and combating corruption, as an extremely dangerous phenomenon affecting the traditional social values within a state of law and a democratic regime. By analyzing and following the evolution of Romanian legislation, we notice an extension of the concept of corruption in the context of substantial amendments and procedural law. Following the analysis of international institutional mechanisms and legal instruments, it appears that Romania has adapted its legislation according to these requirements.

It can be rightly stated that the problem of corruption in post-communist Romania was one of the factors that have hampered the progress of economic and political development, an element which sabotaged, from the very within, Romania's path and aspirations to a normal input after the 1989 Revolution. With the start of the negotiations for the accession to the European Union, the increasingly frequent external signals received by the Government have made corruption one of the negative key points that

hindered the accession process. After signing the accession treaty in 2005, corruption was, and it still is, one of the problematic areas that could have delayed Romania's accession.

Consequently, the Romanian government, in collaboration with various civil society organizations and international bodies, has determined that fighting against corruption should become one of the major and central concerns of the entire Romanian society. This would increase the level of integrity and trust in state institutions, and would integrate the Romanian society within the European community.

From a criminological perspective, we can state that the main favoring or criminological factors regarding the extent of corruption are the crisis of authority, the incomplete legislation, the reform process of structures by segments, of social relations, pending transformation. All these have created a climate favorable to the proliferation of dysfunctional phenomena within the society. However, the emergence of capitalism as a system has given rise to distinct economic interest groups with large financial resources, which, in order to achieve these interests, began either to seize political resources or to exert pressure on political structures [4].

The history of the Romanian people knows numerous cases of corruption, from the betrayal that led to Decebalus's death and to other situations when, in order to earn money, estates or promises of functions, princes were sold to their enemies. Such events probably changed the course of the Romanian history for so many times. In the Middle Ages, giving and receiving benefits by officials was accepted as something natural, being related to a certain type of courtesy. On our land, for example, the tip was not incriminated, but only reproved, eventually, by moral norms. The Western aristocracy of the seventeenth and eighteenth centuries considered that public functions were not, in themselves, an exercise of responsibilities for the general interest of society, but the "ownership" of the privileged who could buy these functions at very high prices. The phenomenon of corruption within the capitalist system is nothing more, in some authors' view, but the continuity of medieval aristocratic habits. Thus, it is estimated that the capitalist system, with the onset and

amplification processes of modernization, was the main factor that patented corruption in modern societies, unlike the corruption that existed in traditional societies [5].

## **2. The emergence and evolution of corruption**

Concerning the emergence and evolution of concerns about the criminalization and punishment of corruption, in the old Romanian criminal law, corruption is incriminated rather late, during the Phanariot reigns. By the late eighteenth century, historians did not signal any law providing for the offense of corruption. The social and material conditions of life, but especially the negative influence of the Phanar, did not allow the criminalization of corruption earlier, although the number of bribery cases increased considerably during Phanariot reigns. Phanariot rulers led their administration by exploiting the residents, by degrading the national character, by corrupting the upper class, fuelled by their servile and degrading morals. "Pravilniceasca Cronica" (Code of Laws), appeared in 1780, during Prince Alexander Ypsilanti's reign, was important in criminalizing corruption; in its article 7, Chapter "For Judges", it prohibited the bribe taking by judges, under heavy penalty, without determining it, as the system of arbitrary punishment was still in force.

In "*Condica Criminaliască și procedura ei (The Criminal Register and Its Procedure)*", in 1826, published in Moldova, under John Sandu Sturza's reign, the offense of corruption was laid down in articles 203 and 204. The incriminating texts aimed at those officials who, in exchange of gifts or other material benefits, facilitated the escape of the convicts who were under their supervision. Thus, they were punished by imprisonment and forced to assist in tracking the fugitives and, in case of failure, they had to pay compensation to the state; the price of corruption, i.e. money or other goods, had to be paid for the benefit of charitable institutions.

Although its model was the French Code of 1810, "The Criminal Code of 1865" criminalized only the passive bribery, then modified by the Law of 1874 regarding this penalty. At the same time, the Code

criminalized the influence trafficking separately, this provision being considered an innovation of the legislature. Obviously, the Criminal Code of 1865 included a modern regulation of passive corruption, it contained a system of uniform and rigorous rules, provided for criminal and balanced penalties, introduced more precision in speech and criminalized the acceptance of promises.

By achieving national unity, the Romanian social, political and economic developments, the development of capitalism in Romania were inadequate in connection to this legislation. Therefore, on 17th March 1936, there was adopted a new "Criminal Code", published in Official Gazette no. 65/18 March 1936 and entered into force on 1st January 1937. By the criminalization of bribery, the Criminal Code of 1937 put an end to the controversies within doctrine and practice. In adopting these measures, it was taken into account the fact that, "often, the leading role is played by corruption agents. They are those who tempt the officials, offering them money and other benefits. It absolutely necessary to combat this temptation and to prevent it from manifesting with that kind of boldness which makes impunitive". Shortly after expressing this idea, which was crowning a whole stage of building up the rule of law, the dictatorship waves, which took many forms between 1938 and 1989, successively modified the Romanian legal system. The Criminal Code of 1969, designed (by the political power) to bring fundamental changes to the criminal law, upheld the contents of corruption offenses.

The anti-corruption fight and the policy of the Romanian state culminated in the adoption of Law no. 78/2000 on preventing, discovering and sanctioning corruption. Law no. 78, in Chapter 2, provides for special rules of conduct on certain categories of persons, in order to prevent corruption. Thus, it mentions that civil servants and other officials are obliged to fulfill their duties in the exercise of their functions, duties or assignments entrusted with the strict observance of laws and rules of professional conduct, and to ensure the protection and exercise of the citizens' rights and legitimate interests, without the use of their functions, duties or assignments in order to acquire, for themselves or others, money, goods or other

undue advantages [6].

In addition, in order to control corruption in Romania, a number of bodies have emerged in order to limit the scope of this phenomenon, to limit its extension and to counter it. An extremely exigent measure is the National Anti-Corruption Strategy. The governmental anti-corruption strategy is represented by the plan followed in 2005-2007, and focuses, on the one hand, on prevention (i.e. information and education campaigns, the creation of a code of practice in the business and in the public sector, raising the level of integrity in the Romanian society) and, on the other hand, on combating (creating and efficient institutional and legal apparatus for the continuous and proper application of various anti-corruption strategies, international cooperation) [7] this phenomenon. The last Criminal Code [8] incriminates the acts of corruption in the special chapter entitled "Corruption and service offences", in articles 289-294.

The history of the economic, administrative and political development of states is closely linked to the history of corruption, as a type of practice, profitable for the administration and for the new groups and economic classes. In the US, for example, with the increasing development of capitalism, corruption has made possible the "influx of people and new interests within the public life and served as a means of perpetuating the already established interests". The corruption of government members and of the public life was dominant in nineteenth century, in America, despite the attempts to reform public services and the development status of professional bureaucracy. Throughout the nineteenth century, corruption was a feature of most European countries.

In the twentieth century, with the crystallization of the civil servant professional model, new forms of corruption, specific to modern bureaucracy, appeared. Alongside its traditional forms, there became more and more outlined the corruption of the public servant, of the dignitary, of the official who sold the privileges of his/her office as a commodity in exchange for the acquisition of goods and services. Involving the expansion of governmental authority and the multiplication of the social activities subject to government control, modernization

enhances the phenomenon of corruption, especially by amplifying the spaces to corrupt and be corrupted. The functions of corruption in any society undergoing modernization are similar to violence, representing way by which individuals use illegal means to achieve their goals, in direct relation to the weaknesses of the political system. But while violence is a form of protest against social order, corruption implies the identification with the political system and the ability to use its breaches in the interest of the clientele that is well adapted to the shortcomings of the functioning of this system.

John A. Gardiner believes that the manifestations of corruption are influenced by the political regime. Thus, in his view, permissive and tolerant regimes, lacking authority, encourage these events by their reduced ability to punish them, going as far as considering corruption as a "syndrome of constitutional liberty". However, it is no less true that dictatorial regimes end up eaten by corruption, the bribe being established from the lower to the upper levels of the hierarchy, as an effect of overlapping political administrative structures. The transition to a market economy and to a real democracy, engenders, as happens in all societies in crisis, among other phenomena with serious consequences, the amplification of corruption. The causes of this phenomenon are the weakening of the state authority, the degradation of the living standards, the impaired moral judgment, the lack of effective control levels, the diminishment of the public confidence in institutions and social values, the mis-adaptation of legislation to economic and social conditions.

Far from being an isolated phenomenon, corruption and the inherent reactions that it triggered have proved so far the failure of the approaches deployed in order to countermeasure it. The scandals were quickly consumed in the public opinion's eyes. The origins of those involved were diverse, from central or local authorities, up to doctors, police officers or teachers; the methods were hardly identifiable becoming more acute under a yet functional opacity within some institutions. This demonstrates that corruption skips any suspected stiffness, proving to be expansive, flexible and cautious. In parallel, the institutions involved

in the fight against corruption are still looking for their identity; they are subjected to different revisions following the legislative reforms still dominated by slow bureaucracy, always caught off guard by the innovative "outbursts" of corruption [9].

### 3. The concept of corruption. Definitions

Etymologically [10], the word corruption derives from the Latin word "*corruptio-omnis*" and means a state of deviation from morality, honor, duty; immorality, depravity. Corruption is the abuse of public power, in order to satisfy personal or group interests. As an antisocial act, corruption is common in society <http://ro.wikipedia.org/wiki/Societate> and it is particularly serious because it favors the interests of individuals, especially in the economic area, affecting collective interests, through the acquisition, diversion and use of public resources for personal interest, the employment of public officials by preferential relations, concluding transactions by evading moral and legal norms [11].

Corruption concerns a set of immoral, illicit, illegal activities, made not only by individuals in leadership positions or exercising a public role, but also by various public and private groups and organizations, in order to get material or moral advantages or a higher social status through the use of coercion, blackmail, fraud, bribery, buying, intimidation [12].

The concept of corruption is defined by several international organizations that run programs in this regard (World Bank, European Union). In Romania, corruption is defined in the latest report of Transparency International. According to this report, "*corruption, broadly, is the abuse of entrusted power, whether in public or private sectors, in order to satisfy personal or group interests.*" The document adopted by the Government in 2005, called the National Anticorruption Strategy, provides for the following definition: *the systematic deviation from the principles of impartiality and fairness that must underlie the functioning of government and that involve the universal, fair and equitable distribution of public assets, and replacing them with practices involving the allocation by certain individuals or groups of a disproportionate part of the public goods relative to their*



*contribution.*

Since the inequalities specific to a capitalist economic system have widened the disparities (acquiring economic success, acquiring positions of power and prestige etc.) and the legitimate institutional means (ways of achieving social goals), corruption has become a genuine adaptive behavior to social pressures and a primary means of achieving economic benefits by illicit ways. However, the emergence of capitalism as a system has given rise to distinct economic interest groups with large financial resources which, in order to achieve these interests, began either to seize political resources or to exert pressure on political structures.

#### **4. Conclusion**

From the above, it can be noticed how corruption is a threat to democracy, to the rule of law, to social equity and to justice, eroding the principles of effective administration, undermining the market economy and threatening the stability of state institutions [13]. The Romanian experience after 1989 shows that the majority of anticorruption actions have resulted mainly in control and punitive measures, whose effect was far from the expected one, as shown in the national program for the prevention of corruption, developed by the Romanian Government. The perception that Romania has adopted a positive policy in the fight against corruption, especially after 2000, but without recording practical notable results, is not unfounded. In late 2006, Romania was in the danger of invoking the safeguard clause against it, because of the delicate subject regarding the control and prevention of corruption. However, there were some positive aspects, the most important being the Romanian civil society strengthening and mobilization in the fight against corruption by sustained anti-corruption campaigns at the political level and at the level of 'small' corruption.

Corruption is a semi-institutionalized phenomenon; therefore, it cannot be combated by simply fighting against it, no matter how many new institutions would be established. Therefore, the starting premise is to achieve economic stability, to consolidate the functioning of the market economy, to democratize the entire social life. The

Romanian society is seriously touched by this problem, which goes hand in hand with bureaucracy and with the mad rush for wealth and power, obtained in any way or by any means, and seriously affecting the democratic functioning of the state, negatively affecting its institutions and citizens.

We believe that the main source of corruption in Romania is of moral nature [14]. It resides in the low life standards. The increasing complex degrees of society, the development of different social levels created separate standards and special values that relate to larger social groups. Creating an acceptable general ethical criterion appears to be difficult, the motivation being of moral nature itself. Corruption is the result of clientelism, as demonstrated by many cases presented in the media. The solutions to eliminate these two phenomena, i.e. corruption and clientelism, which are components of the famous "crony capitalism", must start primarily from local government reform. Thus represents the pillar of the European evolution of the Romanian state and it is based on raising the awareness of those institutions accountable to the citizens, by forcing the government and all civil servants to inform the civil society about their activities and by taking action in cases where the officials' services are not satisfactory. The legislative causes are likely to gangrene the system, extending to the political environments, which are thus blackmailed. One thing must be, however, certain: no one is above the law.

Corruption should simply not happen. Several predisposing factors, a number of closely related conditions are lurking behind it. Similarly, there is a variety of forms of corruption, each driven by a specific socio-economic context and other predisposing factors mix. Corruption is not responsible for all that is evil, nor does it destroy all that is good within a society. Rarely, severe cases have a single cause or are due only to the fact that several individuals want to cause some harm. Rather, it is rooted in the development stage of the country and it has a complex determination.

## 5. References

- [1] *The New Criminal Code entered into force on 1st February 2014.*
- [2] *Law no. 78 of 2000* entered into force on 1st April 2007 and amended by the entry into force of the current Criminal Code.
- [3] Published in the *Official Gazette no. 65 of 30th January 2002.*
- [4] Banciu, D., *Sociologie juridică*, Ed. Hyperion XXI, București, 1999, p. 152;
- [5] Dobrinoiu, V., *Corupția în dreptul penal român*, Editura Atlas Lex, București, 1995, p. 15;
- [6] Langseth, P., “Autoritatea judecătorească, instituțiile statului și societatea civilă în lupta împotriva corupției”, *Conferința de luptă împotriva corupției*, București, iunie, 2000.
- [7] Ioan, D., Banciu, D., Rădulescu S.M., *Corupția în România-realitate și percepție socială*, Ed.Lumina Lex, București, 2005, p .51;
- [8] The fourth *Criminal Code of Romania* that entered into force on 1st February 2014.
- [9] Giurgiu, A.D., Baoi-Stroe, A., Luca, S., *Corupția în administrația publică locală*, Editura Fundației pentru Dezvoltarea Societății Civile, București, 2004;
- [10] *Dicționarul explicativ al limbii române (DEX).*
- [11] Huntington, S.P. according to Banciu, D. and Rădulescu, S.M., *Corupția și crima organizată*, Ed. Continent XXI, București, 1994, p. 53;
- [12] *Cartea albă a crimei organizate și corupției*, lucrare editată de Ministerul de Interne, București, 1998, p.18 ;
- [13] Cherciu, E. *Corupția, caracteristici și particularități în România*, Editura Lumina Lex, București, 2004, p. 13;
- [14] Stănoiu, R.M., Brezeanu O. and Dianu, T., *Tranziția și criminalitatea*, Editura Oscar Print, București, 1994, p. 19;

# Strategies for Improving the Migration of Labor in the UE

Stana George  
ULIM CHISINAU  
[stanageorge69@yahoo.com](mailto:stanageorge69@yahoo.com)

## Abstract

*In the given article the authors study the unemployment situation in member countries of the European Union in recent years, unemployment among youth, the level and dynamics of employment, salary level, linking supply and demand for labor in the EU Member States, etc.*

**Key words:** labor ,employment, migration, migration flows in Romania in cities and rural areas.

**Classification Jel:** E2, F2, J2

## 1. Introduction

The migrations from center and east of Europe are different from those in the 1990's. In the communist period, migration in the region was characterized by the followings: the majority of the population went to well developed countries, the number of those returning in their country was very low, taking into consideration the fact that it was a permanent migration; and the migration in the area of Central and Eastern Europe being as inexistent. There were a lot of political (difference) and economical factors (type of economy, low goods and services supply, inflation and currency devaluation) that lead to appoint the most important migration route: West. At the same time, work market from Western Europe (and North America) absorbed easier the immigrants (being better qualified from the work point of view).

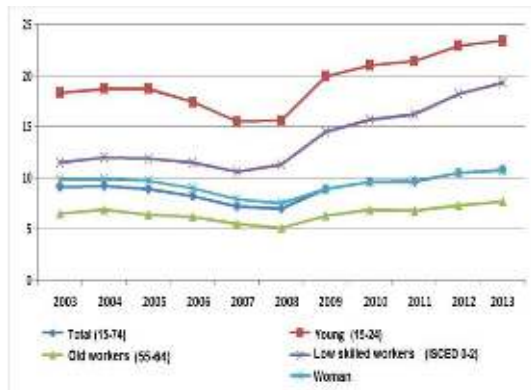
Moreover, part of the migration flows was made by ethnical migration (for example the Germans). An overall view of the phenomenon can be taken from official statistics (National Institute of Statistics in Romania, Euro stat in UE), or from opinion polls, national and European barometer. However, starting with 1990, all European countries confronted with the entrance flows

(immigration process). The entrances are necessary for outweighing the exit flows. What is more, the entrance and exit flows proved the followings: in 1988-1995 there were 60.000 refugees in Romania. 75.000 persons were under protection from ex-Yugoslavia and at least 20.000 refugees from other countries were noted in Hungary; until the end of 1992, conflicts in URSS generated a wave of 700.000 refugees and 2.3 millions of persons being temporally moved by force and by the year 1996 these numbers decreased at 500.000 refugees and 1.3 millions of persons who were moved using force. In general, in almost all the country's regions there were a high number of people that migrated in search of protection.

## 2. Unemployment reached high levels in UE-28.

After the period 2003-2008 when unemployment rate decreased with over 2%, the financial and economic crisis lead to decreasing ( Figure. 1). Between 2008 and the second trimester of 2013, unemployment rate in UE-28 rose from 7.1% to 10.9%. With some exceptions, the evolutions that were recorded in time were more or less the same for different groups from the labor market. Firstly, unemployment among young people is more sensitive to economical issues. Secondly, together with the crisis, there was a higher increase of unemployment among men than at women because the sectors that were dominated by men were the most affected. This issue can be observed from the total unemployment increase between 2008-2009. Regarding structural differences, young people, unqualified workers and those from the third countries are affected by higher levels of unemployment.

Fig.1. The evolution of unemployment rates from 2003, total, young workers, older workers and low skilled workers



Note: Statistics for 2013 are for the second trimester, those for 2003-2012 are annual;  
Source: Euro stat

### 3. Unemployment stopped increasing from the middle of 2013.

From the beginning of 2013, unemployment rate was at a stable level. In September 2013 the total number of unemployed was at almost 26.9 millions (variations depended in the seasons).

The rate was of 11%, unmodified for the sixth month consecutive. Looking into perspective, it is too early to appreciate if this is or not the beginning of tendency's changes, these being not the same in the UE. Compared to September 2012, unemployment increased in 16 states (with high percentages in EL, CY, IT, NL, and decreased in 12 countries (the most in Baltic States, IE, HU). These differences are more or less related to PIB evolution from the member countries.

Unemployment for a longer period is increasing because of the long crisis period. At the end of the second trimester of 2013, unemployment for a longer period was at about 12.5 millions in UE-28, which represent 5% of the active population. From 2008, it doubled in almost all countries, DE making an exception (decreased from 4 % to 2.5 % between 2008-2012) and LU (the rate was maintained at 1.5%). Over the year, until the second trimester of 2013, longer unemployment as a percentage from total unemployment increased from 45% to 47.1% in UE-28 (47% and 49.5% for ZE-17).

There are big differences and more emphasized between unemployment rates

from different member states, especially the Euro area. From the beginning of the crisis, unemployment increased very much in the states situated in the south area and had a lower increase in the other states. In August 2013, unemployment rate varied from 4.9% in AT, 5.2% in DE and 5.9% in LU at 26.6% in ES and 27.6% in EL. Unemployment rates are very big in EL and ES, and in PT, HR, CY, where there is over 16%, unemployment being over the value of UE-28. Taking into consideration the changes of unemployment rates, the biggest increase from year to year (September 2012-September 2013) was in CY (+ 4.4 pp). The tendency is negative in NL, IT and in a smaller way in BE, BG, HR, LU, SI.

### 4. Unemployment among young people is at high levels.

In September 2013, in UE-28, it overcame 23.5 %, increasing with 0.4 points than the last year, but being stable in the last six months. There are differences between member states; the values from September 2013 varied from 7.7% in DE and 8.7% in AT la 56.5% in ES and 57.3% in EL. In the last months, differences did not appear, but there are still high.

The number of young people that do not follow any educational program or vocational training (NEET) continued to increase. Between 2008-2011, young people with age between 15 and 24, that have no job and do not follow any educational program, increased with 2 percentage points, reaching 12.9%. In 2012, there was a new increase of NEET rate in the UE, but lower than the previous years and not in all member states (there were smaller values in AT, UK, LT, LV, RO, and BG). The levels stay high in almost all countries ( LT, MT, PL, FR, BE, EE, SK, UK, PT, HU, LV, CY, HR, RO, IE, ES, EL, IT, BG), while the most recent tendencies ( 2011-2012) from EL and SI, and a little from IT and HU are worrying. NEET rates are higher for women than for men: in 2012 the rates were of 13.4% and 12.9% (13.1% per total). The phenomenon of young people that do not follow any vocational training is caused by the increasing of unemployment among youngsters and not by the fact that inactivity is due to the lack of studies.

## 5. The phenomenon of leaving school earlier is decreasing.

Leaving school earlier had a level of 12.7% in 2012, decreasing from 13.4% in 2011. This phenomenon is still a serious problem because it affects 5.5 million people, 40% being unemployed. In 2012, in 12 member states, the rate of leaving school earlier was under 10%, value mentioned in the objectives of the European strategy. The biggest values, over 20% were in ES, PT; MT. Europe is making progresses towards the objective of having graduates from the third educational system of at least 40% by 2020. In 2012, those graduating from the third educational system were 3.5%.

Besides the crisis, the degree of occupation was better in the member states as a result of the rising occupation among older workers and women (age 55-64). Between 2008 (Q2) and 2013 (Q2), occupation in UE-28 for the population with ages between 15 and 64 increased from 70.7% to 71.9%, but with differences from country to country. The values were higher in CZ, MT, LT, HU, while the lowest were in DK, IE, and HR. Although the degree of occupation at women increased in time, there was a difference compared to men: 12.1% in 2013 (78% for men and 65.9% for women). These differences are high in the south part of UE, and in EL, IT, PT. More other countries have bigger degrees of occupation among women, but they are characterized by work programs with part time jobs for women, for example, in the second trimester in 2013, in NL (77.3%), DE (46.5%), AT (45.6%).

The rate of employment in UE is having a negative tendency; for reaching the objective of European Strategy 2020 that requires a rate of 75% for women and men with ages between 20-64 years, a change in the tendency is needed. From the moment the crisis begun, the rates of occupation decreased with 2%, at only 68% in 2012. From then, the value decreased a lot, between the second trimester of 2012 and the second trimester of 2013, the degree of occupation decreased with 0.6% in the Euro area and with 0.42% in UE-28.

Wins and loses in employment on the crisis period were not equally distributed. While employment for men (20-64) decreased with more than 3 % from 2008

(from 77.9% in 2008 at 74.5% in 2012), at women it decreased very little, and it even increased in the last year. The increasing was higher for older workers (3.3% in 2008, reaching 48.8% in 2012, with considerable risings in BE, DE, FR, IT, LU, HU, NL, PL), especially among women (5%).

Regarding the level of studies, the decreasing of unemployment was important for those low skilled and not important for those with higher education. The degree of occupation for those from third countries (20-64 years) from UE-28 decreased from 58.5% in 2010 at 56.8% in 2012. Talking about employment depending on the work field, between the second trimester of 2012 and the second trimester of 2013, the biggest loses were in construction (-4.5%), agriculture (-1.5%), manufacturing (-1.2%). Although the last 5 years did not contribute to finding permanent jobs, the pressing of fitting was noticed especially at temporary jobs. At long last, permanent jobs are in the fourth year of decreasing (-4.6%). However, part time jobs present an increase, with over 2.5 millions (6.4%) more than the last trimester of 2008.

## 6. Conclusions

Unemployment is a disease of contemporary economics with negative effects over economics development. If in XVII-XIX centuries the unemployment was a rare concept which could be found only in periods of crisis, in the post-war period has become a permanent satellite of the economy. Despite the appearances, unemployment is a social and economic issue that generates a lot of problems, both theoretic and political, all over the world.

In an economy with a free labor market, there cannot be ensured the demand and supply of work, the number of jobs and the availability of labor force. There is always free labor work, in search of work or partially employed which means that unemployment phenomena is present.

Unemployment is a negative phenomena which can be found in each and every country. It affects a big part of the active population and it's being illustrated by international statistics as a macroeconomic phenomena which requires multiple solutions: economic, social, politic, depending on time and place.

Unemployment, with all the socio-economic effects has become a problem for all the countries.

## 7. References

- [1] Andrei T., Stancu S. *Statistică și econometrie*. București: Economică, 1995. 211 p.
- [2] Moarcăș C., Ana C. *Drepturi sociale ale lucrătorilor migranți*. București: C.H. Beck, 2011. 257 p.
- [3] Rapoartele anuale de activitate ale Oficiului Român pentru Imigrări, 2008-2012.
- [4] Strategia de dezvoltare pentru IMM și cooperare pentru perioada 2007-2013, proiect, [www.animmc.ro](http://www.animmc.ro).
- [5] Stana G., Roșca P. *Concepte de bază și teorii ale migrației internaționale a forței de muncă*. In: Analele ULIM, Seria Economie. Chișinău: ULIM, 2013, nr. 13, p. 88-96.
- [6] Date statistice din Eurostat.

# Pre-university Education Financing in the Context of the EU's Economic Crisis

Stoica (Corbu) Luminița-Claudia  
Ștefan cel Mare University of Suceava, Romania  
[luminitaclaudia@yahoo.com](mailto:luminitaclaudia@yahoo.com)

## Abstract

*The aim of this study is to put into evidence the fact that the global economic crisis had a strong impact not only on the economic systems of European societies, but also on their educational ones.*

*The effect of the global crisis on the educational system was under-financing. This has led to the increase of educational taxes, the diminution of salaries and the high education participation rate. Even if this situation was present in almost all of the European countries, there are societies where we can find a certain politic of investment in high education. Even if some states do not have substantial financing, they did not hesitate to invest in the human capital.*

**Key words:**Highschool education,Financing, Budget, Economic crisis

**Classification J.E.L.:** A22; E31; E43; F02; F69

## 1. Introduction

The massive decline in the biggest stock exchanges in the world, even transactions suspending in some, bankruptcy which knocks at the door of big financial players and the state as a savior who intervenes and solves economical problems at the last moment – This is in a few words the economical map of the world. Is it a paradox, a law which confirms that unwritten history will be repeated or that after any peak time there is a decline one? Perhaps, depending on how these events affect us, it is how we can find explanations as well. Interesting from this point of view is a statement made by Irvin Kahn, survivor of several stock

exchange collapses: "People are greedy. And many times greed is stronger than fear".

## 2. Status education financing in EU's countries

Most of the times it is said that humanity is facing a crisis, and these are not mere words, but something that has stuck in people's minds and in the media. It is partially true. It is easy to notice that every century, decade or year brings about problems, at both micro and macro-economic level. People with conscience are able to solve many of them, since the gray matter serves the thought and not the ignorance. The technological progress has not brought only benefits. The disadvantages of using new technologies have caused quick falls of fortune, businesses and even states. Thus, the increased speed which technology brought to human activities has allowed the birth of successful businesses and careers, but also accelerated failures on the part of those who have missed the starting points.

Computer programs have become a key for progress - but at the same time a mandatory requirement for it. One can no longer profit in the absence of an appropriate technological facilities; of these stands out the high-speed Internet access. Thus, relations which are established in business, sending important documents in different areas of the world, as well as finding out about real-time events become compulsory. All these are premises for personal and group development,as well as the development of companies and states. The technological progress has a huge benefit on those who put it into practice, but the skills and competences acquired matter to a greater extent and that is where education comes into play – as a fundamental role in personal development.

The economic theory states that for education, in the same way as for national defense, the states must invest 10% of the national budget. It is true, though, that more than 10% is required for defense. In the case of education, exceeding 10% can be done without negative consequences. As a matter of fact, Japan has invested in education for a long time after the end of the Second World War up to 50% of the national budget, and the results can be seen since the 1960s. However, no matter how much it is invested in education, the results will be minimum if there is no good management of financial resources [1].

### 3. Educational financing effects range in Europe

In the last few years we have ended up complaining more and more about the educational system in Romania, reducing it in a short time from something performant (generator of national and international contests awards-receiving students) to events insignificant to many of us. By means of continuous training programs of the population suggested by the European Union, we are trying to achieve the five European objectives for 2020: 1. Employment (an employment rate of 75% among the general population aged 20 to 64); 2. Research and development (allocation of 3% of EU GDP for research and development); 3. climate change and the sustainable use of energy (20% or even 30 % reduction of greenhouse gas emissions, in favorable conditions compared to the levels recorded in 1990; the increase of renewable energy sources balance to 20%; 20% increase of energy efficiency); 4. Education (a reduction of less than 10% in the rate of leaving school early; an increase to over 40% in the number of higher education graduates among the population aged 30-34); 5. fight against poverty and social exclusion (reduction of at least 20 million in the number of persons suffering from or likely to suffer from poverty and social exclusion) [2].

To be able to study the level of development of a company it is essential to analyze the importance given to education. The role of education is illustrated by the level of state investment. Statistically, this is shown by the indicator called public

spendings balance in education. Taking as an example the graph below, we can notice the 2000-2008 period, with the lowest share of the expenditure for education (3.4 %) which was recorded in the year 2000, and the highest in the year 2008 (6% of the GDP). The average cost/student indicator assesses the Romanian education system [3].

From the data provided on the reports drawn up by the Department of Education, Research Youth and Science it should be noted that the value of this indicator for school education went up over 4 times during the period 2001-2008: from approximately 864 lei in 2001 to 3540 lei in 2008. (MECTS, 2009:18).

Although in the 2001-2008 period there has been a significant increase, we can say that, in our country, the average production costs per pupil has a relatively low value, compared to other states in Europe. The highest values of this indicator are met in Denmark, Iceland, Norway and Luxembourg. The literature presents a series of negative reactions relating to global education. This makes me say that the way in which now approaching education must be changed. From its foundations.

By analysing data relating to the percentage of GDP allocated to education in the last 5 years, it is to be noted that the assumptions related to 6% for education have not once been complied with [3].

Table 1: The GDP percentage granted for education

Anul	2009	2010	2011	2012	2013
Procentul din PIB alocat educației	4,24%	3,53%	4,13%	3,5%	3,6%

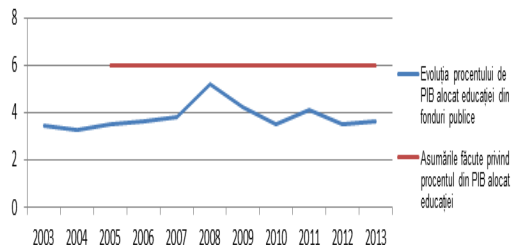
European Commission/EACEA/ Eurydice, 2013. Funding of Education in Europe 2000-2012

Paradoxical is the fact that along with the economical crisis, at which time the investment in education has become more important because of its acknowledged role it can play to overcome periods of economic collapse, the trend of allocation of GDP for education has become a descendant one, in the context in which there had been an ascending trend from 2004 to 2008. Speaking



in terms of figures, even if the overall value of GDP has fallen as well, the percentage allocated to the budget for education has also fallen, the state choosing to invest in other areas.

Figure 1: The evolution of GDP allocated for education from public funds



European Commission/EACEA/Eurydice, 2013. Funding of Education in Europe 2000-2012

Although in government programs the allocation of 6% of the GDP for education was proposed, this percentage was not always complied with, which generated negative consequences. Analyzing the evolution of financing investments in education, it is further noted that in 2000-2007 Romania has had a real increase in education, along with other E.U. member countries (Bulgaria, the Czech Republic, Estonia, Ireland, Iceland, the UK, Spain, Latvia, Lithuania and Hungary), increases as much as 25% to 50%, but the trend has not been constant in all of these countries in the 2007-2010 period. On the one hand, the Czech Republic, Ireland and the United Kingdom have continued to increase investments in education even after 2007, although the increases have not been as large. On the other hand, in the other countries the investments in education have been strongly affected by the financial crisis and they have decreased from 2007 or 2008. The largest decrease occurred in Romania and Bulgaria, where from 2008 until 2010 the investment in education has fallen in real terms by 40 %, respectively 21 76 %. Hungary has had three years of decline in 2006, followed by an increase of 5% in 2009 and 2010 [4].

By analysing more closely, we can see a permanent instability of Romanian education system. On the other hand, although many states have chosen to invest in education in response to the financial crisis, due to the

long-term benefits it produces on the society level, Romania chose to begin its cutting list of public investments with the field of education. This means, on the one hand, that the Romanian state does not have a coherent and sustainable strategy regarding the development of educational system and does not consider that ensuring an optimal budget represents a national priority.

#### 4. Conclusion

Today, one notices a decrease in the capacity of providing support for education and therefore new solutions for financing school education must be found. One of solutions could be the transfer of responsibility from central and regional authorities to the local ones, and the trend has appeared in some of advanced countries, especially France, USA, England.[5]

The consequences of low financing for education are the reduction of the rate of young people's participation in education, 0.7 percent of the students leaving school early, and the rate to which 15-year-olds fail to reach even the lowest level of performance (PISA, RO-53,5%, UE- 24,1%).[6] During periods of economic downturn, there is a danger that parents will no longer be able to send their kids at school. At the same time, due to the fact that the demand for labour is limited, there is a risk that young people and their parents to no longer see the usefulness which the investment in education has.

#### 5. References

- [1] *Revista română de sociologie*, serie nouă, anul XXIV, nr. 5-6, p.476-481, București, 2013.
- [2] Otovescu-Frasie, Cristina, Otovescu, Dumitru, *Romanian Statistical Review*, Nr.2/2009, Institutul Național de Statistică, București, 2009.
- [3] European Commission, *Key data on Education in Europa*, 2009.
- [4] \*\*\*Raport asupra stării sistemului național de învățământ- MECTS, București, 2009.
- [5] Cummings, William, *Instituții de învățământ*, Editura Comunicare.ro, București, 2007.
- [6] Buletine ale Institutului Național de Statistică ale M.E.C.T.S., 2011 și 2012
- [7] M., Nicolescu, *Revista generală a învățământului*, an XVIII(3), p.146 (1910).
- [8] \*\*\*Raportul Fundației Patriciu pentru Învățământ și Cercetare, 2009-2010,

<https://fundatiadinupatriciu.ro>

**Section I**  
**International Affairs and European Integration**

\*\*\*

**Subsection 3**  
**Regional Development Strategies**

# How Did the Economic and Financial Crisis the Groups of Companies and the Main Measures Exit

Duduiață Popescu Lorena  
University of „Constantin Brancusi” Tg-Jiu  
[lorena\\_ucb@yahoo.com](mailto:lorena_ucb@yahoo.com)

## Abstract

*The economic and financial crisis of 2007-2014 is considered to be the deepest crisis to date, the causes being so kind macroeconomic and microeconomic.*

*The effects on the economy were felt worldwide, but different from state to state, depending on the regulations and the level of its development. Groups of companies have suffered more from the crisis, some went bankrupt, while others tried to get out of the crisis through loans or other strategies, such as layoffs, wage reduction or restriction markets. Governments have taken individually crisis, to protect the national economy and collectively (at EU level).*

**Keywords:** economic crisis, strategies, anticrisis measures, bankruptcy

**JEL Classification:** F3, F6

## 1. Introduction

The opinions are divided about the causes of the outbreak of the crisis: some believe that the current crisis began following publications in press about instability American banks, which led to the loss of credibility of the banks, and others believe that bankers are responsible for the crisis because were interested to receive state reserves. These are just opinions, but, in fact, the causes are more complex, being so kind macroeconomic and microeconomic. The two types of cases were interdependent in the production crisis.

A cause profound macroeconomic and financial crisis was abundant liquidity created by the world's major central banks (Federal Reserve, BOJ) and the willingness of oil and gas exporting countries to limit currency appreciation. Also, there was an oversaturation of savings generated by

increasing integration into the global economy of countries (China, Southeast Asia generally), with high rates of accumulation and global redistribution of wealth and income to countries exporters of goods (oil, natural gas, etc.). Abundant liquidity created supersaturation with savings available for investment resources, including sophisticated financial instruments, hard to understand for some investors.

The risk margins were also very low and non-discriminatory. Together, low interest rates, the appetite for assets with big gains, reduced vigilance and risk Fattal small margins masked price signals in financial markets and led to insufficient understanding of the risks involved.

Against this background, they operated as aggravating, and a series of microeconomic causes. The first case is strong securitization that led to becoming opaque financial market. Cracks in the business model of rating agencies, outsourcing rational in terms of private but socially inefficient for deregulation and increased international competition may, in turn, causes micro.

## 2. How the crisis affected the convergence of EU member states

The economic crisis is when the convergence of EU member states in Eastern Europe to Western standards ceased to be an accelerated process, becoming a difficult effort, only long-term results, according to a Reuters analysis.

Despite leaps over the last 24 years in terms of standard of living and economies of the former Eastern bloc, "momentum" radical reforms needed to catch Western European countries died.

"The health system is inefficient, and pension systems might face finally bankruptcy due to aging workforce", the Reuters analysis.

However, hopes related to the adoption of the euro and the stimulating effect of this process on reforms waned once the economic crisis has forced governments to assume the role of "fire" in the context of late overheating and perhaps a few years entry into the euro area countries in the region.

Although Slovenia and the Czech Republic exceeded the poorest country in the euro zone - Portugal - in terms of income per capita, the convergence of Member States in the East by Western standards is far from being in the final stages.

The crisis has "choked" economic boom Baltic and Balkan states, and rising unemployment, the collapse of investment and credit markets freeze will occur in the region for many years.

But, according to Barclays analyst Koon Chow, emerging EU have kept attractive factors for investors in the West, including labor "cheap and educated", proximity to major markets and growth potential productivity.

Thus, after the global crisis, Central and Eastern Europe will continue to better macroeconomic performance than the euro area, but emerging economies advance from this point of view, will become "tight".

Braking convergence process will be a pull factor for some foreign investors, but would "frustrate" the local population, following the rapid development in recent years, expected to reach the standard of living in the West.

### **3. How the crisis has affected the society groups**

Globalization comes as a new experience for nearly every man, found in every corner of the planet, but at the same time, this phenomenon can be described, for the first time in human history, as a tangible possibility, but as a necessity. Four fundamental forces have been identified as the main pillars of globalization, these are: trade, production, finance and technology, thus globalization has led to a widespread crisis across the system (global).

One of the largest pressure forces facing the development of countries and international trade unions is the power and influence of multinational companies (FMN) as part of their response to globalization.

Multinational companies now play a major role in the economies of all countries and in international economic relations, becoming a topic of increasing importance for governments. Through FDI, firms can also bring substantial benefits to both countries of origin and host countries by contributing to the efficient use of capital, technology and human resources between countries and can thus play an important role in promoting economic welfare and social. During the crisis, not all groups of society behaved the same, despite the fact, some had a higher profit like KFC that opened new restaurants and increased their turnover, the majority had large losses or even bankruptcy.

Major global brands have fork in 2010, when, after the recession and weak sales have come countless inquiries of authorities: embarrassing problems with products sold and unexpected events, if not permanently bury corporation certainly will finally and irreparably tarnish reputation.

#### **DELL**

Since the return of Michael Dell as CEO in 2009, Dell had just lost, according to tax reports, which show that the company's net profit was halved in 2010-2013.

Dell brand value was truly shaken but three landslide processes in the past four years, after which it turned out that Dell has inflated repeatedly reports financial performance and 12 million computers delivered to customers who are knew already that are defective.

Dell will be delisted from the Nasdaq stock exchange in the United States at the close of September 2014, following the completion of the transaction, which the company is taken to 24.9 billion dollars by founder Michael Dell and investment fund Silver Lake.

#### **SONY**

In December 2009, Sony announced 16,000 job cuts due to the global crisis that has led to increasingly poor sales of TVs and digital cameras, but even then failed to pass the tax. At the end of fiscal 2011, Sony recorded a decrease in profit of 42%.

Furthermore, Sony has lost top place video games market, where competition between Microsoft and Nintendo has been so productive that Sony PS3 brand value reached only 426 million dollars, while the

Wii worth 10 billion, and the brand Xbox 360 worth \$ 4.6 million.

To overcome the crisis, in April 2013, SONY has proposed to streamline Division TVs by reducing the available product portfolio by 40% and by focusing attention on developing and bringing to market as quickly as of high-end TVs with OLED panels or Crystal LED. In financial terms, SONY aims to lower the cost of producing TVs by 60% by 2015, with the hope that it will return to profit for the first time in almost 10 years.

How to achieve this SONY? First, by significantly improving audio quality and more efficient integration with portable products of the same brand. Then, even though the big sales gain since LCDs, Kaz Hirai shows a tremendous confidence in new technologies such as OLED and Crystal LED.

Sony has achieved in the fiscal year ending in March 2014, first profit in five years due to asset sales and depreciation of the yen.

Net profit in 2013 reached 40 billion yen (\$ 403 million), compared to a net loss of \$ 5.7 billion last year, according to preliminary data released by the company. Analysts expected a profit of 43.3 billion yen.

Director General Kazuo Hirai apply a plan for business in consumer electronics, the heart of which is games, digital cameras and mobile devices including Xperia smartphones after the company lost ground to Apple and Samsung.

#### **NOKIA**

Nokia Corporation has been the world leader in mobile communications with headquarters in Espoo, Finland, contributing to the growth of the communications industry and the Internet converging. Nokia has 132,000 employees in 120 countries, sales in more than 150 countries and a turnover of 42 billion euros and operating profit of € 2 billion in 2011 market share to mobile terminals globally, was 31% in the fourth quarter of 2011, falling below 30% in the first quarter of 2012.

Nokia lost 5 billion in 2012-2013, after restructuring and massive investments in the development of smartphones to catch Apple, Google and Samsung. At the beginning of 2013, Nokia has given up paying dividends

for the first time in almost 150 years of the company.

In 2007, the year of the first iPhone, Nokia had a 40% share of the mobile phone market, which declined from 15% last year. Nokia gave in 2012 after 14 years, leadership in the mobile phone market, being surpassed by South Korean group Samsung Electronics.

Nokia is about to exhaust financial resources at its disposal, according to alarm signals drawn by financial analysts. The company entered a negative spiral which hardly exceeded.

The Societe Generale According to experts, if the current trend continues, Nokia will be extremely difficult to pay even the short-term loans falling due in 2014 Markit Agency Financial analysis predicts that the probability of "default" of Nokia's increased reaching 49%.

Nokia has entered a negative spiral that's very hard to be reversed .. continuous worsening situation calls into question the very survival of the company.

In September 2014, Nokia gave licenses to Microsoft for 10 years, the portfolio of patents related to mobile phones in exchange for 1.65 billion euros, with possibility to extend the contract indefinitely, a sign that Finns do not intend to return in the near future production terminals. However, 32,000 Nokia employees, including nearly 5,000 in Finland, will go under the umbrella of Microsoft.

#### **4. The main steps out of the crisis**

One of the first steps taken by financial institutions (Federal Reserve and the Treasury USA) was addressing the TARP (Troubled Assets Relief Program), which sought to take over toxic assets from bank balance sheets "loose" and then auctioning them on the open market for real price discovery thereof and to establish a market for these assets. Another measure was to provide state guarantees for debts of poor quality. To prevent abuse, providing security has a price: either in the form of special taxes or accepting as stricter regulations or by setting a franchise until the losses were still incurred financial institution concerned.

Institute of International Finance has proposed reconsideration practices with risk

management, compensation policies, evaluation, lending, ratings and transparency of activities, both in the financial instruments and level of financial institutions.

Stimulus packages, ad hoc measures or accelerate the implementation of measures previously planned, but tax cuts are among the main anti-crisis solutions recommended worldwide.

Deloitte Financial Advisory Company put together all these measures, making a catalog of tax solutions used worldwide.

According to the report, several EU countries have already implemented a series of anti-crisis measures:

- The most popular measure (effective in 89% of the EU) is the exemption from capital gains. Often, this fee will be applied for short periods of time for homes used for personal use.

- In 11 states operate a mortgage guarantee fund to support individuals who face mortgage payment problems. Several states, including Poland, Hungary, Slovenia and the UK, the funds launched in 2009 as part of a package of anti-crisis measures.

- Bulgaria has introduced tax exemption for a period of five years for investment in disadvantaged regions and reductions or exemptions from taxes on income for young families who pay interest on housing loans.

- In the Czech Republic, the rate of tax was reduced from 21% to 20%, and social health contribution rate for employees and employers has been reduced.

- In Hungary proposed a number of tax measures aimed at taxing consumption, not income.

- United Kingdom reduced VAT rate for a period of one year from 17.5% to 15% and allowed postponement of taxes for companies that have been affected by the crisis.

- The Belgian Government reduced VAT rate for building new homes from 21% to 6%.

- In France and Germany have been taken to support SMEs. Thus, from January 1, French companies of this kind can take into account the losses incurred by foreign subsidiaries in determining income tax. On the other hand, Germany has raised the economic indicators by which a firm can enter the SME.

## 5. Conclusion

The Group of 20 (G20) is an international forum for economic and financial cooperation. This forum brings together the most advanced and emerging economies in the world, accounting for about 85 percent of global GNP.

Since 2008, the main discussions of the G20 are major issues, such as combating global crisis and restore economic growth. Other topics include discussions on providing poor countries with food and their sustainable development.

Sometimes, Member States agree to a common denominator, because each of them defends in the first place, their own interests. Also, many of the proposed initiatives have been proven to be controversial in the future or remained at the initial stage without being put into application.

However, several actions have been performed to fix the global crisis. At each meeting, the leaders of the participating states offer a lot of commitments, many of them reaching the final communiqué. The states implement these commitments, in most cases, have a positive effect on restoring economic growth, poverty reduction. For example, Australia has committed in Cannes (November 2012) "to make clear and credible consolidation plans to halve the deficit by the end of 2011 niveulul 2014 and stabilize or reduce debt-to report Or -PIB to 2016 after the London summit (April 2010) were mobilized 1.1 trillion to withstand the global financial crisis and restore "growth and jobs". This included \$ 50 billion for low-income countries (LICs) Advances through multilateral banks (MDBs). Upon completion of the St. Petersburg Summit (September 2013) created an Anti-Corruption Plan to ratify the UN Convention Against Corruption.

Therefore, G20 summits can be seen as a good way to combat the global economic crisis. However, critics / reviewers would like the G20 agenda to be reduced to a core of coordinated macroeconomic than solving a large scale.

## 4. References

- [1]. Balcerowicz, L., *Freedom and development*, Ed. Compania, București, 2011

- [2]. Bonciu, F., Dinu, M., *Policies and instruments to attract FDI*, Ed. Economică, București, 2013
- [3]. Pop, D., *Globalization and theories of development*, Ed. Luceafărul, București, 2012
- [4]. Dunning, J., Dilyard, J., *Towards a general paradigm of foreign direct and portofolio investment*, Transnational Corporations vol. 8, no. 1, April 2010
- [5]. World Investment Report 2013, *Transnational Corporations.Extractive industries and development*, UNCTAD, New York and Geneva



## Aspects of the Confrontation of Ideas from Romanian Interwar Thinking Regarding Economic Policy

Ionescu Gr. Ion

„Dimitrie Cantemir” Christian University

Faculty of Management in Tourism and Commerce Constanța

[iionescu\\_levant@yahoo.ca](mailto:iionescu_levant@yahoo.ca)

### Abstract

*Romanian economic thinking in the interwar period can be treated systemically because it presents in a cohesive form, demonstrating that he was able to develop various trends and currents that defined and expressed, same time society views of those historical moments, translated into political by the circles of thought associations and political groups.*

*From the economic point of view, also, Romania interwar represents same time, a complex novel of and decay's success since World War has put the country at efforts, over the powers of the Romanian nation. However, as a result due to the final outcome of the war, following period has become favorable economic to Romania, providing a substantial economic leap, to the whole society, paving the way domestic market growth, development and prosperity became more basic, later.*

**Key words:** economic thinking, liberalism, rusticism, socialism, economic policy

**JEL Codes** B20, B21

### Introduction

Great Union of 1918, had historical significance by creating Romanian national state, bringing changes in economic thinking, and structural changes in the economic, social and political life of the country.

“Economically, enlargement of the internal market and improving the sectoral structure of the economy unified and integrated, increased the national economic potential” [1] (Nenciu, 2013) .

Closely related to the transformations and the political, economic thinking reflected the major concerns of the nation: the agrarian

question, the long-term development strategy of the national economic complex: the priority of industry and agriculture, free trade or protectionism, state intervention in the economy and its proportion, position economy in the international context.

### Currents of economic thinking

From this point of view, the Romanian interwar period was characterized by the existence of three main currents of economic thought: liberal current, rusticist current and socialist current. .

Liberal and neoliberal current, considered that the accumulation and concentration of capital, represents ways on strengthening and development of big capital generating economic progress and social prosperity. In doctrinal, the liberalism, categorically restricts civic equality.

The basis of this rejection is the thesis of natural inequality of men, which is based on the definition of private property as natural. This is the essence of liberalism of yesterday and today.

The doctrine of liberal bourgeois freedom is equivalent to private ownership with unrestricted right of initiative in relation to the state.

Thus, ”in the liberal doctrine, bourgeois freedom is equivalent to private ownership with unrestricted right of initiative in relation to the state” [2] (Hăgan, 1995).

In this way, liberalism from Romania favored and defended the interests of capital, in general and big capital, especially industrial and financial, represented by the local bourgeoisie in its competition against foreign capital for economic supremacy [3] (Ionescu, 1996).

Romanian liberalism continued the tradition of the previous three plans: the idea of private property as the foundation of the

economy, the idea of industrialization and protection of Romanian industry and the priority of national interest to the foreign capitalists, summarized in the expression "in us". In addition, inter-war liberals were to emphasize the role of the state, and to take into account more carefully, social problems.

Representative economists of liberal current were I.N. Angelescu Mihail Manoilescu Stephen Zeletin, Vintilă Brătianu Victor Slăvescu, Mitiță Constantinescu.

Rusticist current Economic thinking of the rusticist current, was formed as a double reaction both to neoliberal thinking - which was taken from the bourgeoisie and against socialist thinking that this affinity with marxism [4] (Lungu & Cosma, 2002).

The main ideologue of this economic current, was Virgil Madgearu, one Romanian economist of the scholars of the interwar period. Formed in the spirit of German business school, he is largely the creator of the rusticist current, which conceived ideology by defining historical framework and socio-economic development of the country. Adept of the sombartiene development scheme of the capitalism, in which "nothing justifies the same trend in the countries of Eastern Europe", in regards Romania, agriculture peasant wars present a number of features that they demanded reform: character extensively, mostly cereals, spraying properties and peasant holdings, low land prices and agricultural wages.

Another reality was that in Romania, small farmers - the majority numerically represented the main element of political life and their independent households not evolved under economic determinism, but under the action of biological factors. Troubleshooting solutions required: intensive development and rational mechanization of agriculture.

Based on the conclusion that "the Romanian economy has not fundamentally changed the structure of the state, semi-capitalist agrarian-peasant social order", the rusticism considers the agriculture as a necessary but not sufficient for the development of the Romanian economy, outlining why a number of industry pros, as a prerequisite for ensuring economic independence, for industries, in turn, have beneficial effects on agriculture.

This school of thought also included, among others, Ion Răducanu, Ernest Ene, Constantin Stere, Mihail Ralea, Gromoslav Mladenatz.

The Socialist current continued labor movement and socialist tradition from the late nineteenth century and early twentieth century. Socialist economic thinking of the time was the chief representatives, the most important being that Lucretius D. Pătrășcanu using dialectical materialist method of research and the Marxist concept of social-economic formation, linking early modern development of Romania, much earlier than 1829 and ie during Constantine Mavrocordat's reforms, between 1746 and 1749.

The cause of these transformations was the set of internal factors, external ones having only influence. Peculiarities and specifics of this process were generated by economic weakness Romanian bourgeoisie. Criteria for assessing the degree of penetration of capitalism in our economy was considered to be the share of wage labor in various sectors of national economy. As a socialist, L. Pătrășcanu neoliberal approach, the view toward supporting industrialization and the peasant, the agricultural reform [5] (Lungu & Cosma, 2002) concerns only the scope and nature of ownership fundamentally different.

### **Concepts if economic policy**

Politically, changed the balance of power, between the traditional parties (Liberal, Conservative and rusticist) strengthened the liberal party (in the context of strengthening the economic position of the bourgeoisie), the conservative doctrine will disappear from the political scene, socialist political group divide, and in 1926, will show a National Peasant Party. Stormy parliamentary life was followed by personal authority during the regime of King Carol II, then the Legionary regime and the military mainly government authority.

Fundamental transformations arising after the Great Union have put the issue of finding ways and means of recovery and future development of the Romanian economy. In this sense, the postwar years were crossed by fierce debate on the subject, the confrontation of ideas and concepts of the various political

groups and even economic interest groups, each showing a willingness to reflect and support their best interests.

Were detached, in particular, two major economic policy concept - "by ourselves", whose initiator was the National Liberal Party and "open doors", belonging to the National Peasant Party [6] (Puia, 1991).

Adapting to the realities of the World War, presenting itself as a promoter of state unity and electoral reforms and land by adopting the Constitution of 1923 and a significant economic legislation since 1924, the Liberal National Party dominated the political scene of authority Romania. Postwar economic program since the program manifesto in December 1918 liberal doctrine will gain new meanings.

The main ideologue of the party – economist. Vintilă Brătianu - theorized need for industrial development of the country, "labor, and capital Romanian initiative" to ensure "freedom of the Romanian economic".

The Liberals do not exclude cooperation with foreign capital, but asked that this be done under the native element, foreign penetration to be limited, which would ultimately result in strengthening the country's economy. Economic policy "by ourselves", have attracted foreign capital in a national program and activities of the national economy beyond his own ability. Although after World War ruling circles were called into active economic life, they were faced with insufficient equity.

In foreign trade, the Liberals have implemented protectionist tariffs. Drivers P.N.L. have provided in their economic programs and forms that had allowed foreign participation and the degree of participation. Under these aspects, even among liberal theorists were different views. Among the views expressed, the vehicle was the opinion expressed by Vintilă Brătianu which show that *srăină* be drawn, particularly for cross-border payment facilities for new businesses to finance large jobs and reducing debt, etc. Foreign capital may come in the form of state loans without impairing independence.

Disagreements among political groups, intervened in the role and degree of collaboration that had to be admitted on the regime would apply to foreign capital. "Most of these groups (People Party - Al. Averescu, Democratic Nationalist Party - N. Iorga,

conservative groups, Romanian National Party - an appointment and Peasant Party - Ion Mihalache) have called for the admission of foreign capital in the country, without restrictions to free competition confrontation with the domestic economic realm" [7] (Scurtu, & Buzatu, 1999).

Since 1918, the Romanian National Party Program measures were included integration of Transylvania into the national economic complex and equal treatment for strangers, is displaying "open gates" policy. For this policy circles championed local industrialists and landowners who collaborated with foreign capital, some industrialists in Transylvania and Banat with weaker economic position.

The emergence on the political scene of the National Peasant Party (1926, fusion) resulted in development of an economic program that emphasized the need administrative reform based on decentralization and local autonomy, organization of agricultural production, the development of cooperatives, credit granting peasants, free movement earths. The program includes also encourage industry based on energy sources of the country, supporting the development of small and medium industry and certain manufacturing industries and enterprises belonging. Industry protection was limited to the minimum necessary for the defense industries were just "normal conditions of development in the country" and national defense industries required. What has characterized economic policies in the interwar period, which actually defines neoliberalism was state intervention.

The birth of neoliberalism was the Constitution of 1923 made to modernize and adapt to the new postwar liberalism, with the state. The very popular "peasant state", as a means of state intervention and apply in practice the NPP program., did not preclude individual capitalism, but we accept it fall into a state program, guided by particular forms arising from the realities of the Romanian economy. Towards the end of the fourth decade, the economists and increasingly oriented towards economic policy of state intervention that to be controlled, directed and developed, along with the other form of property, but that does not negate operators based on individual property. Corporatist doctrine of Mihail

Manoilescu, M. Constantinescu, I. Veverca, was inspired by Italian corporative model and seek to integrate some principles of this doctrine in Romanian society structures, according to the new priorities of the state.

## Conclusions

In the interwar period, circulated political ideas that defined the exchange economy as a way of organizing of the economic activity, relied on market objective mechanisms, targets which revealed the forces of free enterprise, the ratio of supply and demand determined the principles of priority in the allocation and use of material, human and financial resources.

In such an economy, activities of economic agents underwent rigorous examination, but the law of the market, it rewarding or sanctioning, as appropriate, work carried out in all the cells of the national economy. Criteria with which operated, were those of efficiency and consistency of economic activities, with the effective needs of the society.

## References

- [1] Nenciu, Daniela, Strategii și politici de marketing în turism, comerț și servicii, [Marketing Strategies and policies in tourism, trade and services], Editura Pro-Universitaria, București, 2013.
- [2] Hăgan, Trofin, Politica și democrația, [Policy and democracy] Cluj-Napoca, Casa de editură "Sarmis", 1995.
- [3] Ionescu, Take, Istoria gândirii economice din România, [History of Economic thinking from Romania] București, Editura Economică, 1996.
- [4, 5] Lungu, Ion, Sorin Cosma, Gândirea economică, [Economic thinking] Constanța, Editura Companiei Naționale Administrația Porturilor Maritime, 2002.
- [6] Puia, Ilie, Istoria economiei [History of economy], București, 1991.
- [7] Scurtu, Ioan, Gheorghe Buzatu, Istoria românilor în secolul XX (1918 - 1948, [Economic history in the XX-th century 1918 - 1948], Editura Paideia, 1999.

## A New Vision Regarding the Competitive Advantages in the Romanian Pharmaceutical Market

Margaritti Doina

"Ovidius" University of Constanta, Faculty of Pharmacy

[ge\\_conta@yahoo.ro](mailto:ge_conta@yahoo.ro)

### Abstract

*Competition in the pharmaceutical industry assures maximum efficiency regarding the use of a company's capital in comparison to other competitors that have the same sphere of activity. Creating and maintaining a competitive advantage in the pharmaceutical market is achieved through measures, specific methods that are used by companies in the pharmaceutical industry like planning and production strategies, an efficient use of raw materials, innovative research and development activities and through specializing the work force, thus determining a higher efficiency for the players in this field and an increased efficiency obtained by the competing companies. The new competitive advantage concept is based primary on active, selective policies that are directed to achieve certain targets in the pharmaceutical markets competitiveness, which is focused on four pillars: the company, the competition, the favourable national environment and the adequate economic policies that are oriented and applied to the drug producing companies, the state institutions and the European Union organisations.*

**Keywords:** Competitive advantage, innovative and generic drugs, research pharmaceutical industry.

**J.E.L. Classification:** I11, L65, P52.

### 1. Introduction

The global pharmaceutical industry is defined as a global drug market, and the development of the drug producing companies is strongly influenced by the level of international cooperation between pharmaceutical companies, but also from an

intense competition as a result of certain companies having competitive and comparative advantage over other pharmaceutical companies.

After 1980, almost 80% of the global drug production was concentrated in the US, Germany, England, Switzerland, France, Japan, Canada, Holland, Belgium and Denmark where the competition on the pharmaceutical market is now taking shape in the form of conquering new markets as well as the competition between innovative and generic drug producing companies. The Romanian pharmaceutical industry before 1989 was part of the chemical industry, all the drugs were domestically produced and it was dominated by local factories like: : UMB București, Antibiotice Iași, Terapia Cluj, Armedica Târgu Mureș, Biofarm București, Sintofarm București.

After 1990, private generic drug producers started to appear and their numbers and turnover, have recorded continuous growth. Shown below are the AMPGR members (The Romanian generic drug producers association)(Annex no.1)

In Romania, drug production, marketing, control and quality assurance are all rigorously regulated and supervised by the National Drug and Medical Devices Agency (ANMDM). The industrial drug production is carried out only in specialized units, authorized by the ministry of health based on the recommendations given by the European BPF Euro(Guide de Bonnes Pratiques de Fabrication des Medicaments), and the American GMP(Good Manufacturing Practices-1964) but also on the Romanian guide „Reguli de Bună Practică de Fabricare”.

### 2. The objective and the aim of the study

The aim of the study is to highlight the way the actual tendencies of the competitive

and comparative advantages manifest themselves in the Romanian pharmaceutical industry.

### 3. The materials and methods used.

The materials used and analyzed retrospectively, are the papers and the reports, offered by the local and global scientific literature but also, the data received from the pharmacy that was analyzed.

### 4. Results and discussions

#### The competitive and comparative advantage - a contemporary approach.

Table no.1 -The comparative situation of work units according to the Ricardian model.

Product/country	Portugal	England
Wine	80 w.u.	120 w.u.
Cloth	90 w.u.	100 w.u.
Total	170 w.u.	220 w.u.
Total w.u.consumed	390 w.u.	

Source: ASE.Bucuresti, „Economie”, 7-th edition, Pub.Economică, 2005,pag.35-37, 45, 224, 326;

After they became specialized in a single product, the mutual benefits of both countries will be seen through the work-time saved, that would have been needed to produce both of the necessary items. After their specialization Portugal spares 10 work units, and England spares 20 work units and in total both countries will spare 30 work units. After the ricardians theory logic, each country obtains relative advantages from exchanging goods between them, but the amount is not equal. Each country devotes its capital and its work force to those activities that are most profitable for them.

Later, Michael Eugene Porter (1947) approaches strategies regarding competitiveness and economic development of nations, states and regions, but also new developing and transformation strategies for the public health system with direct implications over the drug suppliers.

In the last decade in Romania, the academician Aurel Iancu, in his paper „Liberalization, integration and the industrial sector” presents the theory of industrial advantage, the development and integration of Romania in the European Union, the new concept and the perception of the comparative and competitive advantage to the national industry level.

The commerce problem and the international commercial policies have drawn the attention of British economists during the industrial revolution period, therefore the theory of comparative costs and relative advantages in the international commerce, theory launched by the well-known economist David Ricardo.

This theory claims that positive results can be obtained by holding the comparative advantage through the known „Ricardian model of international commerce”, with two countries England and Portugal, and with two products, wine and cloth and by determining the total work time allocated for these products, as a whole for each country.

#### The competitive advantage typology in the pharmaceutical industry

The competitive advantage manifests itself through the organizations ability to realize a superior performance in comparison to its competitors, and to be able to record an increased efficiency

Therefore, supplementary financial resources are needed to invest in superior technology, in research, in marketing activities, in order to rise consumer satisfaction, sponsorships, and last but not least more employee advantages. Actual tendencies of the competitive advantage in the pharmaceutical industry are materialized through:

**-the competitive advantage through differentiation,** in a concurential environment where the pharmaceutical company offers a good, original product as being unique, excluding the lower price of competing companies.

**-the competitive advantage of a lower cost,** more exactly, the superiority regarding the realized cost of a generic drug with the same therapeutic effect;

Innovation determines the competition between pharmaceutical companies that discover new active substances that treat the

same affliction, but also competitiveness between countries and even between geographic areas as they are presented in the chart below. (Annex no.2)

Therefore the unicity in the pharmaceutical industry is identified through the added value, as a result of:

- understanding and satisfying the patients individual needs;
- recovering the patients state of health, reducing budgetary expenses and even personal expenses and their integration in the social-economic environment;
- identifying the unique opportunities offered by discovering a new treatment formula but also the creative exploitation of the financial benefits offered through this „unicity”.

The competitive advantage offered through reduced costs, in the pharmaceutical industry, can be realized by having the following sources: scale economics, economy through learning and innovation, technology and projection of production processes as well as products, the efficient use of the existent production capacity or even expansion towards new markets, the entry costs of resources used for production, especially the work force costs, but also by reducing losses to a minimum.

Economy through learning can also be found in the pharmaceutical industry, a permanent employee instruction through the so called „life learning,, which removes accumulated routine and the results can be seen through the drugs lower costs.

At the European level, the pharmaceutical industry represents a sector of activity that holds an interest for the specialized work force, especially in European countries with a tradition and a growth in their numbers, especially in generic producing countries that have appeared recently in the east of Europe, that are competitive from an employee cost point of view, costs that are lower than the rest of Europe. (Annex no. 3)

The competitive advantage by using high-technology and due to the increased production capacities, determines the reduction of production costs and creates a comparative advantage over other companies with the same main activity, but also a permanent addition to the pharmaceutical market demands. (Annex no.4)

The competitive advantage regarding the redesign of the production processes and

products in the pharmaceutical industry can be found in the costs, on the condition of using biotechnology that takes into account the usage on new pharmaceutical forms with new methods of absorption of the active substance. This competitive advantage can determine and influence competition, especially when talking about original drug producers and generic drug producers that use the same active substance and pharmaceutical form.

For example trimatazidinum its main active substance, synthesized by Les Laboratoires Servier Industrie from France, used in long treatment of pectoral angina, creates a competitive advantage through its price, in comparison to drug producers that market drugs with the same active substance, respectively the generic drug producers on the local market. (Annex no. 5)

The competitive advantage created by the efficient usage of production capacities have to be taken into account in short term by adjusting the current production level as an important cost reduction source, creating an competitive advantage amongst competing companies.

The competitive advantage created by the entry costs refer primarily, to the costs regarding supplying the raw materials and materials, but especially the costs with the work force as a core element in the total cost production structure. These costs that have a high share in the price of a drug have to be periodically analyzed as well as the possibilities of reducing them.

Lately an expansion of innovative drug producing companies can be seen towards less developed geographical areas, with a more numerous population, but also merging with other local companies to benefit from the competitive advantage created by using a qualified work force at a lower cost in comparison to the country of origin, towards areas where the demand is continually growing and by conquering new markets.

According to an article published in the Guardian, the American state and the innovative pharmaceutical companies are pressuring India, Peru and Columbia to change their legislation, to acknowledge drug property rights that are still under patent. India is the largest generic drug producer in the world (it is the lifeline of the third world) named the pharmacy of the third world

countries, which exports more than half of its generic drug production to under developed countries, approximately 10 billion dollars.

Thus, the German pharmaceutical company Bayer, that holds the patent for the drugs needed to treat cancer, like the innovative drug Sorafenib, which initially granted the production rights to an Indian company Natco Pharma, to produce its generic equivalent, now wishes to withdraw this right, because it lost money when trying to export its original drug.

So, in India the cost to treat a cancer patient with the original drug Sorafenib would have an annual cost for the Indian patients of approximately 70.000 dollars, while if obtaining its generic equivalent would only cost 3% of the price of the innovative drug. This realizes a competitive advantage from a cost point of view, after paying the license, even realizing a profit.

The principal of chance equality and equity are not only of the Indian patients, doctors from nongovernmental organizations like „Medecines sans Frontieres” doctors without frontiers supply themselves with generic drugs approximately 80% in order to sustain their charitable actions, so they are able to save countless lives. Therefore the competitive advantage through cost in the drug producing companies can only be realized through a rigorous cost production control, through an excessive work force specialization, but also through technical process competencies and abilities with clear targets and with measures to obtain and realize the needed efficiency indicators.

### **The durable competitive advantage in the pharmaceutical industry- a praxiological analysis**

In order to assure a sustainable competitive advantage for a longer period of time, by using a drug companies fundamental competences it is necessary to efficiently use resources, regardless of their type, and also their strategic capacities.

Durable competitive advantage means that the competitor's action strategy is to add value to the shareholders, and that the strategy has to be flexible to the opportunities that the pharmaceutical market offers and that cannot be reproduced or acquired by other competitors.

The advantage model, created by the Danish Wernerfelt Birger (1991) is known as the firm image that builds its competitive advantage on its resource, capabilities, competencies and strategy basis. In order to create an added durable value, these elements have to be valuable, rare and they must not be replicable by the competitors. (Annex no. 6)

The pharmaceutical companies that do not succeed in obtaining competitive advantages through diversification and reduced costs will be located or „held back” so says M.E.Porter and he affirms that organizations must make strategic fundamental options, regarding price alignment with competitive firms and have a judiciously identified target. In sustaining and continuing these theories, the Danish economist Wernerfelt Birger, in his paper „The comparative advantages of firms, markets and contracts: A Unified Theory”, approached the problem of identifying the elements that make up the firms durable competitive advantages.

### **The Realities and tendencies of comparative and competitive advantage of the global pharmaceutical market**

The competition in the Romanian pharmaceutical industry has the general specific traits of the global pharmaceutical market, the difference appears especially in the entry costs regarding the work force that activates in this area. In the Romanian pharmaceutical market there are research and development companies, companies that market and promote innovative drugs, companies that produce and selling generic drugs and also pharmaceutical companies whose mission is biotechnology research, pharmacogenomics and the research of new drug release technologies.

As a common trait at a national as well as on a global level, the local pharmaceutical market has the same evolution tendencies, the only difference is the rhythm of the recorded year. The dynamic of the pharmaceutical market at the global level has recorded permanent growth of over 7% annually until the economic crisis started, when the growth stopped in 2009 and a 2% up to a 5% drop was recorded in 2012 in comparison to 2003, respectively a value of 959 million dollars. (Annex no. 7)



Regarding the tendencies of the pharmaceutical market in Romania it can be said that it recorded a significant growth rate up to 32% in 2005, respectively 17,37% in 2007, but this growth rate stopped and started to decline starting with the economic crisis and peaked in 2009 when negative values were recorded in comparison to 2008. This drug demand evolution was primarily determined by the patient's lower income, and because the state reduced the sums allocated for health insurance, prolonging the reimbursement of drugs released on a medical prescription for a period up to 300 days.

Another characteristic of this industrial branch is the fact that most original drugs, after their patent expires can engage in a direct competition with its generic equivalent.

As a global tendency the generic drug market will register a significant growth in the future, due to the patent expiration of key drugs, but also to the government's actions and the actions of the public health systems from all over the world that want to reduce their health costs as a result of permanent budget reductions. At the same time it is believed that the generic drugs will be more in demand on developing markets, the primary consumers being China, Brazil, Russia, Turkey, and South Korea that have a huge production, consumption and export potential. According to a study realized by countries from Europe, Asia and USA, presented by Frost and Sullivan in their paper „Generic Pharmaceuticals Market - A Global Analysis”, the generic drug market registered in 2010 a 123.85 billion dollars and for the next 8 years they estimate an annual growth rate of over 9%, estimated to reach approximately 231 billion dollars.

During 2010-2017 it is appreciated that the patents that are about to expire are worth 150 billion dollars and that these will open up a new market segment for the generic drugs. The primary competitors, generic drug producers have formed the so called strategic alliances with the property right owners, in order to gain exclusive production rights, only for certain, soon to be key, generic drugs.

Therefore companies like Teva, Sandoz and Mylan have obtained exclusivity in the production of bio similar drugs, for example

drugs that are needed to treat cholesterol and to reduce triglycerides like the innovative Crestor, as presented in the Annex no. 8.

From the presented analysis it can be seen that the analyzed pharmacy has released the innovative drug, realizing a trade margin of 0.45 ron (14, 1% the average trade margin), for the released unit, while the generic drug Roswera realized a trade margin of 0.31 ron per released unit (18% of the average trade margin) so the pharmacist is more interested to release the treatment scheme with the innovative drug.

From the presented data and by using Browns prevision method, the global generic pharmaceutical market is growing and it is estimated to reach 231 billion dollars.

If we analyze the competition of the primary generic local producers for Captopril 25mg, drug that is used to treat arterial hypertension, it can be seen that the production price is very similar between producers, between 1.96 and 2.66 ron, cost determined mainly by using a cheaper work force in comparison to the innovative drugs producing company as presented in the Annex no. 9.

### **Generic-descriptive approaches regarding the local generic drug competition**

The innovative drug producers set the rules regarding the selling of patents to their partners, generic drug producers. If there are more generic versions for the innovative drug available on the market, the local distributors and pharmacists will decide which generic will substitute the original drug. The generic that will offer the greatest stimulant, that will offer a higher discount from the distributors, will be stocked first and the first one sold. The price they have made these generics to be in direct competition.

If the public health systems are tempted to stimulate generic drugs, these being cheaper, the pharmacists are interested to obtain a more favorable financial advantage, promoting innovative drugs. Because of practice, the doctors, do not receive any incentives if they promote generic drugs thus they prefer the original ones, but they cannot intervene if a patient prefers a generic equivalent.

When the generics enter the market, the competition can rise when a pharmacy

supplies it self with only one drug, even though alternatives exist with the same active substance, that have the same therapeutic effect. The battle between innovative companies and generic companies is always ongoing, because on one side there is the right to protect property over a drug, as the primary source of recuperating and encouraging research and development, but it also represents the possibility of a cheaper drug emerging on the market with the same therapeutic effect and with direct implications on the patients budget and the public health budget.

The pharmaceutical industry and drug distribution in Romania has undergone considerable evolution in the last 20 years, reaching in 2012 a total volume sales up to 2630 million euros, where from a value point of view, Romanians pay 70% for foreign drugs and only 30 % for generic drugs (Annex no. 10.)

The national tendencies as well as the European and global tendencies is to recommend those drugs that assure an optimal cost/efficiency report but also those that offer a high access to essential drugs. In Romania the generic pharmaceutical industry has recorded a constant growth rate, the tendencies that need to be keep in the next period, and the competition on the market appears between national producers and distributors, the latter being followed, in their great majority being the ones that import the distributed drugs. According to the data offered by the National Drug Agency and Medical Devices out of the 45 Romanian drug producers for human use, most of the drugs authorized to be marketed are produced by Sicomed SA, Terapia SA, Antibiotice SA, Gedeon Richter Romania SA, LaborMed Pharma SA, Biofarm SA and Sindan Pharma SA. (Annex no. 11.)

The competition at the pharmacy level is a different one, it is determined by the community pharmacy belonging to the pharmacist and the pharmacies belonging to the pharmaceutical chains like Sensiblu, HelpNet, Catena and City Pharma. Starting with the year 2014, the health authorities introduced in the National Compensated Drug Catalogue(CANAMED) new innovative drugs even if the budget did not allocate a supplementary budget to cover the price difference in comparison to its generic

equivalent. According to the estimates realized by the National Romanian Generic Drug Association, including new innovative drugs on the compensated and free drug list for which the government did not supplement the budget will determine in its turn a new increase in the total drug value.

In September 2013 KPMG Romania in collaboration with The National Romanian Generic Drug Association came up with a measure plan, which if applied, by using generic drugs prudently would help save 100 million euros, for the patients as well for the national health budget. For example replacing a single innovative drug used for treating cancer with its generic equivalent would help the national health system save 2 million ron per month.

In our country the competition between the major pharmaceutical companies is a unique one, the major international companies have partnered up and seized the actives of the Romanian drug factories, therefor developing the generic equivalent of the drugs whose patent expired. The company Sandoz took over Pharmatech TarguMures, Ranbaxy took over TerapiaCluj, and Sicomed was taken over by Zentiva that produce almost 235 of the local generic drugs commercialized.

In the terms of Romania joining the European Union and opening the global pharmaceutical market, the local and international competitively has become a major problem for the Romanian pharmaceutical market, but also a matter of Romania's existence in general. Evidence of the local pharmaceutical market competitiveness is the fact that 30 % of the local generic production represents parallel exports that reach approximately 3billion ron. The Antibiotice Iasi factory that occupies the 11'Th place in the local producers top, exports over 30% of its production, and for over 20 years it exports ampicillin to the USA and it is the second world wide producer of Nistatin.

In conclusion the national practices, the market shares they hold and that are even imposed, the fusions and acquisitions of pharmaceutical companies could become real barriers in the way competitiveness growth in the local pharmaceutical industry in comparison to other global pharmaceutical producers, that are more powerful from a

turnover point of view, more powerful from a financial and a technological point of view, better organized and with a superior market division in comparison the Romanian local generic producers.

### 5. Conclusion

The competition in the pharmaceutical industry assures a maximum efficiency of capital usage in comparison to other competitors in this area. Creating and maintaining a competitive advantage is realized through specific planning, production, usage strategies, an efficient entry use of raw materials and consumables, an efficient research and development activity and last but not least by specializing the work force.

The comparative advantage in the local pharmaceutical industry is visible in the generic industry, as well as the advantage offered from a price point of view and these provide the necessary drugs that are supported totally or partially from public

sources and that they should be granted priority.

### 6. References

- [1] A.S.E.Bucuresti -,„Economie”, ediția a -7-a, Ed.Economică, 2005
- [2] Blaga I.,- „Tipologia structurilor de ramură ale economiilor naționale contemporane. Raportul dintre industrie și agricultură”, în: Tratat de economie contemporană, Vol.2, Ed. Politică, Buc., 1987
- [3] Porter Michael.E., Competitive Strategy, The Free Press, New York, 1980,
- [4] OECD, Eurostat and WHO (2011) „A System of Health Accounts, 2011 Edition, OECD Publishing, <http://dx.doi.org/10.1787/9789264116016-en>.
- [5] Vogler,S.(2012), ”The Impact of Pharmaceutical Pricing and Reimbursement Policies on Generic Uptake: Implementation of Policy Options in Generics in 29 European Countries-An Overview”, Generics and Biosimilars Initiative Journal, Vol.1, No.2, pp.44-45

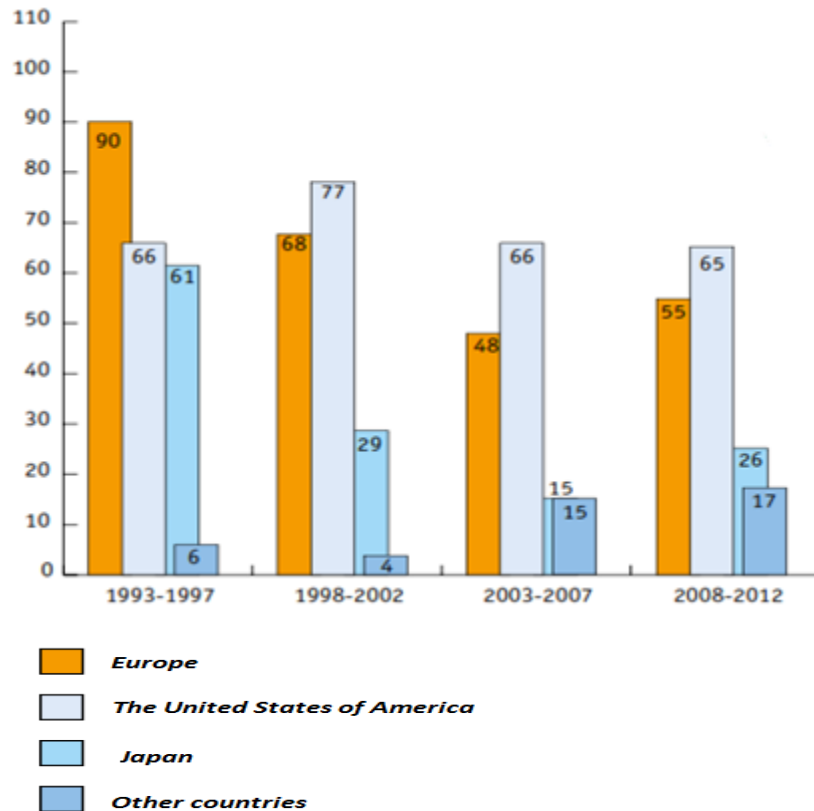
ANNEXES:

Annex no.1 Map of the main Romanian drug producers in the year 2012.



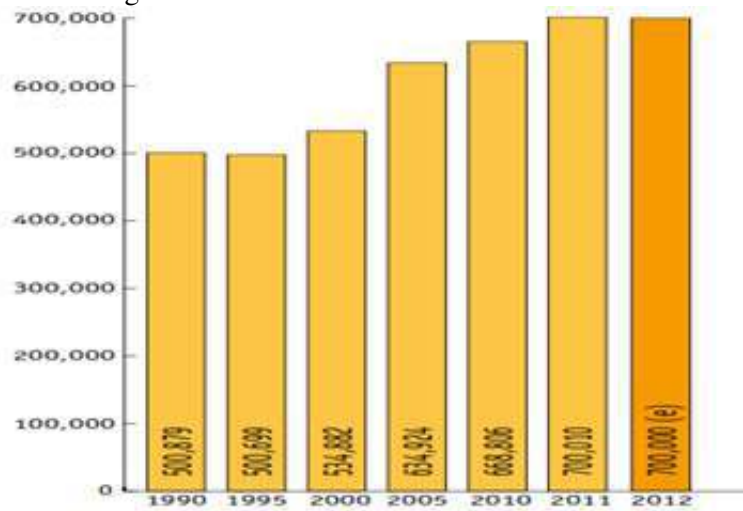
Source: AMPGR (2012)

Annex no.2. Chemical and biological entities discovered during 1993-2012 spread a cross the main geographic areas.



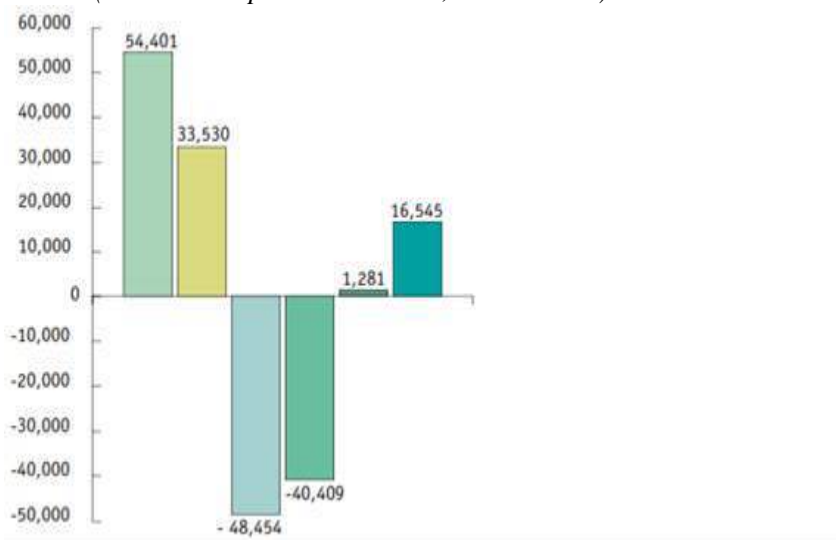
Source:SCRIP-EFPIA, 2013, determinations depending on the origin of the innovative company.

Annex no.3 -The estimative evolution of employees in the pharmaceutical industry at a European level during 1990-2012



Source: European Federation of Pharmaceutical Industries and Associations, 2013

Annex no.4 – The commercial balance regarding the usage of high technology on certain activity sectors.(2012 in comparison to 2011 ,billion euros)



- **The pharmaceutical manufacturing industry**
- **Machinery and energy producing equipment manufacturing industry**
- **Calculating equipment manufacturing industry**
- **Telecommunication, video, audio and TV manufacturing industry**
- **Electrical equipment manufacturing industry**
- **Scientific, Professional, Material Control equipment manufacturing industry**

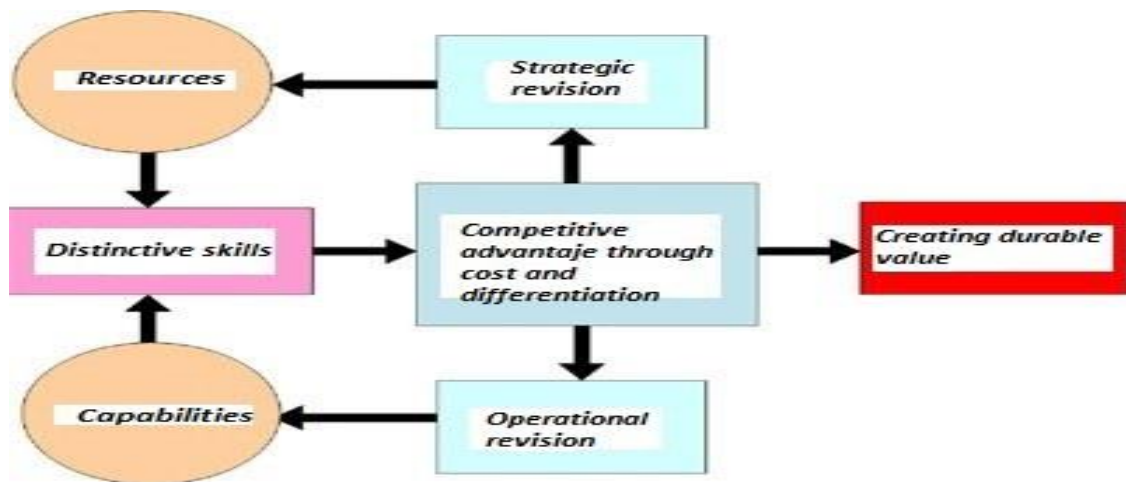
Source: Eurostat, COMEX data base, may 2013

Annex no.5. The comparative situation of generic drugs with the same active substance ,, Trimetazidinum,,

Crt. no.	Name	Pharmaceutical Form	Producer	Price (ron)
1	Dilatan, 20 mg,	30 comp. filmate	TERAPIA SA.	14.61
2	Moduxin, 20mg,	30 tabl.	GEDEON RICHTER ROMÂNIA	7.61
3	Trimetazidină LPH, 20 mg.	60 tabl.	LABORMED PHARMA SA	15.24
4	Trimetazidină LPH, 35 mg.	60 extended release tabl.	LABORMED PHARMA SA	33.39
5	Trimetazidină 20 mg.	30 pills	TERAPIA SA	14.30
6	Trimetazidin Vim Spectrum, 20 mg.,	30 cap.	SC. VIM SPECTRUM SRL	7.61
7	Apstar 35 mg,	60 extended release tabl.	GLENMARK PHARMACEUTICALS SRO, Chehia	33.41
8	Trimeluzine, 35 mg.,	60 extended release tabl.	SANDOZ România	26.64
9	Trimetazidină ATB, 35 mg.,	30 extended release tabl.	SC ANTIBIOTICE SA.	16.72

Source: CANAMED, 2014

Annex no.6. The resources and capabilities that are based on the firm's image in order to create a competitive advantage through cost and differentiation.



Source: Journal of Technology Management & Innovation, 2013, Building a Sustainable Competitive Advantage, Mukesh Srivastava and others.

Annex no.7 The dynamic of the global and national pharmaceutical market during 2003 and 2012.

Indicators	2004	2005	2006	2007	2008	2009	2010	2011	2012
The value of the global market(mld \$)	601,1	645,5	691,0	739,5	786,7	842,6	889,4	936,9	959,0
Growth in comparison to the previous year(%)	7,8	7,4	7,1	7,0	6,4	7,1	5,2	5,3	2,4
The value of the global market in Romania (mld Euro)	-	1,23	1,54	1,18	1,95	1,91	2,29	2,55	2,63
Growth in comparison to the previous year(%)	-	32,00-	22,55	17,37	6,68	-0,98	6,73	11,45	5,0

Source: IMS Health, IMS Midas, December 2012, CecedimRomânia, own analysis

Annex no.8 –The comparative situation regarding sales and cost for an innovative and a generic drug that have the same active substance Rosuvastatin

Commercial Name	Producing company/ Country of origin/Supplier	Innovative Generic	Price depending on concentration (ron)				Outputs 2013 (Tablets) All concentrations
			5 mg	10mg	20mg	40mg	
<i>Crestor</i>	AstraZeneca/Gre at Britain	Innovative	64.52	74.16	112.24	-	11.486,00
<i>Rostat</i>	Gedeon Richter/Hungary	Generic	44.94	51.66	77.47	77.47	670,00
<i>Rosucard</i>	Zentiva/ Czech Rep.	Generic	-	15.64	17.34	33.91	0
<i>Rosuvastatina Labormed</i>	Labormed Pharma/Romania	Generic	26.01	26.04	47.97	63.69	0
<i>Rosuvastatina TEVA</i>	TEVA Pharmaceuticals/Romania	Generic	33.89	35.91	62.26	77.47	0
<i>Roswera</i>	KRKA DD Novo Mesto/ Slovenia (FARMEXIM SA)	Generic	33.90	35.92	65.27	77.47	40301,00
<i>Roxardio</i>	Sandoz SRI/Romania	Generic	21.08	30.20	57.00	-	0
<i>Starcrest</i>	ALvogen IPSA SARL/Luxemburg	Generic	33.89	39.59	67.15	-	0
<i>Survall</i>	Glemark Pharmaceuticals SRO/ Czech Rep.	Generic	33.09	35.92	65.27	77.47	0
<i>Tintaros</i>	Actavis Group PTC EHF/ Island	Generic	18.00	26.45	35.51	47.62	0

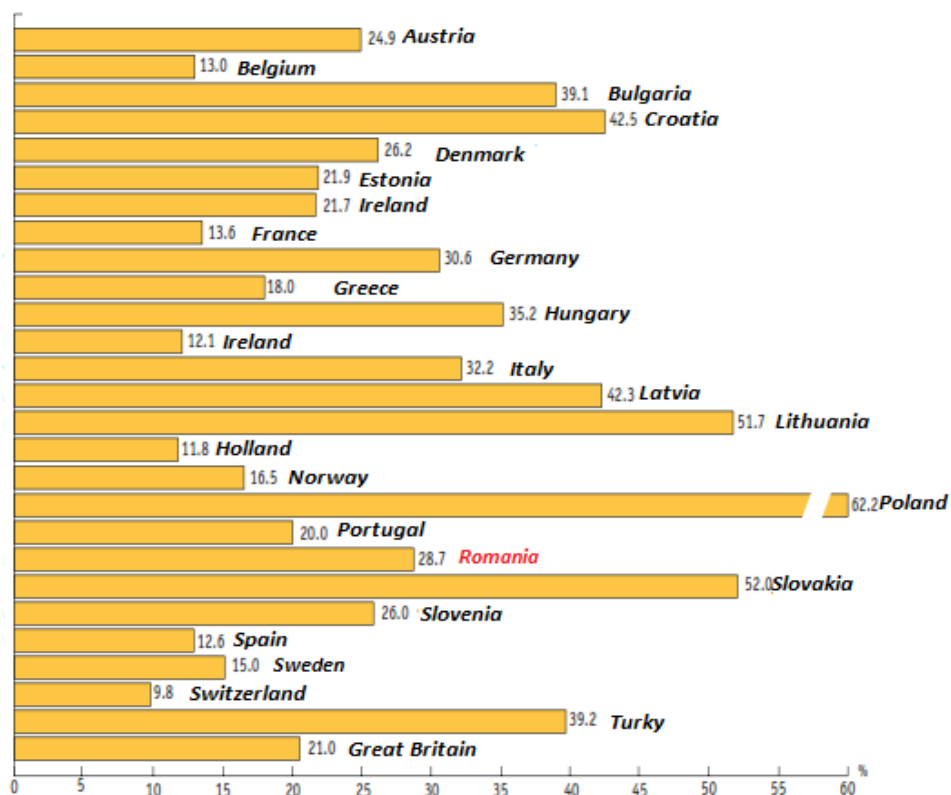
Source: CANAMED, The sales situation in a community pharmacy from Campina.

Annex no.9 The comparative situation of the drug captopril 25mg, product of local drug generic producing companies.

Crt .No	Producer	CAPTOPRIL 25 mg		Nr. Of products in their portfolio	No. employees	Average no.of products/ Of employees
		Production Price	Sales price			
1.	TERAPIA RANBAXI SA	2,66	4,10	200	850	0,23
2.	BIO EEL SRL	1,96	3,02	100	170	0,58
3.	FARMEX COMPANY SRL	2,04	3,14	31	25	1,24
4.	LAROPHARM INDUSTRIE FARMACEUTICĂ	1,96	3,02	70	165	0,42
5.	LABORMED PHARMA-ALVOGEN	2,22	3,42	100	250	0,40
6.	MAGISTRA C&C	2,22	3,42	40	120	0,33

Source: AMPGR, 2013, own analysis

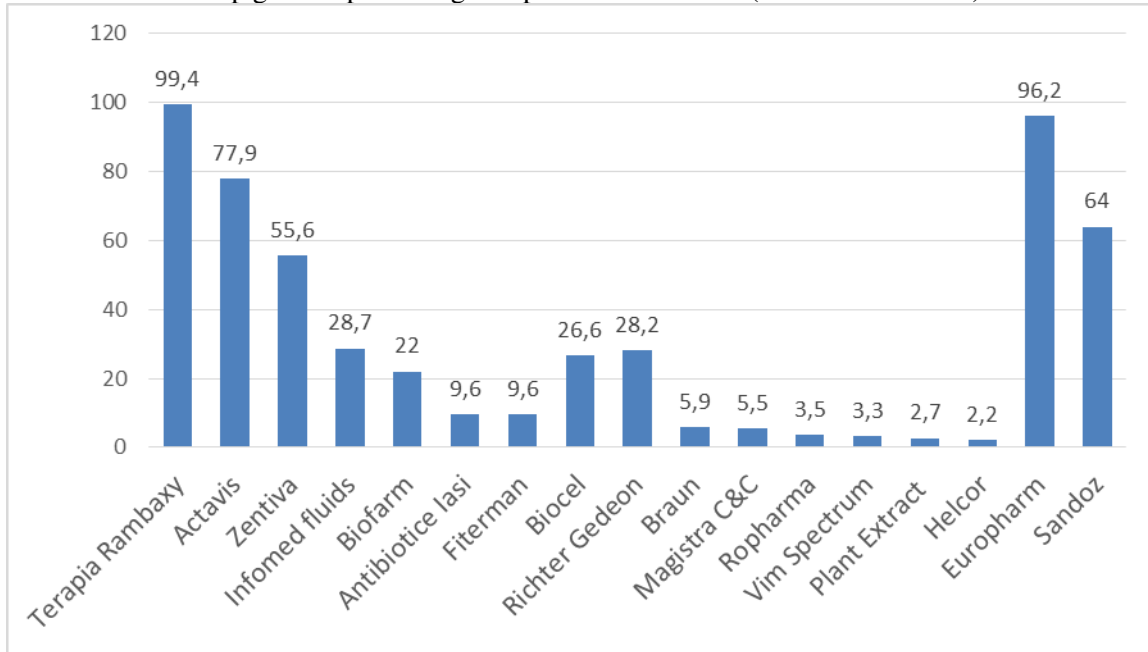
Annex no.10 -The market quota (%) occupied by generic drugs 2014



Source: EFPIA, 2012



Annex no.11 the top generic producing companies in Romania (billion euros 2012)



Source: AMPGR, 2012

# Energy Security and Critical Infrastructures

Popescu Maria-Floriana

*Bucharest University of Economic Studies, Faculty of International Business and Economics*

[mariafpopescu@yahoo.com](mailto:mariafpopescu@yahoo.com)

## Abstract

*The world has witnessed in the last few years new international threats that require an increased capability in raising awareness, prevention and action. The cross-border grids that have expanded in the European Union made the issues related to energy regional ones, because they affect the integrity and functionality of several member states. All the prevention and putting into action security measures have to be done under specific international regulations and technical aspects have to be taken into consideration to ensure efficiency, integrity and proper functioning of the operations. Considered a major issue, energy security has at least two relevant issues: security of the supply channel, with strong geopolitical matters, namely, the security of associated critical infrastructures.*

**Keywords:** energy security, critical infrastructures, availability, sustainability.

**JEL Classification:** E21, H56, Q43.

## 1. Introduction

In the last century, industrialization, technological progress and the rapid development of vehicles allowed the creation of huge wealth, raised the living standards of people and have animated mankind. Further progress and prosperity in advanced countries, as well as maintaining and extending the effects of Earth's development in all areas require uninterrupted access to energy sources. The world economy depends so much on energy sources that a rapid growth in consumption, a rise in oil prices or an unpredictable decline in oil production may have unexpected effects. In recent years, given that, globally, the world continues to remain under strong conflicts, the oil

production has been affected politically by three important circumstances - the 1974 Arab embargo, the Iranian revolution of 1979 and the Gulf War from 1991. To these events, the crisis between Russia and Ukraine which left the European Union without gas in the middle of winter or the Arab Spring that made the oil price to rise sharply or the crisis in Crimea and Ukraine about the exploitation of shale gas can be added. Energy crises caught on the wrong foot traditionally strong countries which do not have deposits of oil, natural gas and coal on their territory, and to ensure their current and future needs by transforming countries that possess deposits into territories with geopolitical stakes or into actors with great credibility on the world's chessboard.

As population, global economy and technology advances, conventional energy resources are depleted. Global efforts are geared towards diversification of the supply and energy mix, while reducing energy consumption intensity and mitigation of climate changes effects. In the long run, the supply and consumption of energy are subject to various shocks - such as the economic crisis of 2008-2009 or fear of another nuclear disaster like the one in Fukushima. However, most shocks are temporary and affect mainly the magnitude of long-term changes without fundamentally changing the general directions of growth, the evolution of the market shares of different fuels, the consumption in different regions or CO<sub>2</sub> emissions.

## 2. Context and Background

In most international debates regarding a way to establish a uniform definition related to critical infrastructure, experts are advancing proposals that leave room for interpretation. Although, in general, the definitions relate to the same theoretical

coordinates, at global level there are records of multiple perspectives in the field, which result in different action models, driven by different social, political and economic models.

For example, the European Directive 114/2008 defines critical infrastructure as "an asset, a system or part thereof, located in Member States, which is essential for the maintenance of vital societal functions, health, safety, security, economic or social welfare of people, and which disruption or destruction would have a significant impact in a Member State by reason of failure to maintain those functions".

In comparison, the approach to critical infrastructures' protection from NATO level is different from that of the EU, because it is regarded from the perspective of civil emergency defence. For this reason, there are not established any regulations and common rules in the field.

The critical infrastructures include the banks and the financial system of a country, information and communication structures, energy systems (including the production and transport of electricity, oil and natural gas), physical distribution structures of resources (such as rail, road, sea, air transportation systems) and support services of human vital activities (health, civil defence, police, army).

Achieving an integrated energy strategy must take into account the dynamics of networks that form the critical system. Although when establishing / implementing such a project (zero moment) it is known the configuration of critical infrastructures, in time, they undergo some changes (expansion of areas of reference or loss of this status, if case of system involution).

Current developments and context require reporting actual / decisive impact of climatic changes (natural disasters, landslides), expansion of terrorism and, more recently, the various factors arising from political developments or mutations occurring in the international economic architecture. An increase in the global energy consumption has led to competition for access to resources, while the number of suppliers is limited and, in some cases, has created monopolies and oligarchies. For this reason, energy security has become a strategic and political issue.

### 3. Energy Security

One of the most important themes of the foreign policy of a state is represented by energy, energy security being a major concern for the players of the political world scene. Both the United States of America and the European Union, along with China, Japan and other countries need additional resources of energy to be able to cover their national consumption. For this reason, energy security is one of the most important pillars of international security.

The concept of energy security depends on the perspective of the choices we make in time and how we balance the economy, the national security and the environmental issues. If energy security has ceased to be defined by simple terms relating to the provision of accessible and reliable sources, then what we mean when we talk about "energy security" today?

The broadest meaning of energy security refers to the availability of sufficient energy supply at affordable prices, thus focusing on the energy supply. It is clear that this is an elusive concept, because some parts of the definition are quite unclear: if this availability should be continuous, if sufficiency considers the heterogeneity of energy sources and, above all, how can be defined the availability in terms of the involved costs.

The interest for energy security is based on the idea that an uninterrupted supply of energy is essential for optimal functioning of an economy. However, a precise definition of energy security (also known as security of supply) is difficult to give because it has different meanings for different people at different times [1]. It has traditionally been associated with protection of access to sources of oil supply and the imminent exhaustion of fossil fuels. Specifically, the oil crises of the 1970s and 1980s made evident the dependence on oil exporting countries from the Middle East. Increased consumption of natural gas has made the issue of energy security to cover also other fuels. Because oil is now a commodity traded globally, the supply shortages of this fuel occur in oil prices on the world market as a long-term growth and short-term fluctuations. ([3] and [4]) As a result, the concept of energy security has moved away from a purely

physical definition of events relating to fossil fuels (mostly used by geologists) to one that also includes the price of energy (with high economic component). [4]

Being given the fact that price is a critical element, players constantly are trying to manipulate it. Great importers such as the US and Europe, whose economies are built on cheap oil, do their best to keep prices low, setting into motion, when prices rise too much, all kinds of diplomatic levers which put pressure on OPEC. In turn, oil companies try to manipulate by any means the market to increase prices and gain profit.

From this perspective, Pierre Noël, a researcher at the University of Cambridge, defines energy security as "access to energy resources of those who are willing to pay the market price". Conversely, when markets do not function naturally, we are facing energy insecurity situations.

From an economic perspective, energy insecurity is defined as a welfare loss results observed by a change in the price or the physical availability of energy [5]. Other authors define energy security as an externality. In this respect, Bohi and Toman are considering the cost of energy security in terms of two potential externalities: those related to changes related to the volume of imported oil and to the price volatility. Externalities of oil imports occur from the market power of exporters, because organizations such as OPEC may be able to maintain the market price of oil above the competition optimal level. Since energy exporting countries have non-competitive market behaviour, importing countries would know a market failure that provides incentives for the development of recovery of loans. Therefore, an unfavourable competitive market structure would affect accessibility in terms of energy prices, one of the main elements that can be found in all definitions of energy security.

Moreover, conversion and transport of energy are also mentioned in relation to energy security since energy supply interruptions can occur anywhere in the supply chain ([4] and [6]). In some cases, the system's ability to cope with extreme events such as hurricanes (e.g. Hurricane Katrina) or strikes or terrorist actions are also mentioned in the context of security of energy supply [7]. However, the political stability of

suppliers and transit countries appear in building energy security concept ([2], [7], [8], [9], [10] and [11]), since political scandals could also prevent energy supply (e.g. the crisis from Ukraine).

The concept and definitions of energy security have been developed over time. The current definitions ([7], [12], [13] and [14]), four main elements can be identified. The first and most dominant (included in all definitions) refers to the availability of energy in an economy, estimating reserves and resources for the most part, the relationship between the prices of natural resources and economically viable reserves, and developing recovery technologies ([15] and [16]). Then, there is an element of accessibility due to large gaps between consumption and production of resources, including also geopolitical and geostrategic issues concerning access to resources such as property, markets, oligopolies and property rights ([17] and [18]). Moreover, there is an element of costs in most interpretations of energy security, namely the availability in terms of price. The latter factor, which appears in some definitions, refers to sustainability (e.g. extraction of fossil fuels is associated with environmental damage such as toxic contamination of land and water sources or hazards that may occur during the exploitation process). Thus, according to the classification system proposed by the Asia Pacific Energy Research Centre [13] classifies the items related to energy security after: availability - element connected to geological existence, accessibility - geopolitical element, accessibility in terms of price - economic element, and sustainability - environmental and social element.

As a general conclusion, the energy security is a complex political, technical, economic, commercial and social concept. As axiom, there is no absolute energy security. It can be performed at an acceptable risk level, at an acceptable price. As a synthetic definition, energy security can be seen as ensuring continuity in power generation, in its various forms, with respect to restrictive conditions on a given time horizon.

#### 4. Romania – a critical infrastructures and energy security approach

The energy sector from Romania faces major challenges in meeting the growing energy needs of the country and implementation the EU Common Energy Policy. Romania's energy problems mirror those of the whole of Europe: while it is relatively rich in primary energy resources, it faces a rapid depletion of conventional energy resources internal (oil, natural gas and coal), an increased need for energy to support growth and a higher dependence on imports that has led to an increased focus on energy security. The main producers of electricity in Romania are Hidroelectrica, Nuclearelectrica, Electrocentrale Deva, the three power stations from Oltenia region (Energy Complex from Turceni, Rovinari and Craiova) and Electrocentrale București.

More specifically for the region, Romania's economy is facing a structural change, shifting from heavy industry, high energy consumer, towards energy efficient sectors and services, which started after 1989 and has not finished yet. Its energy capacities are largely obsolete and replacing them with modern technology requires huge investments, estimated at 30-35 billion in the next decade [19], of which more than half in electricity. Substantial investments have to be made also to prevent pollution and to have emission standards consistent with those of Europe.

#### 5. Conclusion

As people and things are becoming more connected and critical infrastructure systems are inherently international in nature, the impact of catastrophic events knows no geographical, legal or industrial boundaries. Global interdependencies in the common infrastructure may aggravate existing systemic risk, making the consequences non-linear and difficult to predict.

In this context, strengthening the overall resilience against catastrophic risk is critical for the ability to create, use and maintain effective multi-stakeholder partnerships. The public and private sectors should create formal channels of dialogue, interaction and coordination in order to understand in detail the risks before they occur and to be more

effectively managed, if they occur.

The consequences for international relations are of great importance. National oil companies will try to expand their international grids (especially in Africa), with political and financial support from their governments. In some regions around the globe, national concerns on the price level, employment and local energy can delay or derail market reforms necessary to facilitate cooperation in the energy sector and hinder investments in infrastructure. The biggest uncertainties regarding energy's future therefore remain: potential discoveries of new energy sources; industrial and climate change policies of large economies with rapid growth, such as China; the existence of a post-Kyoto international agreement; future political developments of major oil exporting Arab countries; growth rate of global GDP. Projections show that we will record an increase in primary energy consumption (by 35 to 50% by 2035 compared to 2008), while global GDP will multiply by a factor of 2-2.5, CO<sub>2</sub> emissions could increase by 25-40% and energy efficiency could improve by 30-35% over the same period [19]. This will happen, of course, if the world does not fall under a series of new economic crises.

#### 6. Acknowledgment

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/134197 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

#### 7. Bibliography

- [1] Alhajji, A.F., “What Is Energy Security? Definitions and Concepts”, *Oil, Gas and Energy Law* 3, 2008, available at [www.ogel.org/article.asp?key=2786](http://www.ogel.org/article.asp?key=2786).
- [2] IEA, *Energy Security and Climate Change*, Paris, 2007.
- [3] Toman, M. A., “International oil security: problems and policies”, *Resources for the future*, Issue Brief No. 02-04, Washington, 2002.
- [4] Frederic, J., “Energy Security: A Market Oriented Approach”, *OECD Forum on Innovation, Growth and Equity*, Paris, 2007.

- [5] Bohi, D., Toman, M., "Energy security: Externalities and Policies", *Energy Policy*, 1993, vol. 21, issue 11, pp. 1093-1109.
- [6] Scheepers, M., Seebregts, A., de Jong, J., Maters, H., "EU Standards for Energy Security of Supply – Updates on the Crisis Capability Index and the Supply/Demand Index Quantification for EU-27", *ECN Policy Studies*, 2007.
- [7] Chevalier, J.M., "Security of Energy Supply for the European Union", *European Review of Energy Markets*, vol. 1, no. 3, 2006, p. 6.
- [8] IEA, *Energy Security and Climate Change Policy Interactions*, Paris, 2004.
- [9] IEA, *Analysis of the Impact of High Oil Prices on the Global Economy*, Paris, 2004.
- [10] IEA, *World Energy Outlook 2004*, Paris, 2004.
- [11] Jansen, J.C., van Arkel, W.G., Boots, M.G., *Designing indicators of long-term energy supply security*, Energy research Centre of the Netherlands ECN, 2004.
- [12] IEA, *World Energy Outlook 2007 – China and India insights*, Paris, 2007b.
- [13] Asia Pacific Energy Research Centre – APERC, *A Quest for Energy Security in the 21st century*, Institute of Energy Economics, Japan, 2007.
- [14] Clingendael International Energy Programme – CIEP, *EU Energy Supply Security and Geopolitics*, 2004.
- [15] Eatherley, D., Morley, N., *Material Security: Ensuring Resource Availability for the UK Economy*, C-Tech Innovation Ltd., Chester, 2008.
- [16] Hetherington, L., Bloodworth, A., "Industrial minerals production in Europe: current situation and future trends", *Industrial Minerals*, no. 497, 2008, pp. 56-61.
- [17] Eswaran, M., Lewis, T.R., "Exhaustible Resources and Alternative Equilibrium Concepts", *The Canadian Journal of Economics*, vol. 18(3), 1985, pp. 459-473.
- [18] Mead, W.J., "The Performance of Government in Energy Regulations", *The American Economic Review*, vol. 69(2), 1979, pp. 352-356.
- [19] Gea Strategy & Consulting, *Energy Industry, a Growth Driver for Romania*, 2011.

## Romania and the Assessment of its Competitiveness Level

Șerbănel Cristiana-Ioana

*The Bucharest University of Economic Studies, Faculty of International Business and Economics*

[cristiana.serbanel@gmail.com](mailto:cristiana.serbanel@gmail.com)

### Abstract

*Competitiveness is one of the most important elements in the debates on the performance of nations, industries and companies. The examinations performed on 'competitiveness' reveals that there is a vital link between 'competitiveness' and the principal goals, the mission, of a nation and firm respectively, but these goals are not entirely covered by the measures used in present. The purpose of this paper is, firstly to define and explain the concept of "competitiveness". Academic interest in the area has continuously increased as a consequence of new developments contemplating conceptualization and understanding of competitiveness taking place. Notwithstanding, authors from different disciplines offer a variation in perspective when describing the concept. Secondly the paper presents different perspectives on the possibilities to measure competitiveness. In the end, Romania is positioned on the international level of competitiveness as a question for further research.*

**Keywords:** Competitiveness, productivity, Romania,

**J.E.L. Classification:** F12, F15, D40

### 1. Introduction

Starting with 1980s, the economic environment has registered various changes in prices, costs and exchange rates. These movements have been of different intensity according with every country's degree and potential of development. The influence of the second oil shock on countries was very distinct depending on the extent of their reliance on external energy supplies. This is the reason why, this rocketed rise in inflation

has long-lasting effects in some countries, but more short ones effects in other countries. Obviously, these transformations also have influenced the unit labor costs which again, have varied across countries. Lastly, there have been tremendous movements of the U.S. dollar exchange against other currencies. For instance between 1980-1985 period, the U.S. dollar exchange rate against the ECU doubled; it afterwards depreciated by 70%. [1]

All these shocks in prices, costs and exchange rates have influenced the competitive position of each nation and they have also been associated with major changes in trade balances.

The world economy is into a continuously changing environment, so, in order to maintain the position on the market is important to evaluate the level of competitiveness and to take the necessary measures in order to enhance it.

### 2. Competitiveness: defining the concept

The competitiveness approach seems to have been set off by USA in the early 80s. Then, an important number of books on competitiveness theory were produced and US created a Special Commission for Competitiveness which contributed the concept's flight across the Atlantic Ocean to Europe. In 1993, United Kingdom created a Competitiveness Unit and produced the first Competitiveness White Paper in 1994. Additionally, the European Union formulated White Paper on Growth, Competitiveness and Employment (EU 1994) and in 1995 the foundation of a Competitiveness Advisory Group (CAG). Also, the European Union, the United States (US) governments asked for establishment of committees such as The World Economic Forum (WEF) and the International Institute of Management Development (IMD), which annually

publishes competitiveness reports to measure and benchmark nations “competitiveness”. Nowadays, nations worldwide are endowed with competitiveness councils used as an instrument of strengthening and fostering economic growth.

However, competitiveness is one of the most misunderstood concepts of the 1990s and during the last 30 years it has drawn substantial attention of decision frameworks. For instance, it have been noticed that in 1983-1987 periods, the term competitiveness appeared more than 5700 times in the titles of newspapers and magazine articles [2]. The concept “competitiveness” is seen from different perspective according to each author’s believes. Herein there will be presented various definitions of the concept.

On the one hand, in Michael Porter’s perspective, “Competitiveness remains a concept that is not well understood, despite widespread acceptance of its importance” [3]. On the other hand, Krugman ignore the importance of understanding the concept by stating “Most people who use the term ‘competitiveness’ do so without a second thought” [4].

But there are also important definitions which states and try to explain better what competitiveness involves. For example, Scott and Lodge formulated a pioneering definition and it states that competitiveness is “a country’s ability to create, produce, distribute and/or service products in international trade while earning rising returns on its resources” [5]. In line with Scott and Loge definition, Tyson also says that competitiveness is “the ability of a country to produce goods and services that meet the test of international markets and simultaneously to maintain and expand the real income” [6]. Moreover, OCDE perceive competitiveness as “a measure of a country's advantage or disadvantage in selling its products in international markets.” [7] Additionally, if we take into consideration the dictionary definition, competitiveness is “the ability of a company, country, or a product to compete

with others” [8].

As it can be noticed also in the above definitions, competitiveness is strictly related to productivity, which in Belkacem’s perspective is the key to simultaneously achieve both low costs and high wages [9].

Moreover, according to Porter, competitiveness is now “one of the central preoccupations of government and industry in every nation” [10]. It is clear that, in order to survive on the continuously changing markets, all nations, industries and companies needs to think about their level of competitiveness and they must find measured to improve their competitiveness.

### 3. Measuring Competitiveness

Sometimes it is possible to obtain cost differences among suppliers of a given period although in present, there is no data base that offer a systematic comparison of absolute price or cost level for a wide range of goods produces in a number of different countries. Therefore, all that can be performed is to compare indicators which show relative prices or cost movements with the reference to a base period.

In Mattine Durand and Claude Giorno ‘s perspective, there would have been a best-case scenario if measures of competitiveness would have satisfied three basic criteria: (1) they should cover all sectors defined by competitions (e.g. all goods and services traded or tradeable); (2) they should include all the markets opened to competition; (3) the available data should be fully internationally comparable. Unfortunately, in practice, none of the indicators fulfill all these criteria. So, due to data or any other limitations any measure of competitiveness is actually a rough approximation of the ideal. [1]

Henricsson et al. and Chaharbaghi et. al. consider a set of measurements to be made in order to assess competitiveness as it follows in the following table. [11]

*Table 1. Measuring competitiveness*

<b>Measurement</b>	<b>Short Description</b>
Measuring performance	International market share is a frequently used as a measure of competitiveness. Balance of trade figures serve as an established measure of international performance at a national level.



	Any domestic market activity does not count as a measure of competitiveness.
Measuring potential	The theories of Comparative Advantage and the Diamond investigate basic factors like access to natural resources, skilled labour and capital as well as clusters of supporting industries and the sophistication of business strategies. Total Factor Productivity (TFP) and Productivity.
Measuring the management process	It enables a potential to be commercialized and turned into improved performance. It is generally qualitative rather than quantitative. Factors of the management process, e.g. marketing aptitude, internal and external relations and risk, change and knowledge management, create problems in terms of measurement and comparison.
Composite indices	On a national level, this has encouraged the WEF and IMD to use composite indices with a large set of variables in order to assess nations' competitiveness.
Measuring customer value	Customer values are the merger of several benefits offered for a given price, and includes all aspects of the physical product and the accompanying services. Different customers have different wants, needs and desires which lead to market segmentation.
Measuring the financial strength	The financial strength of an organization determines its strategic capabilities [12]. It can be measured through a variety of financial and non-financial measures. There can be measured: profit, ability to raise capital and cash flow.
Measuring of technology and people	Technology and people encompass those factors which define the strategic capabilities. Technological innovation can be perceived as the driver for changes in a competitive environment.

Source: Authors interpretation of Henricsson et al., Rethinking Competitiveness for the Construction Industry, 2004; Chaharbaghi R.F.K., Defining Competitiveness, 1994 [13]

*Table 2. Definition and field of application of the various measures of competitiveness*

Competitiveness	Type of weighting	Markets on which competitiveness is determined	Competitors on this market	Comments
Import competitiveness in the INTERLINK model		The home market of country j	All exports to market j	
Overall export-competitiveness	Double weighting	Export markets k of country i	All exporters and domestic producers	
Overall import and export competitiveness	Double weighting	All export markets and the domestic market of country i	All exporters and domestic producers on each market	
Export competitiveness strictly defined in the INTERLINK model	Double weighting	Export markets k of country i	All exporters to market k	Importers are assumed to be predetermined
Export	Single	The world	All exporters to	No account is

competitiveness	multilateral export weighting	market	the world market	taken of individual country export patterns
Export competitiveness	Single bilateral export weighting	Export markets k of country i	Domestic producers on each market k	No account is taken of competition among countries on third markets
Overall trade competitiveness	MERM type	All export and home markets of country i	All exporters and domestic producers on each market	Obtained by means of exogenous shocks using a multinational model

Source: Durand, M., Giorno, C., "Indicators of international competitiveness: conceptual aspects and evaluation", *OECD*, pg. 159

Durand and Giorno evaluated the field of application of the various measures of competitiveness considering the type of measurement, the markets on which competitiveness is determined and the competitors on this market. The results on this research can be noticed in *Table 2*.

#### 4. Competitiveness in Romania

A complex analysis over the degree of competitiveness in Romania does not represent the subject of interest for many researchers, this being also the reason for few studies available on this subject. However, there are also committed authors (see for example Valentin Cojanu papers) who are eager to find out what can be practically done in order to improve Romania's level of competitiveness.

A recent study analyzes Romania's development in 2001-2011 periods. The moment of European integration of Romania that took place in 2007 brought the following consequences: Krugman index increases and the rate of convergence of income per capita between the EU and Romania decreases. In 2007 there was a sudden deterioration in the trade balance of Romania compared to the EU, amid strong growth of imports from Member States, which only partially recovered in 2009 due to the economic crisis and declining imports tendency. Also, Romania's level of competitiveness has registered changes due to outsourcing activities. Mainly because of the existence of skilled and cheap labor foreign investors considered Romania an attractive location for investing their money. Moreover, between

2001 and 2011 Romania clutched many markets for its products and continued its openness to commercial activities. However, in relative terms of global trade, foreign trade deficit of Romania (which includes both manufacturing and products of other sectors including services) increased from 0.046 % in 2001 to 0.063 % in 2011, unlike the EU, whose foreign trade surplus reaches the equivalent of almost 2 % of total world trade. In absolute terms, the trade deficit of Romania also increased, both in general and in relation to the EU. Like the rest of the EU countries Romania has gone through a decade of growth of per capita income. Additionally, GDP in the EU and Romania have grown faster than world GDP to onset of the crisis in 2009, but, surprisingly, Romania's GDP continued to grow faster than the EU even by 2011.

All in all, it is clear that the evolution of Romania on the world and EU market is a growing evidence of the competitiveness of the country. [14]

Moving up to a global analysis, a recent study conducted by the IMD indicates the world rank in terms of competitiveness in 2014, comparing to 2013. So, in 2014, in the top there are located such countries as: SUA, Switzerland, Singapore, Hong Kong, Sweden, Germany, Canada. Romania is located on 47 positions, being followed by Hungary. Comparing to year 2013, Romania's level of competitiveness had increased, because it dropped from 55 to 47 ranks. [15]

In order to improve its competitiveness, Romania has access to a center, settled up in February 2005, opened as a joint venture

between the Hungarian Competition Authority (GVH) and the OECD, entitled OECD-GVH Regional Centre for Competition in Budapest. This center provides assistance and policy advice through seminars and training programmes on competition law and policy for officials in competition enforcement agencies and other parts of government, workshops, sector regulators, judges etc. Moreover, the Centre works to strengthen competition law and policy in Hungary and the GVH itself and it include the following countries: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Georgia, Kazakhstan, Kosovo, Kyrgyzstan, Moldova, Montenegro, Romania, the Russian Federation, Serbia and Ukraine. [16]

However, although Romania’s level of competitiveness is increasing, there is still a significant gap compared to the countries that have a high level of competitiveness. We believe that, in order to diminish this gap there should be made more investments in training and specializing labor, investments in technology and a simplification of bureaucracy. Also, Țurlea et. al, identified two features which can be improved as follows: (1) Romania export more raw materials and agricultural products than it imports , which means un internal processing potential un-explored enough , (2 ) Romanian products contain the lowest percentage of embodied services comparing to all EU countries. [14]

## 5. Conclusions

The growing importance of competitiveness is sustained by the changes in the nature of global competition that have put pressure in many nations to design sustainable strategies to improve and support prosperity. Defining the concept of “competitiveness” is still a challenge because there is no single measure that covers all the aspects of the concept and its interpretation differ considering the levels of analysis, the national and firm levels. However, all the definitions pursue the same principal objective: for companies: high, rising returns on investment to its owners and for a nation the mission is a high, rising standard of living for its citizens. The review of measures of

competitiveness reveals that there is no agreement on what measures are the most appropriate to assess the fulfilment of each of the proposed objective. Romania’s level of competitiveness on the world and EU market is growing and it tries to catch up its competitors. This is a direct result of the concerns on this aspect and of the available investments for research and development.

## 6. Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

## 7. References

- [1] Durand, M., Giomo, C., “Indicators of international competitiveness: conceptual aspects and evaluation”, *OECD*, pg. 148, available online at <https://www1.oecd.org/eco/outlook/33841783.pdf>
- [2] Waheeduzzaman, A.N.M., Ryans, J., Definition, perspectives, and understanding of international competitiveness: a quest for a common ground, *Competitiveness Review: An International Business Journal*, Vol. 6 Iss: 2, pp.7 - 26
- [3] Porter, M. E., Building the Microeconomic Foundations of Prosperity: Findings from the Microeconomic Competitiveness Index. In: *World Economic Forum (WEF)*, The Global Competitiveness Report. Geneva: World Economic Forum, 2002.
- [4] Krugman, P R Competitiveness - a dangerous obsession. *Foreign Affairs*, 1993, 73(2), 28-46.
- [5] Scott, B. R., Lodge, G. C., *US Competitiveness in the World Economy*. Boston: *Harvard Business School Press*, 1985
- [6] Tyson, L. D.A. Who’s bashing whom? Trade conflicts in High-technology industries. Washington D C: *The Institute for International Economics*, 1992
- [7] OECD Glossary of statistical terms – Competitiveness (in international trade), 2014, available online at <http://stats.oecd.org/glossary/detail.asp?ID=399>
- [8] Longman Dictionary, *Competitiveness*

- Definition*, available online at <http://www.ldoceonline.com/dictionary/competitiveness>
- [9] Belkacem, L (2002) Meaning and Definitions of Competitiveness. Posting at E-conference on Arab competitiveness, The Arab Planning Institute
- [10] Porter, M. E., *The Competitive Advantage of Nations*, London: Macmillan, 1990
- [11] Henricsson, J.P.E., Ericsson, S., Flanagan, F., Jewell, C.A., Rethinking Competitiveness for the Construction Industry, In: Khosrowshahi, F (Ed.), 20th Annual ARCOM Conference, 1-3 September 2004, Heriot Watt University. Association of Researchers in Construction Management, Vol. 1, 335-42, available online at [http://www.arcom.ac.uk/-docs/proceedings/ar2004-0335-0342\\_Henricsson\\_et\\_al.pdf](http://www.arcom.ac.uk/-docs/proceedings/ar2004-0335-0342_Henricsson_et_al.pdf)
- [12] Johnson, G. , Scholes, K., *Exploring Corporate Strategy*, Prentice Hall, New York, NY, 1993
- [13] ] Chaharbaghi, R.F.K., Defining Competitiveness, *Management Decision*, Vol. 32 Iss 2 pp. 49 -58, 1994, Available online at <http://dx.doi.org/10.1108/00251749410054819>
- [14] Țurlea G., Cojanu, V., Alexoei, A., Neculau, G., Petrariu, R., Avantajele competitive ale României pe piața internă a UE, *Institutul European din România*, 2014, available online at [http://www.ier.ro/sites/default/files/pdf/SPOS\\_2013\\_nr.4.pdf](http://www.ier.ro/sites/default/files/pdf/SPOS_2013_nr.4.pdf)
- [15] World Economic Forum (2014) The Global Competitiveness Report 2014–2015, available online at [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)
- [16] OECD, OECD-GVH Regional Centre for Competition in Budapest, available online at <http://www.oecd.org/countries/romania/oecd-gvhregionalcentreforcompetitioninbudapest.htm>

**Section II**  
**Business Economy and Administration**

\*\*\*

**Subsection 1**  
**Economic and Social Studies**

## Minimum Wage Increase in a Competitive Economy

Burghelea Cristina

Hyperion University of Bucharest, Romania

[crystachy@yahoo.com](mailto:crystachy@yahoo.com)

Bălan Mariana

Institute for Economic Forecasting-NIER, Romanian Academy

[dr.mariana.balan@gmail.com](mailto:dr.mariana.balan@gmail.com)

Vuță Mariana

The Bucharest Academy of Economic Studies, Romania

[marianavuta@yahoo.fr](mailto:marianavuta@yahoo.fr)

### Abstract

*Administrative prices, lower or upper price limit imposed by the state has consequences for employees and employers: an increase in the minimum wage is lower and is below the price of the offer is irrelevant to this situation, the emergence of rising inflation imposed minimum wage increase, so all employers would like to increase selling prices of products not to fail, directly generating involuntary unemployment imposed minimum wage increase, employers can not raise prices because they compete directly with other existing companies market efficiency activities will be reduced, it will go bankrupt and employees will no longer have a job.*

*Article demonstrates the importance of the minimum wage in a distorted economy and the way it contributes to competitive economic growth.*

**Keywords:** labor market; minimum wage; economic growth; competitiveness.

**JEL Classification:** F66; J21; F43.

### 1. Introduction

The labor market in Romania has many frictions with a multitude of market segments characterized by a dynamic monopsony type structure with a significant informal sector, with extensive evasion and salary payments in some cases only partially visible, with excessive labor taxation with a sustained export of human capital, macroeconomic conditions of economic stagnation and economic actors, worker and employer

Romanian, realistic surprised by the phrase "deceptively rational".

Increasing the minimum wage is a distortion. Under current conditions, the introduction of this distortion in a distorted economy like that of Romania may enhance economic efficiency.

Minimum wage appears in numerous studies to those on the phenomenon of hysteresis in unemployment to those on the impact on inequality of income distribution, human capital and economic growth. [1]

Given the extent of literature present opinion will surprise only those results that relate to similar situations to that of Romania and supporting measures to increase the minimum wage. In other words, while trying to keep within an academic debate will be manifest partiality.

Under the conditions described for the reality of the labor market in Romania (friction, monopsony segmental elasticity of demand on the informal market, etc.), not just as there is no consensus on the impact of increasing the minimum wage on unemployment but it is more likely that the effect will be exactly the contrary to the traditional literature suggested both short term and long term [2].

Increasing the minimum wage should not be made if the only arguments that can oppose them are likely promoters such as accounting macroeconomic rebalancing the pension budget.

Romanian National minimum wage has increased significantly in 2014 and will continue to increase from July 1, 2014, but will remain low compared to the minimum wage in other countries in the region. [3]

An increase in the minimum wage of 800 lei (about 180 Euros), as it was in 2013, 900 lei, is planned to take place in two steps, i.e. up to 850 lei, from January 1, 2014, process that has already taken place, and up to 900 lei, from July 1, 2014.

The minimum wage in Romania is the second lowest in the region after the one in Bulgaria (158 Euros), with approximately 50% lower than in other emerging countries of the EU, such as Croatia, Poland and Slovakia. Gross Domestic Product (GDP) per capita in Romania is approximately 40% lower than in the three countries mentioned.

Until now, the minimum wage increases have had a limited impact on competitiveness and wage awarded nationally. Despite a 10% increase in the minimum wage in 2013, average wages in the private sector increased by only 3.3%.

Today the minimum wage share in the average wage is about 37%, a percentage that has grown by about 4 percentage points in the past three years, when this percentage was 32.9%. In 2013 the share of the minimum wage in the average wage was about 35%.

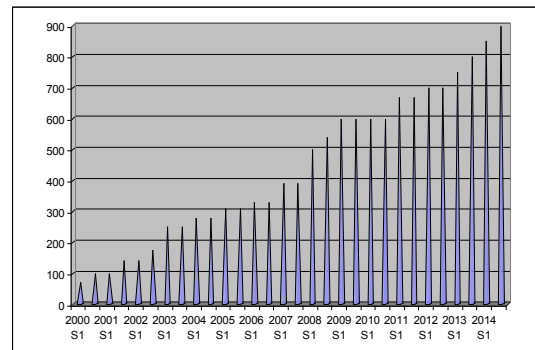
Unlike the average wage, which is calculated by dividing the total wage bill by the number of employees, median salary divides employees into two equal halves - half the employees earn less than the average wage, and half earns over.

To understand the difference, let's say 70-75% of the employees earn below average, and only 25-30% earn above average, average and thus irrelevant to the great mass of workers. Calculating such, the minimum wage in the median weight was 47.7% in 2011, reaching around 51.5%, a percentage that we stand again over many developed countries. [4].

A steep increase in the minimum wage could jeopardize employment options for the poorly prepared, for those who have a short-term contract of employment, but also for young workers. Given that Romania is facing a high rate of youth unemployment (averaging 23.2% in the first nine months of 2013) and the increasing number of employment contracts indefinitely, due to changes the Labor Code (from 8.2% of all employment contracts concluded in 2012, to 8.4% in 2013), a higher minimum wage could have negative consequences for the

employment rate. The unemployment rate rose to an average of 7.3% in 2013, compared to 7% in 2012.

The impact of the minimum wage increase in the tax will be mixed. On the one hand, a higher minimum wage could lead to a higher share of social security contributions; while public sector payroll is expected to increase by 100 million lei, and profitability of companies in the private sector could be adversely affected, with implications in terms of income tax collection (see fig. no. 1).



Source: own calculus with data from [www.eurostat.com](http://www.eurostat.com)

Fig. 1. Minimum wage evolution in Romania 2000-2014 (expressed in RON)

Why the State imposes a minimum wage? To create the false impression that taking care of employees and because the visible effects seem positive and the negative ones are hidden. The gross minimum wage of 850 lei as of January 1, 2014 affected 804,225 employees (238,143 in the public sector and 566,112 in the real economy). Moreover, with its increase to 900 lei, from 1 July, benefit 966,405 employees (281,542 employees and 684 863 in the real economy).

So we see that almost one million voters will thank the government for their salary increase. [5] What we don't see, however, are jobs that could be created if there wouldn't be increased costs employers and jobs that will be eliminated in the medium term for the same reason. In short, the minimum wage creates and maintains unemployment at the expense of future employees will be increasingly better prepared and more competitive [6].

Let us not forget that a minimum gross salary of 850 lei means a total cost of 1087 lei for the employer, while a salary of 900 lei means a cost of 1153 (of which only 670 reach the employee). The state not only

distort market signals, but increases its own personnel costs, while not willing to take measures to adjust the number of employees, as do private firms.

Nearly 445,000 Romanians were unemployed in May this year, about 20,000 less than the previous month. The unemployment rate fell below 5% for the first time in the last eight months. Moreover, compared to October last year, when unemployment passed 5%, the number of unemployed decreased by almost 45,000 people.

The unemployment rate published by the NEA, the institution that pays unemployment benefits is calculated solely on statements made by the unemployed for employment agencies that can receive unemployment benefits or not. On the other hand, the National Statistics Institute reported is higher, about 7%, and is calculated according to the standard International Labor Office (ILO). They consider that the unemployed are those who: have no job, are available to start work within the next two weeks and have been looking for a job in the last four weeks. In May, of all Romanians registered unemployed, less than 28% were receiving unemployment benefits, and the most affected in terms of the lack of jobs were Vaslui (over 10%), Teleorman (9,7%), Mehedinti (9.6%) and Dolj (about 8.5%).

The labor market showed a slight recovery in 2013, although some indicators looked better in 2012. The number of employees in the economy increased by about 49,000 people, but also the number of unemployed increased by 49,000 people, and wages were higher by 3.7% over the previous year. Number of employees reached in November last year to 4.36 million people, an increase of 49,000 people since the beginning of year.

## **2. The minimum wage contribution to economic development**

The growth rate of new jobs was nearly three times lower in 2013 compared to 2012 (when they were created 139,000 new jobs), according to the National Statistics Institute (INS). Most employments were made in companies dealing with support activities (outsourcing firms in particular), in agriculture or in hotels. However, the

economy has yet to recover 380,000 jobs lost in the crisis. Labor market paradox is well reflected in last year's indicators: although there have been 49,000 new employments, and redundancies were made, the number of unemployed increased by 49,000 people. Late last year, the unemployment rate calculated by the National Statistics Institute (INS) by the standards of the International Labor Organization (ILO) reached 7.1% (and a number of 719 000 unemployed), compared to 6.7% in 2012 (when there were over 670,000 unemployed). The objective of the present government is to reduce the ILO unemployment rate to 6.5% in 2015, and to increase the number of employees to 100,000 people in 2014 and 2015. Regarding the indicator on wage increases in 2013, 3.7% (above inflation of 1.5%), [7] there are two explanations: reunification wages (representing one quarter of the total number of employees, or 1.2 million people) by granting a wage increase of 15% since the beginning of the year increase the minimum wage from 700 lei to 800 gross/month in 2013 (in two stages, a measure that has influenced the wages of more than one million employees). [8]

The government is targeting growth average salary by at least 5% in 2014 and 2015 and a 12.4% of the minimum wage (which would reach 200 Euros per month in 2014).

Mobility is low for low skilled people (including the fact that the low income cannot allow them to relocate to live with rent or commuting long distances), which is why it is important for employers to have high mobility. The rising cost of the latter is an artificial rise in wage a hindrance to job mobility.

Also, the minimum wage required by law brings on par the developed areas economically with less developed, thus eliminating any advantage of the latter in attracting investment. Rural areas and smaller cities do not benefit from infrastructure, proximity to suppliers, service providers and government institutions that benefit medium and large cities, are less attractive than those for new investments. [9] If you eliminate artificially only comparative advantage which they have respectively lower cost of labor, it's no wonder that unemployment is high and most of the active people are



involved in "subsistence farming". That is not a job.

Therefore, it is important that the price of labor to be free to fluctuate to exercise their role as information carrier signal: a low salary would attract employers in a particular area or sector. At the same time, they would show employees that they should focus on other areas, fields or occupations (by retraining), and they would send young people to turn to studies and better paid.

If all persons able and willing to work as employed, even with some extremely low wages, then every entrepreneur that creates new jobs would have to offer higher wages than those available on the market to attract workforce needs. Through this mechanism, salaries would increase naturally by market action, and reflect exact needs work, the value of labor and distribution that need space and sectors. In this way, and others who before were not willing to work because the salary level (persons employed in subsistence agriculture, housewives or unemployed) will be encouraged to find a permanent job.

In the first quarter there were 38,200 job vacancies, with a rate of 0.9%, up by 0.24 percentage points from the same period last year, the highest values being recorded rate into other service activities and public administration, according to the INS.

Compared to the previous quarter, the growth rate of vacancies was higher by 0.16 percentage points. Number of job vacancies was 38,200, up by 6,800 vacancies from the previous quarter. Compared with the same quarter of 2013, the number of job vacancies has increased by 10,200. The highest rates of job vacancies were recorded in other services (2.64%) and public administration (2.55%), while the lowest were found in the production and supply of electricity, gas, steam and air conditioning (0.13%) and in the hotels and restaurants (0.30%).

In manufacturing focused about 28% (10,800 vacancies) of the total number of vacancies and the rate took a value of 1.03%. Budget sector amounted to over a third of all vacancies. Thus, 6,200 vacancies are found in public administration, 4,600 jobs in health and social care respectively 2500 jobs in education.

Employers had the lowest demand for labor employed in the production and supply

of electricity, gas, steam and air conditioning and real estate transactions.

The biggest demand from employers was for occupations specialists in various fields of activity (12,000 vacancies), unskilled workers (5,400 vacancies) or for those installations and machine operators and assemblers of machines and equipment (5,000 seats).

Compared to the first three months of last year, the rate of vacancies posted an advance in most economic activities, the most pronounced being in other service activities (+2.25 percentage points) and public administration (+1.03 points), and the opposite, with the largest decrease were the work of water supply, sewerage, waste management and remediation activities (-0.62 points).

The unemployment rate reported by the INS is calculated by the standards of the International Labor Organization (ILO), assumes that the unemployed are those who: have no job, are available to start work within the next two weeks and have been seeking work in the last four weeks. Since the number of unemployed is based on the working age population (aged between 15 and 74 years), the scenario under which it rose in March (either because they got more young people at age 15 or because of increased life expectancy) is unlikely, considering that 15 years ago the birth rate even decreased and life expectancy in Romania, although the increase is slow.

Romania currently has just over 4.3 million employees from taxes and contributions that support salary expenses for 1.2 million public sector employees, and social benefits for the 8.2 million social assistance (of which over 5 million people are retirement).

### 3. Conclusions

In Romania was expected an increase in the minimum wage of 900 lei from 1 July 2014. Even if it is growing, is the second lowest in the European Union after Bulgaria, GDP per capita in Romania is approximately 40% lower than in other emerging countries of the Union, countries such as Croatia, Poland and Slovakia. An increase in the minimum wage may jeopardize employment

options for those poorly prepared, especially the young.

Romania is facing a high unemployment rate among young people and a high minimum wage can have negative consequences on the employment rate because the unemployment rate is increasing in recent years.

Even an increase in minimum wage can lead to less jobs in the medium term, does not create new jobs, the minimum wage is the one who creates and maintains unemployment.

#### 4. References

- [1] Lipsey, K., Richard, G., (2002) *Principiile economiei*, Editura Economica, Bucuresti
- [2] Aceleanu, M., I., (2009) "Implications of the current crisis on labor market in Romania", *Theoretical and Applied Economics-Supplement*, pag. 293-299, ISSN 1841-8678
- [3] Mărcuță, L., Mărcuță, A., Tindeche, C., (2013) "Analysis of Romanian GDP during crisis", *20th International Economic Conference - IECS 2013, Post Crisis Economy: Challenges and opportunities*, Sibiu, România
- [4] Ball, L., Sheridan, N., (2003) *Does Inflation Targeting Matter?*, International Monetary Fund Working Paper, WP/03/129
- [5] Stiglitz, J., (1997) "Reflection of the natural rate hypothesis", *Journal of Economic Perspectives*
- [6] Badea, L., (2013) "Functional higher education in the present economic context", *Management & Marketing, Challenges for the Knowledge Society*, Vol. 8, No. 1, pp. 181-194
- [7] Carvalho, F., (2010) *Inflation Targeting and the Crisis: An Empirical Assessment*, IMF
- [8] Favero, A., C., (2001) *Applied macro econometrics*, Oxford University Press
- [9] Svensson, L., E.,O., (2003) *Liquidity Traps, Policy Rules for Inflation Targeting and Eurosystem Monetary-Policy Strategy*, NBER Reporter

## Considerations on Several Ways of Evolution of Public Pension System in Romania After 1990

Colomeischi Tudor

*Stefan cel Mare University, Faculty of Economics and Public Administration, Suceava, Romania*  
[tudorcolomeischi@yahoo.ro](mailto:tudorcolomeischi@yahoo.ro)

Iancu aEugenia

*Stefan cel Mare University, Faculty of Economics and Public Administration, Suceava, Romania*  
[iancu56@yahoo.it](mailto:iancu56@yahoo.it)

### Abstract

*After 1989, all the countries of Central and Eastern Europe, including Romania, faced with a growing imbalance between the resources available and the necessary ones to ensure the benefits. Social reforms in most areas had a slow and difficult evolution, exerting a negative impact on the social protection system in Romania, severely affected by the economic crisis and the transition to a market economy. In the 90s it was intended, in particular, improving the existing legal framework and, to a negligible extent, radically reforming the social protection system.*

**Keywords:** pension, public pension system, contributions, social insurance, net income replacement rates in retirement, the pension point.

**JEL:** O1, O2

### 1. The evolution of the state's social insurance budget

If we look at the evolution of revenues, expenditure and surplus / deficit of the State Social Insurance Budget during 1991-2011 it can be observed **the downward trend of BASS budget until 2002**, except for the first years when the budget was balanced, functioning somewhat of inertia on the principles of the old system in which employment was extremely high and the collection of contributions was made in large proportions. Balancing the budget began with the introduction of Law 49/2000, whose effects were felt from 2003.

In **2006** and **2007** the budget recorded surpluses. Social insurance budget surplus was due to the transfer of pension payment of farmers from social security budget to the state budget. Getting the surplus in 2006-2007 has facilitated the implementation of the private pension system.

Another difficult period for the state social insurance system was the years 2009-2010, with the economic crisis erupted worldwide. Moreover, in 2009 it was reached the highest budget deficit of social insurance (BASS), which reached 1.523 million lei (1.5 billion euros), but this deficit was balanced by granting subsidies from the state budget (this explains the positive ending balance of the previous table). In the context of the economic crisis it was tried capping spending and limiting the effects of the recession. One of the measures was **freezing in 2009 2% of the level of contributions allocated for the private pension system** (this should have grown annually by 0.5% for 8 years). In 2010 it proceeded to reduce public sector spending by 25% and 15% of social spending, **imposing austerity measures in the budgetary sector**, such as:

- Recalculation of pensions established by special laws;

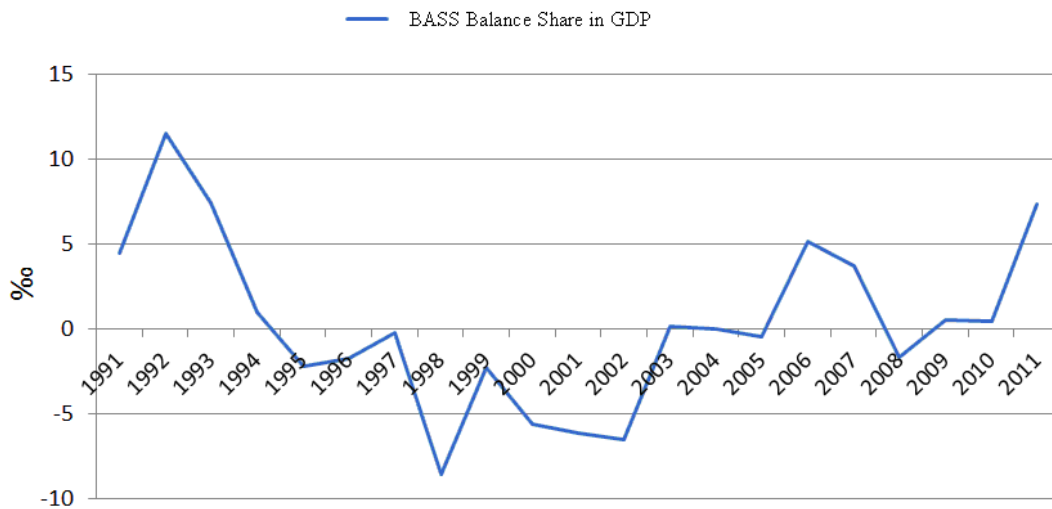
- Strict surveillance of new procedures for admission to degrees of disability and verifying the degree of disability of persons already retired;

- Eliminating special retirement laws;

- Freezing early retirement until the entry into force of Law 263/2010.

We plotted in the figure below the evolution of the share of the BASS surplus / deficit in GDP in the period 1991-2011.

Figure no. 1. The annual evolution of the social insurance budget state share in GDP during 1991-2011 (% of GDP)



Sursa: INSSE – Anuare statistice pe anii 1990-2011, [www.insse.ro](http://www.insse.ro)

As a share of Gross Domestic Product (GDP), BASS incomes reached the highest level in 2010, representing 8.35%, while spending had the largest share in 2009, in full economic crisis, namely 8.79%. In fact, in 2009, the annual spending on pensions accounted for the largest category of expenditure budgeted. The largest deficit of BASS relative to GDP was recorded in 1998 (8.58 % of GDP) and 2002 (6.55 %), whereas the most important surplus (excluding 1992) was recorded in 2011 and ie 7.35 % of GDP.

Social insurance budget revenues fell from 7.21% of GDP in 1991 to 5.89% of GDP in 2007. This decline was mainly due to decrease in number of population. In 2007-2009 they recorded an increase, reaching 8.1% of GDP.

Public pension expenditure budget followed closely the development of the Romanian economy. Between 1991-2003 insurance costs have increased from 7.21% to 7.98% of GDP. Then, followed a decline in 2004-2007, up to 5.55% of GDP. In 2008-2009 they increased to 8.79% of GDP.

## 2. The evolution of the Romanian population structure by age groups, number of pensioners in the public pension system and the dependency rate

Based on the data provided by the National Institute of Statistics, we plotted in Figure no. 2 the annual evolution of the

Romanian population by age groups during 1990-2011, and the number of pensioners in the state insurance system on types of pensions over the same period.

The average annual number of pensioners in the state social insurance system increased by 58.34% between 1990 and 2010, while the number of active people decreased by 2.15% and the total population declined by 7.65% in same period. This rapid growth of the number of pensioners was due mainly to reduced standard retirement age, which until 2000 was 57 years for women and 62 for men, and also due to many early retirements. **Law 19/2000 extended gradually the retirement age and will reach 60 years for women and 65 for men by 2014.** Law 263/2010 increased the retirement age for women to 63 years.

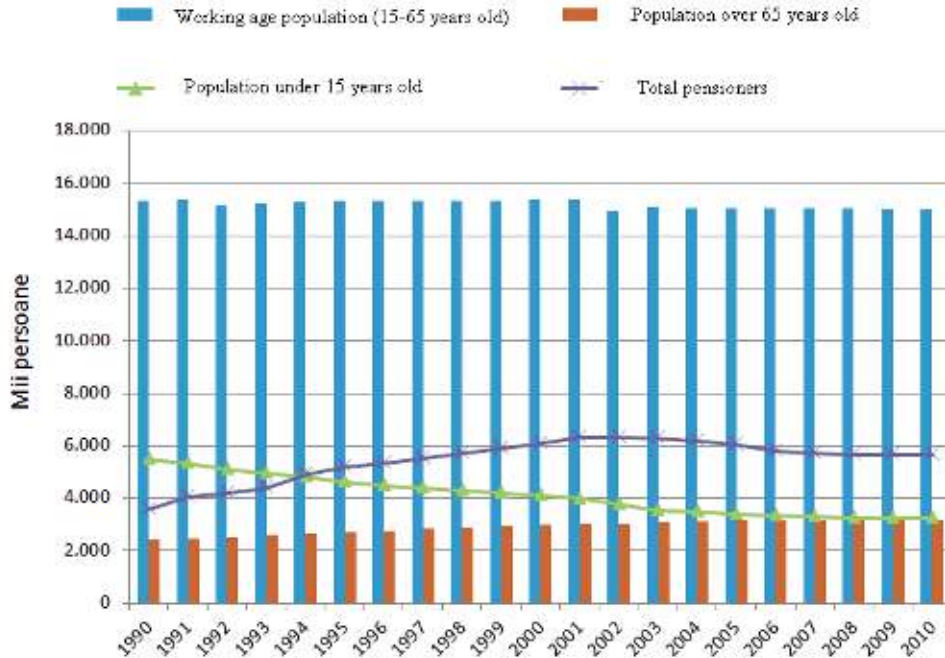
On December 31, 2010 were recorded 14,996 thousand active people aged 15-65 years and a total of 5,664 thousand pensioners of social insurance, from which 3,309 thousand with age pensions, 737 thousand retired farmers, 132,000 with early retirement pensions and 887,000 with disability pensions.

Based on the statistical data we can calculate the annual rate of dependency of retired population from the active population. The dependency ratio is calculated as a ratio between the total number of pensioners in the public system and the number of active people [1]. In the analyzed period 1990-2010 it can be distinguished two distinct economic

cycles: between 1990-2002 the number of pensioners has increased each year, with an average annual growth of 4.94%, while in 2003-2010 the average annual number of

retired from the public system decreased successively with an average annual decrease of -1.4%.

Figure no. 2. The annual evolution of the population of Romania by age groups and of the number of pensioners from public pension system during 1990-2010 (thousand people)

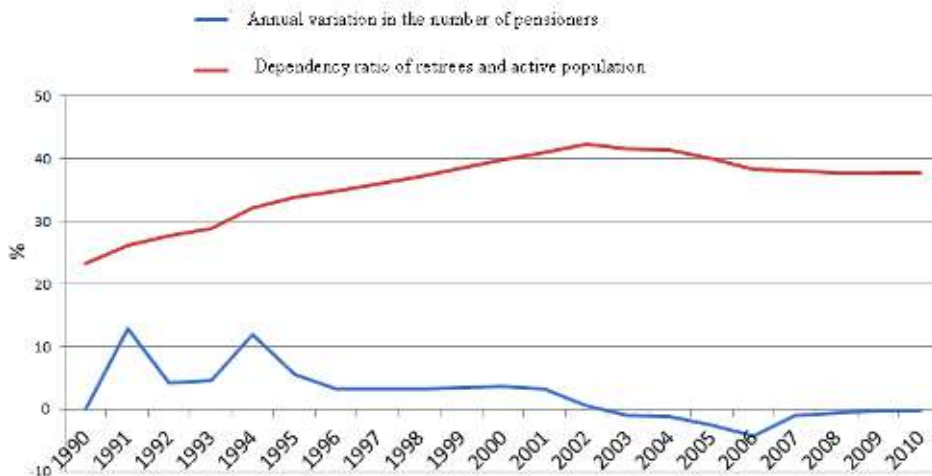


Sursa: [www.cnpas.org](http://www.cnpas.org), [www.mmuncii.ro](http://www.mmuncii.ro), [www.insse.ro](http://www.insse.ro), [www.cnp.ro](http://www.cnp.ro)

Between 1990-2010 there were two years in which the average number of pensioners in the public system increased significantly: in 1991 increased by 12.78% compared to 1990 and in 1994 with 11.95% compared to the previous year. **The most important**

**annual decline of retired population of -4.25% compared to the previous year was recorded in 2006 and was due to passage of farmers' pensions to the state budget, in the public pension system only remaining former employees in agriculture.**

Figure no. 3. The percentage evolution of the number of pensioners in public system and the dependency ratio of retirees to the working population between 1990-2010 (%)



Sursa: Institutul Național de Statistică (2009). Proiectarea populației României pe regiuni de dezvoltare la orizontul anului 2050, INS București

The difficult economic situation and economic restructuring that allowed massive retirements (in mining, heavy industry, etc.) led to the increase in the number of pensioners, putting financial pressure on the public pension budget and on the state budget, which had to finance BASS deficits [5]. **The causes** which led to this situation were both *subjective* (dictated by political interests, namely using the pension system as a valve to solve critical situations of unemployment, early retirement) and *objective* (such as demographic changes).

In Figure 3 is represented the annual percentage change in the average number of pensioners in the public compared to the evolution of the dependency ratio of retirees to the working population in the period 1990-2010.

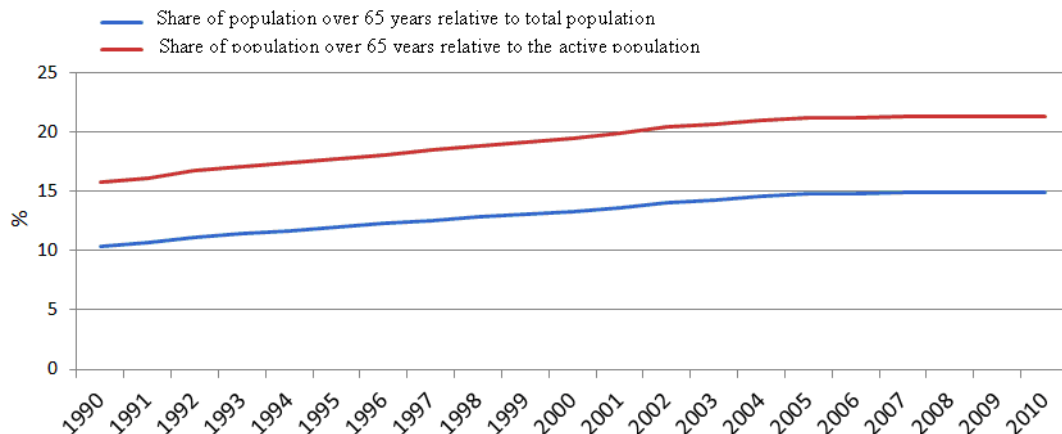
Comparing the active population with the one over 65 years, note that while the number of people between 15 and 65 remained almost the same in 2010 compared to 1990, falling only 2.15%, from 15.32 million to 15 million, the number of people

over 65 has increased by 32.35% from 2,410,000 to 3,200,000. This increase was caused by an aging population and increasing life expectancy on the one hand, and the structure of the generations born more than 65 years ago.

**The aging phenomenon of the population** can be observed if we consider both the percentage of people over 65 and those under 15 in the total population and in the total active population. On the basis of collected data we represented in Figure 4 the annual evolution of population over 65 years related to the total population and active population during 1990-2010.

The decrease of the fertility rate from 1.84 in 1990 to 1.35 in 2010 (reaching lower values of up to 1.25 in 2002) determined the decrease of the total number of inhabitants and the decrease of the population under 15 years .

Figure no. 4. The annual evolution of population over 65 years related to the total population and total active population during 1990-2010 (%)



Sursa: Institutul Național de Statistică (2009). Proiectarea populației României pe regiuni de dezvoltare la orizontul anului 2050, INS București

### 3. The evolution of the average monthly pension and net rate of replacement of income in retirement pension during 1990-2010

Next we consider the net monthly wage in the economy compared to their average net monthly pension of the public pension system in the period 1990-2010. We will also review the annual trends of replacement rate

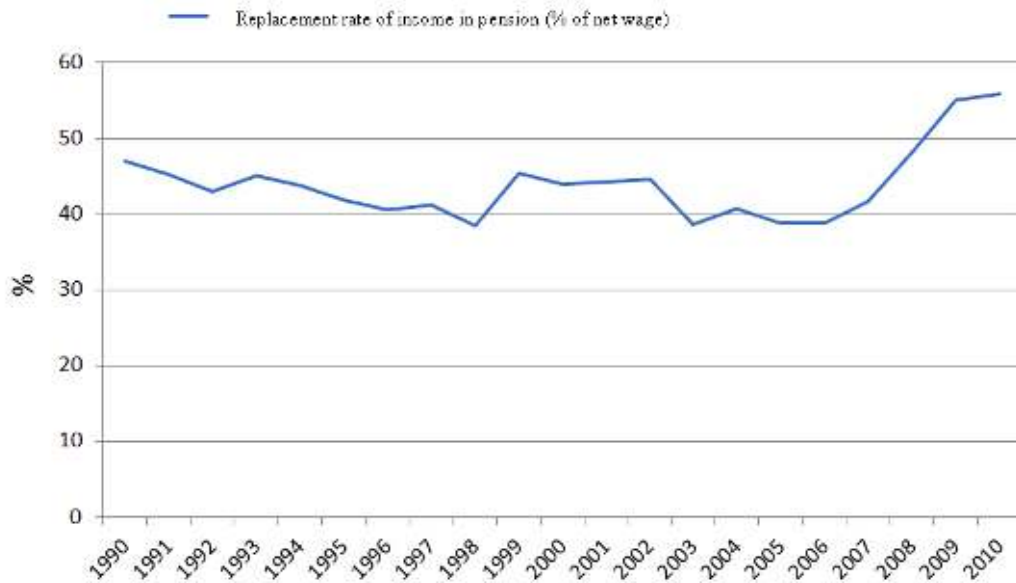
of income in pension (ratio of net pension and net salary), shown in Figure 5 below.

It may be noted that net replacement rates had, with brief interruptions, a slightly downward trend during 1990-1998, reaching from 47.06% to 38.06%. In 1998 there was a jump from 38.06% to 45.39% after which the course oscillated until 2005, with a steep drop in 2003, from 44.59% to 38.64% (was otherwise the greatest descent rate during the period analyzed). Since 2006, the net

replacement rate took an upward path, with ascents quite significant in 2007, 2008 and 2009, with the start of recalculation process of pensions, reaching in 2010 a level of

55.93%. The level is still low if we consider the average net income replacement rates in the OECD, located around 69% of net salary.

Figure no. 5. The annual evolution of replacement rate of income in retirement pension (%)



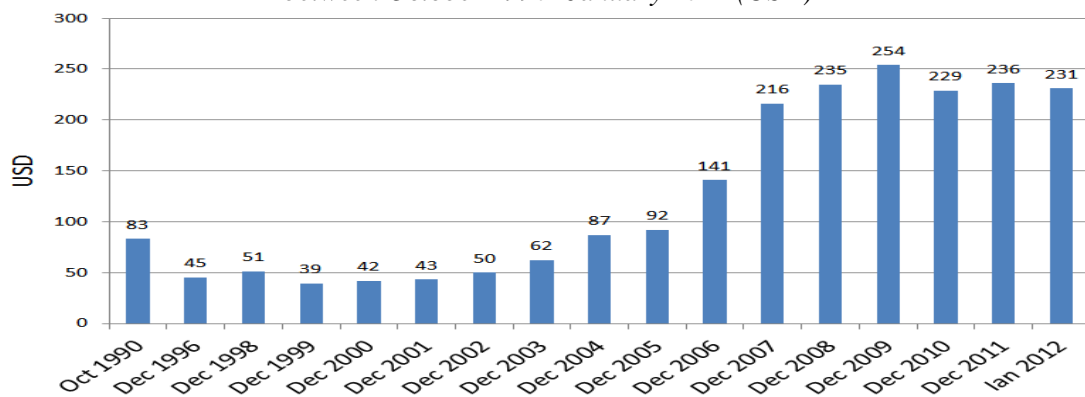
Sursa: [www.insse.ro](http://www.insse.ro)

To get a fuller picture of the average monthly pension, in the following figures we have represented the development of the level of the average monthly pension from social insurance system expressed in **American dollars** and **euros** in the period October 1990 - January 2012.

1999 and December 2009, when increased from 39 USD to 254 USD, these being the extreme values recorded during this period. From December 2009 to January 2012 the evolution oscillated. The largest annual increase, both absolute (75 USD) and relative (53.19%) was recorded in 2007.

From Figure 6 it can be observed the upward trend followed by the average net monthly pension in USD between December

Figure no. 6. The annual evolution of the net monthly pension from public system pension in USD between October 1990- January 2012 (USD)



Sursa: [www.insse.ro](http://www.insse.ro), [www.bnro.ro](http://www.bnro.ro), [www.cnpas.org](http://www.cnpas.org)

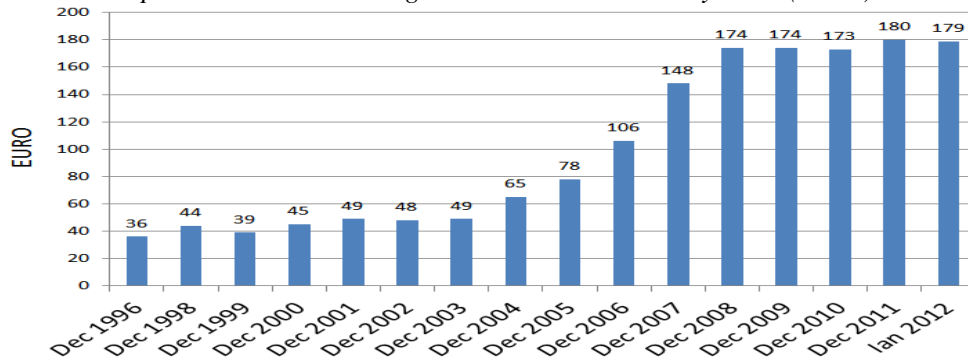
An almost similar trend to that of the average monthly pension expressed in USD was that of the average monthly pension in euros, observing the almost continuous growth (excluding only the year 2002) for the

period December 1999-December 2009. In this case, however, it differs the moments when there were reached extreme values: the minimum was in December 2006, being located at 36 euro, while the maximum of

180 euros was reached in December 2011. The largest annual increase, both in absolute terms (42 euros) and relative (39.62%) occurred in 2007. Unlike the dollar

equivalent of the average net monthly pension, here, the annual declines were of smaller scale: the biggest drop occurred in 1999 and was only of 5 euros.

Figure no. 7. The annual evolution of average net monthly pension from the state insurance system expressed in euros during October 1996 – January 2012 (euros)



Sursa: [www.insse.ro](http://www.insse.ro), [www.bnro.ro](http://www.bnro.ro), [www.cnpas.org](http://www.cnpas.org)

#### 4. The evolution of the pension point and the indexation of pensions

With the entry into force of Law 19/2000 in 1<sup>st</sup> of April 2001, pensions from public

system were calculated on the basis of the pension point. The annual evolution of the pension point value and its share in the net average wage in the economy during the period 2001-2011 is shown in Figure 8.

Figure no. 8. The annual comparative evolution of the pension point value, net average wage in the economy and its share in SMNE during 2001-2011



Sursa: [www.insse.ro](http://www.insse.ro), [www.cnpas.org](http://www.cnpas.org)

From the above graph it is observed that during 2001-2006 the pension point value decreased from 40% to 28.18% of the gross average wage in the economy (GAWE), after this period following an upward trend until 2009, when maximum was reached of 38.85% of GAWE.

Since 2001, was applied a policy of quarterly differentiated indexation of pensions. This aimed at reducing inequalities between pensions set in different time periods, due to different regulations applied.

To cover the influence of inflation on pensions was applied a quarterly indexation mechanism for these revenues, established by government decisions. Percentage of pension indexation was different, depending on the categories of beneficiaries and the opening date of pension rights, to remove imbalances and inequities between pension levels.

Law 19/2000 provides the annual budget exercise and indexing to be done by updating the pension point value once per year at the beginning of the year, according to inflation.



In the period 2001-2004, indexation was applied only to pensions whose amounts were below the equivalent in lei of an annual average score of 3 points for the period April 2001-February 2003 and 5 points for June 2003-January 2004. Until 2005, regulations provided covering the projected consumer price index of December of the previous year by applying in the last month of each quarter of an indexation equal to the product of the consumer price index forecast for each month of the quarter.

Given the substantial drop in inflation in 2001-2004, in 2005, covering the consumer price index was made only once, by indexing in January the pension point. In 2006-2008 were granted increases of the pension point value and during the year, by order of the government, according to socio-economic developments and budget availability (financial). For 2009, by Law 19/2009 of the state social insurance budget, there were foreseen the nominal values of the pension point that would take effect, ie 718.4 lei from 1<sup>st</sup> of April 2009 and 732.8 lei from 1<sup>st</sup> of October 2009. From the increase did not benefit retirees enrolled in groups I and II of work.

Regarding the theoretical and declarative perspective the pension point value is a percentage of the average gross wage in the economy being correlated with it. But the pension point value is subject in reality to the political decisions related to time correlation with the average gross wage in the economy.

**Law 263/2010 determined that the pension point value to be indexed in the future with the inflation rate**, the base of calculation being the pension point value in December 2010, ie 732.88 lei.

*Indexation of the pension point value with the inflation rate is a measure designed to unjust people that will retire in the future compared to those retiring today, in the conditions that the average gross wage in the economy will maintain its upward trend, around 4 % per year. A person who will retire in 30 years and has contributed to the public pension system from a salary equal to SMBE will receive a pension of the same buying power of a person who retired in December 2010 with a salary equal to SMBE. However, due to the increase in time of SMBE, the pension received in 20 years*

*will not represent anymore 37.83% of SMBE, as in the case of retirement in 2010.*

So, future increases occurred in the SMBE level and the net average wage in the economy (NAWE) will not be included the value of future pensions, although the contributions of active population to the public pension system are correlated with gross and net average wage in the economy which will increase with the increase of the wages [6].

## **5. The evolution of contributions in the social state insurance system**

The fund the public pension system and other social insurance rights is based on the payment of social insurance contributions.

Social security contributions are paid as a percentage of gross salary fund and are differentiated according to normal, great or special working conditions. The differentiation of the rate was imposed in pursuit of greater equity by the tight bond between the contribution paid during work and retirement benefits obtained differently by those who have worked in different working groups [2]. Thus, it was considered that *people who worked in special conditions, with subsequent reduction of the retirement age and a better income replacement rate should pay some higher contribution rates than those who did not worked in these groups*. Social security contribution rates are approved annually by law.

Annual changes in the level of these rates since 1990 for the three types of working conditions (normal, great and special), both on the employers as well as employees, are summarized in Table no. 1 below. The table shows the development of contribution rates for social security and for supplementary pension paid by employers and employees for the three types of working conditions since 1990.

After 1<sup>st</sup> of April 2001, following the entry into force of Law 19/2000, contributions were divided between employers and employees approximately in proportions of *two thirds for employers and one third for employees*. However, this law has renamed the three groups of work in *normal conditions* (group III), *great*

conditions (group II) and special conditions (group I).

**Between January 2003 and December 2008, the share of social security contributions due by employers** followed a downward trend, falling by 6.5% for each category of working conditions (normal, great and special), from 24.5 %, 29.5% and

34.5% to 18%, 23% and 28%. From December 2008, with the need to balance the state social insurance budget appeared on the 2008-2009 economic crisis, rates owed by employers have begun to rise again, now being located at 20.8%, 25.8% and 30.8%, levels similar to those in 2005

*Table no.1. The evolution of rates of social insurance contributions of employers and employees by the three types of working conditions since 1990 (%)*

Month, year	Employer's share to social state insurance contributions in working conditions			Employee's share to social state insurance contributions			
	normal (gr. III)	great (gr. II)	special (gr. I)	CAS in working conditions			Supplementary pension
				normal (gr. I)	great (gr. II)	special (gr. III)	
Jan '90	15			0			3
Nov '90	20			0			2
Apr '92	25	30	35	0			3
Jan '99	25	30	35	0			5
Feb '99	30	35	40	0			5
Apr '01	23,33	26,67	30	11,67	13,33	15	0
Jan '03	24,5	29,5	34,5	9,5			0
Jan '04	22	27	32	9,5			0
Jan '05	20	25	30	9,5			0
Jan '06	19,65	24,65	29,65	9,5			0
Jan '07	19,5	24,5	29,5	9,5			0
Dec '08	18	23	28	9,5			0
Jan '09	18,5	23,5	28,5	9,5			0
Feb '09	20,8	25,8	30,8	10,5			0

Sursa: [www.mmuncii.ro](http://www.mmuncii.ro), [www.lasig.ro](http://www.lasig.ro)

With regard to **employee's contributions rates**, we notice two aspects. First, from January 2003, *they were not differentiated by the three types of working conditions*. Secondly, the single rate of 9.5% for all employees remained *unchanged* between January 2003 and February 2009, when it was increased to 10.5%, share in force today.

**Taxpayers of the public system**, are as follows [7]:

- a) the insured owing individual contributions of social insurances;
- b) employers;
- c) legal persons to which operate the insured, ie: people working in elective positions or appointed within the executive, legislative or judicial authorities, during the term and cooperative members;
- d) The National Agency for Employment, unemployment insurance budget holder;
- e) persons referred to in art. 5, para. (2) of Law 19/2000, which concluded social

security agreement, namely voluntary insured.

### Conclusions

Growing imbalance between the resources available and necessary to ensure benefits had as main reasons: decrease in economic activity and increase of unemployment, which has reduced the number of contributors; increasing dependency rate by increasing the number of pensioners as a result of massive early retirements made during the first years after 1990 (regarding partial limitation of the rise in unemployment); partial inefficiency of the collection of contributions, along with increased tax evasion and the informal sector of the economy; increase in inflation, which had the effect of eroding pension benefits.

Reforming the pension system in Romania has become such a necessity after

1990 and there were taken two types of measures:

- Short-term measures, of urgency: adjusting benefits by repeated indexation as response to their deterioration by the inflation;

- A long-term reform, which meant separation of pension funds and their management from the budget and central administration of the state (process performed not only in Romania, but also in other former communist countries such as Albania, Czech Republic, Hungary, Slovakia), extension of the period of contribution and tightening early retirement conditions (reform was made by the Law from 2000 applied only in 2001).

### References

1. Burlacu, V., Cenușă G. (2000). *Bazele matematice ale asigurărilor*, ed. Teora, București, ISBN 973-20-0112-7
2. Frunzaru, V. (2007). *Sistemul de pensii românesc: o evaluare din perspectiva europeană*, Editura Economică, București
3. Institutul Național de Statistică (2009). *Proiectarea populației României pe regiuni de dezvoltare la orizontul anului 2050*, INS București
4. INSSE – *Anuare statistice pe anii 1990-2011*
5. Mărginean, I. (2000). *Economia politicilor sociale*, ed. Ars Docendi
6. Popa, M. (2011). *Estimări ale nivelului pensiilor publice și private în România*, Ed. Teșu, București
7. Legea nr. 263/2010 privind sistemul unitar de pensii publice, publicată în Monitorul Oficial al României, nr. 852 din 20.12.2010
8. [www.lasig.ro](http://www.lasig.ro)
9. [www.cnpas.org](http://www.cnpas.org)
10. [www.mmuncii.ro](http://www.mmuncii.ro)
11. [www.insse.ro](http://www.insse.ro)
12. [www.cnp.ro](http://www.cnp.ro)
13. [www.bnro.ro](http://www.bnro.ro)

## Features of E-Commerce in Romania

Constandache Mihaela

*„Dimitrie Cantemir” Christian University of Bucharest, Faculty of Tourism and  
Commercial Management Constanta*  
[mihaela\\_constandache@yahoo.com](mailto:mihaela_constandache@yahoo.com)

Nenciu Daniela Simona

*„Dimitrie Cantemir” Christian University, Faculty of Touristic  
and Commercial Management Constanta*  
[nenciu75@yahoo.com](mailto:nenciu75@yahoo.com)

Stanciu Anca - Cristina

*„Ovidius” University of Constanta, Faculty of Economic Sciences*  
[castan22us@yahoo.com](mailto:castan22us@yahoo.com)

### Abstract

*Rapid expansion of electronic transactions is a major opportunity for trade and development; companies can achieve new levels of international competitiveness and participate actively in the global information economy. The rate of Romanian e-commerce increased from year to year and thus in 2013 registered an absolute value of 600 million euro representing 2% of total retail. The value of transactions by card processed in the 3D Secure system by RomCard was of approximately 220 million euro in 2013 registering an increase of 73.23% of the total volume of transactions by means of a card processed in the 3D Secure system in the year 2013 compared to the year 2010. The increase registered in all segments of activity proves a more and more powerful and stable industry. Romania has a fantastic potential of growth of this sector, being on the list of priorities of the investors in the field.*

**Key words:** e-commerce, online transactions, online buyers, competitiveness

**J.E.L Clasification:** M21

### 1. Introduction

With the development of society, commerce activity has suffered profound modifications, turning from a simple activity of intermediation into an activity creating utilities.

E-commerce brings a series of undeniable advantages compared to traditional forms of commerce, which explains, in great measure, the success and interest enjoyed.

E-commerce is considered the key of competitiveness of enterprises in the informational era, ensuring access to new market segments, increasing the speed of conducting business, increased flexibility of commercial politics, reducing supply costs, sales and publicity costs, simplification of procedures, etc. As a consequence, it becomes an opportunity for increasing competitiveness at microeconomic and macroeconomic level [6].

This evolution has a huge impact on economy, regarding the foundation of new enterprises, diversifying the existing ones, and, especially, on the potential of labor market and the degree of its occupation in the future. European market of electronic commerce was in 2009 comparable in size to that in the USA, reaching a value of over 106 billion euro.

### 2. Features of the Romanian commercial network

Trading system in Romanian market has a fragmented character, determined by the high number of small trading units (table 1) and a reduced degree of territorial concentration. So, although in the last years, an increase in the number of big trading units can be found (over 2500m<sup>2</sup>), from 219 units in 2008 to 368 units in 2012, they have a very low percentage reported to the total number of

trading units (0,28% corresponding to the year 2012).

*Table 1. Commercial network of enterprises with retail activities in Romania*

Commercial area, [m <sup>2</sup> ]	2008	2009	2010	2011	2012
TOTAL	134878	132856	133521	124407	129875
to 120	128290	125128	125471	116526	121355
121 - 399	5020	5868	6070	5778	6162
400 - 999	976	1189	1203	1277	1301
1000 - 2499	373	406	453	501	689
2500 - 4999	94	110	158	142	179
5000 - 9999	92	114	120	129	129
10000 m <sup>2</sup> and more	33	41	46	54	60

Source: *processing based on the processed data from the Statistical Yearbook of Romania, 2013*

After 1993 the large retail chains made their appearance, and then multiplied, in Romania retail commercial network that have reduced the number of boutiques, kiosks and stores mixed.

The Romanian trade occurred in recent years major structural changes on the development of commercial activity [1].

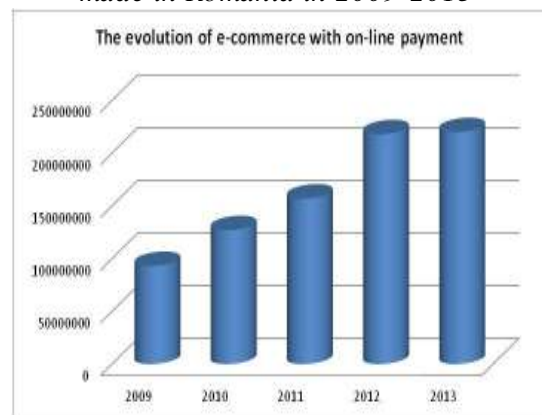
However the value of retail sales / capita continues to be lower than in developed European countries due to the low level of purchasing power of the population.

### 3. Evolution of e-commerce in Romania during 2011-2013

According to the statements of main players in the Romanian market of electronic commerce in Romania, Awards Festivity e-Commerce (GPeC), edition VIII, the most important event of electronic commerce in Romania, inland online retail is a market of about 600 millions euro in 2013. Figure 1 presents the evolution of e-commerce in Romania in the past years. The figures refer exclusively to products sold online (regardless their nature) and not to services, payment of utility bills, flight tickets, show tickets, vacations and travels etc. Thus, e-commerce growth rhythm increased from year to year. If in 2009 the volume of online payments increased by 75% compared to the

year before, in 2011 the increase was of 24%, the same tendency being also manifested at the level of transactions number. In 2012 e-commerce knew a better evolution compared to 2011, registering a growth with 38% in respect to total value and with 51% in respect of transactions number. A clearly superior evolution of e-commerce was registered in 2013, when a growth of 72.7% was reported compared to the total value and with 54.5% compared to the transactions number respectively.

*Figure 1. The evolution of e-commerce transactions with on-line payment (euro) made in Romania in 2009-2013*



Source: *processing based on the data from CEO GPeC reports*

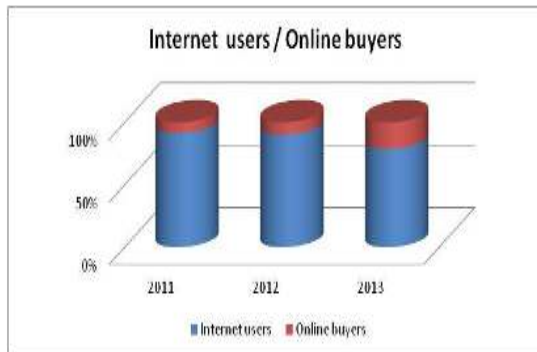
As per CEO GPeC, the number of internet users increased continuously since 2011, reaching 10 million in 2013 (with 1 million more compared to 2012 and respectively 1.5 million more compared to 2011). Thus, in 2013 we can say that 27% of Romanians connected to the internet, that is approximately 1 of 4 internet users, buy online (Figure 2), and most of online buyers (84%) live in urban area, while 16% live in rural area (Table 2).

Average age of online buyers is between 25 and 35, but the year 2013 brought an increase of 5 percent on the age segment between 45-55 years old, which currently represents 15% of the total users of electronic commerce (compared to 10% in 2012).

In respect of the number of online stores, as in the case of the other indicators, on the Romanian market of electronic commerce is was noticed an increase from year to year (Figure 3). Thus, the number of online stores registered in 2013 increased by 50% compared to the one corresponding to year

2011.

Figure 2. The evolution of online buyers of all Internet users in Romania in 2011-2013



Source: processing based on the processed data from the Eurostat Database

Table 2. Indicators of e-commerce in Romania

Characteristics	Year	
	2012	2013
Number of online buyers / number of internet users	1 million/9 millions	2,7 millions/10 millions
Number of online shops	3500	4500
Number of shops enrolled and certified Standard 3D Secure to RomCard	781	1000
The average value of online transaction	45 euro (paid in lei)	37 euro (paid in lei)
The average age of online buyers	25 - 34 years	25 - 35 years
Gender structure of online buyers	54,8% M / 45,2% F	55% B / 45% F
The area of origin of online buyers	83,5% urban / 16,5 rural	84% urban / 16% rural
Number of cards enrolled 3D Secure	11,3 millions	12 millions
Number of active 3D Secure cards	410000	over 600000
Number of daily online cards transactions in RomCard 3D System	330000	510000

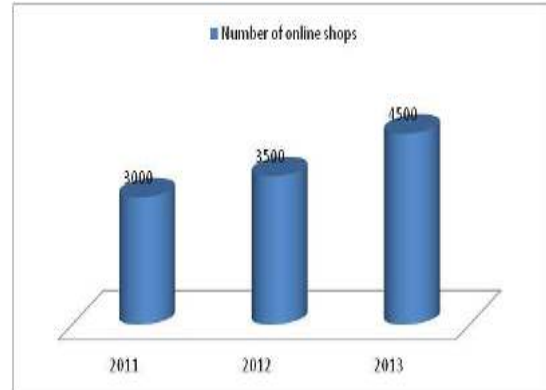
Source: CEO GPeC Reports

Regarding the online payment by means of a card, the transactions number increased in 2013 by approximately 35% compared to 2012, according to the statements of VISA, MasterCard and RomCard officials within the Awards Festivity e-Commerce. Nevertheless, the preferred method of payment of Romanians remains repayment (cash on delivery), being used in over 90% of the transactions.

The value of transactions by card processed in the 3D Secure system by RomCard was of approximately 220 million euro in 2013 (figure almost similar to the value registered in 2012), 157 million euro in the year 2011 and respectively 127 million

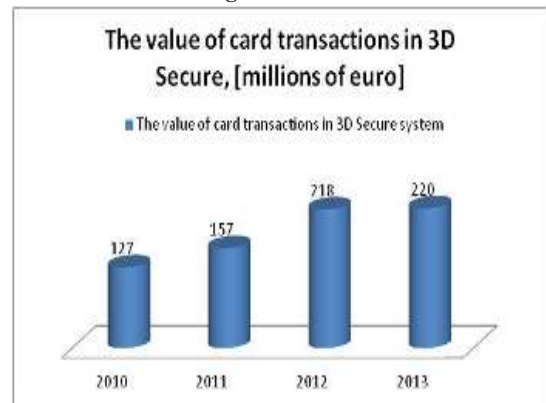
euro in the year 2010 (Figure 4).

Figure 3. The evolution of online shops registered in Romania during 2011-2013



Source: processing based on the data from CEO GPeC reports

Figure 4. The evolution of the transactions value made by 3D Secure cards in Romania during 2011-2013



Source: processing based on the data from CEO GPeC reports

It can be seen, therefore, an increase of 73.23% of the total volume of transactions by means of a card processed in the 3D Secure system in the year 2013 compared to the year 2010. According to VISA, the average value of a transaction was of approximately 37 euro (paid in RON), in decrease compared to the year 2012, when the average value of a transaction was of 45 euro (paid in RON), which, on its turn, was with 8% smaller than the average value of a transaction in the year 2011.

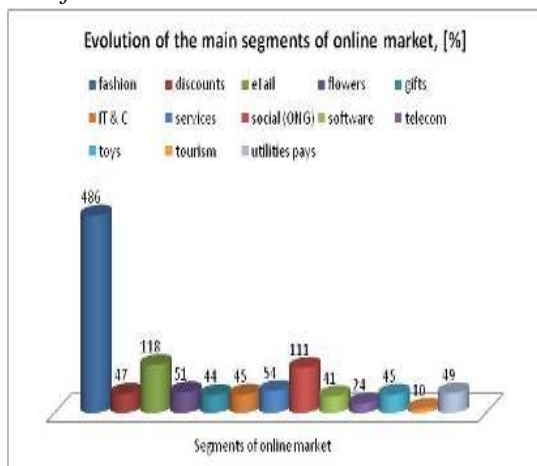
The drop in value of the average basket is caused, firstly, by the increase with 60% of the number of transactions in RON, which normally have a smaller value. This indicates, first, a diversification of products offer and a positive evolution on most

segments on the market. Also, the degree of adoption of online payment methods for consumers increased.

Also, from the transactions registered in the PayU system the same process of diversification appears and, at the same time, of market consolidation. Thus, on the one hand, the number of new clients who implemented the integrated solution PayU increased by 92% in the year 2012 compared to 2011, the fields of activity varying from telecom operators to insurers, investment funds, NGOs, auto accessories, fashion, nutritional supplements, etc.

On the other hand, the increase registered in all segments of activity proves a more and more powerful and stable industry. Segments which knew the best evolution in respect of the number of transactions, in the year 2012 compared to the year 2011, according to PayU data, were fashion (+ 486%), donations (+111%), services (+54%) and flowers (+51%) (figure 5).

Figure 5. Increases of the main segments of Romanian online market in 2012



Source: processing based on the data from PayU report

According to average value of orders, Romanians are willing to allocate larger budgets when it comes to tourist packages and flight tickets (809 lei), software (744 lei), IT&C (541 lei), toys (340 lei), donations (334 lei) and fashion (240 lei), these being the fields with the largest average shopping basket in the year 2012.

Very interesting is the fact that most online transaction by card are international (60%) and only 40% are domestic transactions, according to MasterCard

statistics. In other words, Romanians spend more money on sites abroad than in the country.

For the first time, we can speak of an almost uniform distribution of online transactions, throughout the year 2012. Thus, until the year 2012, the month of January was the weakest in respect of the number and volume of online transactions performed, and months May and October the best. In 2012 the differences from one month to another were practically small, no longer an issue concerning a top month of online transactions. This standardization process proves that there is a stable and strong industry, with good perspectives for the near future.

According to PayU representatives in Romania, in the year 2013 the market was influenced by three main factors: entry of new major players in the industry, consolidation of business of active traders, both as a consequence of improvement in services quality and implemented marketing campaigns, as well as diversification of payment methods.

In Romania there were, at the end of the year 2013, over 12 million cards enrolled in the 3D Secure system (compared to 11.3 million in 2012), and the number of active cards (that is, used, actually, in online transactions) increased from 410,000 in 2012 to over 600,000 in 2013.

At the end of the year 2012, in RomCard 3D Secure system took place over 17,000 online credit card transactions every day, that is over 500,000 transactions every month.

#### 4. Conclusions

At the level of the year 2013 Romanian market of e-commerce is formed of approximately 4,500 online stores, with 1,000 more than in 2012, according to the estimations of main players. From the total number of stores, over 1,000 are enrolled and certified in the standard 3D Secure, at RomCard, compared to 781 stores in 2012.

Inland online retail represents a market of approximately 600 million euro in the year 2013. The rate of e-commerce in total retail in Romania was, at the level of the year 2013 of approximately 2%, despite the constant growth registered by this form of commerce from year to year, with 30-35% annually.

Romania has a fantastic potential of growth of this sector, being on the list of priorities of the investors in the field, when it comes to Eastern Europe. In the future a substantial increase of this rate is expected, foreseeing a rise of about 13% of consumer confidence in electronic commerce.

Electronic commerce has a positive impact also on traditional commerce, leading to lower costs, increase in sales volume, and in conclusion, to efficiency of business and economy.

## 5. References

- [1] Costea, C.E., Săseanu, A.S., *Domestic and international commerce economy*, Eranus Publisher, Bucharest, 2009.
- [2] \*\*\*, *Eurostat Database* accessed on 10 november 2014.
- [3] \*\*\*, *GPeC (E-Commerce Awards Gala) Reports*, 2011, 2012, 2013.
- [4] \*\*\*, *PayU Romania Report, 2012*, accessed on 10 may 2014 <http://www.payu.ro>
- [5] \*\*\*, *Romanian Statistical Yearbook, 2013*, National Institute of Statistics Bucharest, 2014.
- [6] Tiliute, D., *E-Commerce*, Stefan cel Mare University Publisher, Suceava, 2007.



# The Influence of the Financial Crisis on European Club Football

Dima Teodor

*Bucharest University of Economic Studies,  
Department of International Business and Economics  
[teodor.dima@gmail.com](mailto:teodor.dima@gmail.com)*

## Abstract

*The European club football is a business with increasingly attractive propositions for investors, shareholders and partners around the globe. The dynamic of the field and the structural changes in recent years have contributed to the development of economic and business dimensions along the sportive side of this area. In this respect, it is interesting to analyze the influence of the financial crisis on the industry.*

*This study focuses on the impact of the crisis on revenues from European football. The analysis starts from the most visible top football clubs and extends to all premier league teams in Europe. The result is atypical, the crisis influence being observed only in certain types of clubs, having lower impact compared to other areas. This academic approach can be a starting point for further research covering all the effects of the crisis on European football.*

**Keywords:** crisis, football club, financial results, annual revenue growth rate.

**JEL Classification:** L83, G01, M21.

## 1. Introduction

In the last decade there have been numerous changes in European club football. This led to changes in the structure, organization and objectives of the sports entities, which started to resemble more and more to business ventures and adapt accordingly. The clubs are forced to face not only the sportive competition, but also economic and financial pressure.

It is from this perspective that the subject of the impact of the crisis on European football was studied in academia, being approached from the most diverse angles. One perspective is that economic shocks

have a double impact on football clubs: one directly on its core business and one indirect effect on all those who bring money to the team's budget: shareholders, supporters, sponsors, media and business partners, focusing on the influence in the income sphere [1]. Some researchers addresses the football crisis caused by an excessive increase in salary expenses which determine the gap between 'small clubs' and 'big clubs' [2]. Other experts develop the idea of the financial crisis brought on by huge deficits run by the clubs and their high rate of survival, despite structural flaws [3].

This research focuses on the impact on European football revenues. In a first step we analyzed the revenue trends of the strongest football teams and how they were influenced by the current financial crisis, while in the second phase we extended the approach to the entire market of European football clubs.

For this academic study, I have used documentation as a proper method of research in this field following the usual steps of a scientific research:

- Review of the official documents of UEFA – Financial Report for 2004-2014 , European Club Licensing Benchmarking Report for 2008-2012.
- Review of the documents filed by the Deloitte Company: Football Money League for 2004-2014, Annual Review of Football Finance for 2011-2014.
- Critical review of scientific materials and researching articles that approach the topic of financial crisis in European football.
- The analysis of the revenue dynamic of football clubs in Europe - market classification, nominal and relative comparisons, structure analysis.

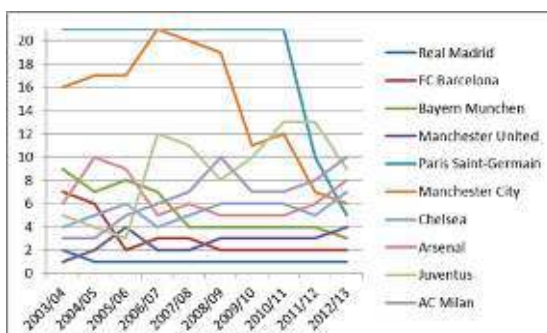
## 2. The impact of the crisis on the top football clubs

We conducted an analysis of the revenues obtained by the strongest club teams in Europe over the past decade. Since the chosen period includes both the crisis years and the period before and after it, we may consider it relevant in highlighting the influence of the global financial crisis at the top of European football. To this effect, we used data from the annual Football Money League studies conducted by Deloitte in the last decade. These studies take into account media revenue, commercial revenue as well as matchday revenue, without considering the proceeds from the transfer of players.

In the 2012/13 season, the cumulated revenues of the top 20 European clubs amounted to € 5.4 billion (an increase of 8% compared to the previous season), the first position being occupied by Real Madrid with revenues of € 518.9 million [4]. For comparison, a decade ago, the top 20 clubs obtained revenues of € 2.8 billion, the first spot going to Manchester United with € 251.4 million. Hence, combined revenues for the analyzed period (2003/04 - 2012/13) show a compound average growth rate (CAGR) of 7.5% a year and 92% over the whole period.

For a more conclusive research, we only kept the top ten teams from the 2012/13 Football Money League rankings and we graphed the clubs positions in the ranking in the last ten seasons (Figure 1).

Figure 1. Top ten teams ranking in Football Money League (2003/04 – 2012/13)



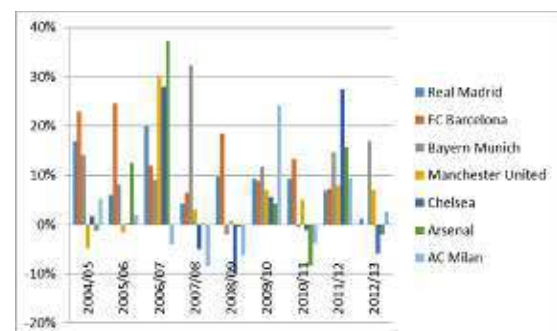
Data source: Deloitte Football Money League 2004-2014

Thus, we observe that seven of the ten teams (Real Madrid, FC Barcelona, Bayern

Munich, Manchester United, Chelsea, Arsenal and AC Milan) were always present in the top 10, experts in the field labeling this group the "untouchables" [5]. Juventus was thrown out of the top 10 for a few years due to a disciplinary sanction which demoted it to Serie B, this causing a major fluctuation in the rankings. Lately, the only two teams that have managed to get into the exclusive top 10 were Paris Saint-Germain and Manchester City, the "new rich" of the football world. The key driver of the meteoric rise of these clubs was the huge amount of funds invested in the recent period and recorded as "business income". PSG saw the fastest growth in recorded history, entering the top only two seasons ago. The consistency of the clubs in top position (Real Madrid is ranked first in the last nine years, Barcelona 2<sup>nd</sup> in the last five) and the rare "intrusions" in the "untouchables" group paints us the image of a balanced, quite mature market, on a steady upward trajectory.

To better understand the influence of the crisis at the highest level of European clubs, we isolated the data for the 7 "Untouchables", analyzing the annual revenue growth rate of each team in the target period (Figure 2).

Figure 2. The annual revenue growth rate of the "Untouchables" (2003/04 – 2012/13)



Data source: Deloitte Football Money League 2004-2014

We note that the most consistent growth season was 2006/07 (three clubs had increases of over 20%). Also, the 2009/10 and 2011/12 seasons are distinguished by positive revenue growth rates for all 7 teams. The seasons 2007/08 (two clubs with negative rate), 2008/09 (three clubs with negative rate) and 2010/11 (three clubs with negative rate) show the worst financial

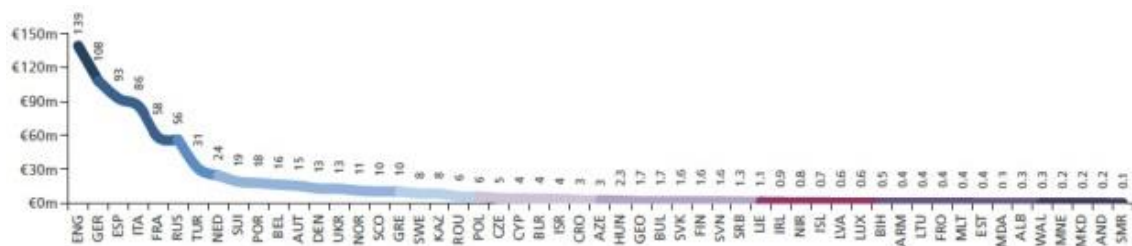
results; however these years represent a period of stagnation (or even slight increase), the overall balance still being positive.

### 3. The impact of the crisis on all the premier league clubs

The European club football market is governed by UEFA (Union of European Football Associations), the supreme administrative and control body of the European football. UEFA represents the 53 national football associations of Europe and organizes pan-European competitions at club and national team levels.

Based on data obtained from UEFA's documents and financial reports [6], we classified the 53 championships according to average club revenue in the financial year 2012 (Figure 3).

Figure 3. Championships classification based on the average club revenue (2012)



Source: UEFA Financial Report 2012

Thus, we obtained the following categories:

- Big championships, known as the "big five" leagues - England, Germany, Spain, Italy, France;
- Medium + championships (average revenue per club over € 15 million) - 7 leagues;
- Medium championships (average revenue per club between € 5 million to 15 million) - 10 leagues;
- Small championships (average revenue per club between € 1 million to 5 million) - 13 leagues;
- Very small championships (average revenue per club under € 1 million) - 18 leagues.

Revenues for first league clubs vary widely, 32 clubs reporting revenues of over € 100 million and 269 clubs reporting revenues under € 1 million. By comparison with fiscal

year 2008, the number of clubs with revenues of over € 100 million increased from 22 to 32 while the number of clubs with revenues of over € 10 million increased from 189 to 217 [7].

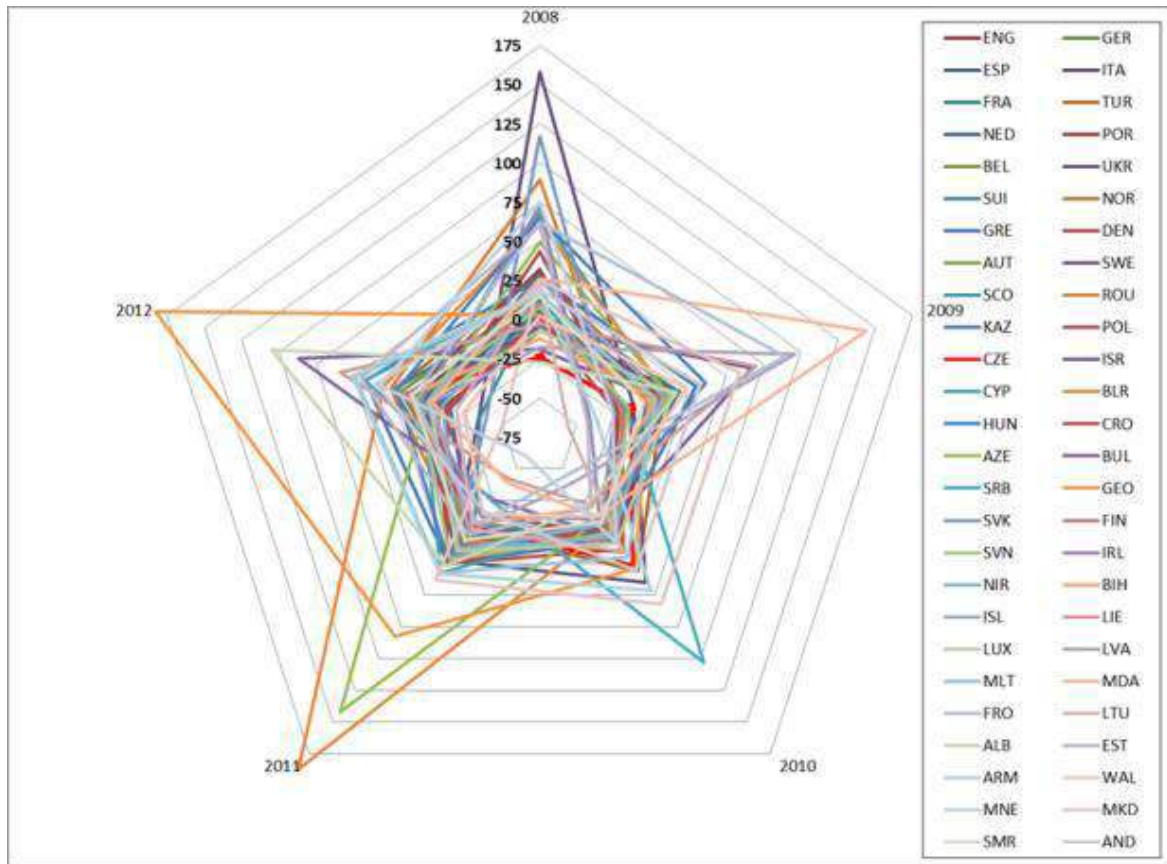
For a more detailed analysis of the influence of the economic crisis on the European football industry revenues, we showed the revenue growth rates between 2007 and 2012 per country with currency impacts excluded (Figure 4). Globally, annual increases ranged from 5 to 13% for the entire market, the overall increase for the period being 42%. Most annual values ranged between -20% and 75%, the majority of them being positive.

Despite the unfavorable economic climate, clubs revenues showed consistent growth in this period, most championships registering increases of over 20%, and 19 of the 20 strongest leagues reported positive growth rates.

Within the "big five", cumulative growth

over the 5 year period ranged between 19% (France) and 53% (England), none of those championships having negative rates in any of the tracked years. The 7 championships classified as "medium +" also have only positive aggregated rates, but these values show large variations, in contrast to the compact group of the "big five". Thus, Portugal (6%) and Nederland (10%) had relatively small increases, while Turkey (118%) and Russia (134%) performed particularly well approaching the values of the "big 5". The 10 championships with "medium" classification obtained positive results for the most part, the biggest increases being in Romania (132%), Ukraine (161%) and Kazakhstan (210%). We also see the first negative values: Czech Republic (-9%) and Scotland (-40%). The "small" and "very small" championships' overall trend is also positive, but we find a lot of negative years in the selected period. The variations here are high, from Lithuania (-51%) to Belarus

Figure 4. The revenue growth rates for all 53 premier leagues in Europe (2007 - 2012)



Data source: UEFA Financial Report 2008-2014

(556%) and Georgia (568%), who obtained the largest increases in Europe.

Of course, the analysis' broad scope cannot be isolated or be based solely on economic criteria; therefore we have a multitude of factors that influence the final result. The most important are the exchange rate fluctuation of each national currency against the euro (eg currency devaluation in Belarus was 55% while the Suisse currency gained 34% against the euro), changes in the structure of the first leagues in each country (increasing the number of teams in the first league triggers a decrease of the average income and vice versa) and the qualification of clubs to European club competitions. However, although influenced by external factors, the major outcome is that in a time when European economies have stagnated or had low rates of growth, the European football industry has seen significant increases from year to year, gaining the

interest of all those involved in this phenomenon.

Given the income structure of a football club (Media - Commercial - Matchday), the largest percentage growth came from the TV broadcast revenues (compound average growth rate of 8.2%) and commercial revenues (CAGR of 7.2%). The only exception is represented by the matchday revenues dynamic (CAGR of 0.7%), which in 2011 had a total value close to that of 2008. So, long term tv broadcast and commercial deals, at the level of the strongest leagues as well as the level of European competitions, represent pillars of stability and growth potential of the European football markets.

#### 4. Conclusions

The influence of the crisis on the European football industry was not typical. We cannot speak of a significant impact in any of the two categories analyzed (elite clubs and average, less performing, clubs). In the top clubs tier, the crisis brought

stagnation or low growth rates compared with previous years. For the average clubs, there are two separate trends: minor influence for clubs classified as “medium”, “medium +” or higher (average club revenue per team over € 5 million) and an increased influence on “small” and “very small” clubs, more vulnerable to changes and access to financial markets. Long-term contracts (TV rights, sponsorships, marketing) provide stability to the industry and show the growing enthusiasm surrounding this domain.

Of course, the influence of the crisis on European football is a vast subject, this research being only a part of the puzzle. It can be expanded with academic approaches quantifying the volume of transfers, wage growth trends and the rising overhead of football teams in general, as well as high debt ratios of football clubs. In this way we can have a complete picture of the impact of the current financial crisis on this dynamic segment.

## 5. References

- [1] Bastien, J. (2013), L'influence des crises économiques et financières sur le football européen, Laboratoire d'Economie, Université de Reims.
- [2] Lago, U., Simmons, R., Szymanski, S., (2006). The Financial Crisis in European Football, An Introduction. *Journal of Sports Economics*, 7 (1) , pp. 3-12.
- [3] Storm, R.K., Nielsen, K., (2012). Soft Budget Constraints in Professional Football. *European Sport Management Quarterly*. 12 (2), pp. 183-201.
- [4] Deloitte (ed. 2004 - 2014), *Football Money League*, Manchester.
- [5] Deloitte (ed. 2011 - 2014), *Annual Review of Football Finance*, Manchester.
- [6] UEFA (ed. 2004-2014), *UEFA Financial Report*.
- [7] UEFA (ed. 2008-2012), *European Club Licensing Benchmarking Report*.

This work was co-financed from the European Social Fund through Sectorial Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/134197 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

## National Approaches to Consumer Problems – The Information Model vs. The Negotiation Model

Gheorghiu Gabriela

„Ovidius” University of Constanta, Faculty of Economic Sciences  
[gabrielag3110@yahoo.com](mailto:gabrielag3110@yahoo.com)

### Abstract

*The present paper presents two of the national approaches used to address consumer problems, i.e. the information model and the negotiation model. Developed in countries like Great Britain, Germany or Austria, the information model aims to keep the consumer informed in relation to the products safety so that the liability for the risks related to the undertaken choices devolve exclusively on him. Unlike this approach, the negotiation model, which was developed in Scandinavian countries, allows consumers and producers to share risks in relation to the product safety, concurrently involving the reduction of global social cost of the activity of consumer protection.*

**Key words:** consumer interests, consumer protection, consumer rights

**J.E.L. Classification:** D18

### 1. Introduction

The answers formulated nationally to consumer problems within the market evolved differently from one country to another, under the influence of internal political, social and economic pressures.

A detailed analysis on the modalities for approaching these problems discloses the possibility of identifying certain patterns, general models in which the national systems developed in the field of consumer protection can be framed, in terms of specific key-elements, as: the identity assigned to the consumer, the main problem with which he confronts within the market, the solutions found in order to hurdle it off and the coordinating principles of the actions intended in the end for the increase of the safety level guaranteed to the consumer by that national system.

### 2. Information model for defending consumer interests

The information model for consumers protection treats them as economic actors situated on equality positions together with the other participants in the market. Thus, consumer problems are approached in terms of market failures and the solutions to their surmounting come to re-establish the appropriate functioning of the market, including here the correction of informational asymmetries, the equitable share of contractual risks and the encouragement of competition in the quality of products. Consequently, the consumer must be informed in detail in relation to the products commercialized on the market, so that the liability for the risk related to the undertaken choices devolve exclusively on him, the basic principle of this protection being „*Caveat emptor*” or “*Let the buyer be aware !*”.

The information model has its origin in the British consumerist movement.

Consumerist policies promoted in *Great Britain* at the of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century were intimately related to the actions undertaken in favor of trade liberalization, these aiming the guarantee of some reduced prices of the products, especially for food, as a counterbalance to the high prices imposed by the protective policy of Germany. The exclusive concentration on cheap products, as a reference element for consumer satisfaction, determined the neglect of some important aspects as: the quality of traded products, the information of the consumers, but also the consequences of free trade on human health, reason for which few legal or institutional measures directed to consumer protection were adopted. For example, the *Food and Drugs Selling Act*, adopted in 1875, and which represented the legal base in

the field till after World War II, focused rather on the elimination of frauds than on the improvement of the standards concerning human health, those who were considered being the traders and not the producers, whom they let free to follow their own interests with regard to the quality of products.

In proportion as the international chain of commodities acquirement extended, it became more and more unclear the way in which ethic sensitivities of the British consumer could influence positively the production process which was more and more fragmented and farther.

During World War I, and also during the following years, the inflation and the scarcity of food products necessary for daily living, followed by the cruel economic depression and the mass increase of unemployment rate, raised new problems connected to the way in which consumers could be protected against the uncertain offer, the variable prices and economic cycles, but also the way in which the harmonization of the interests of the consumers with those of the producers could be realized. The political support appeared on the part of the labourist and social-democrats representatives, who were quick to embrace the alternative of governmental regulations in order to rectify those problems, especially those concerning the safety of consumption and the establishment of prices.

In this context, according as the demands for the regulation of consumer protection intensified, the same thing happened with the need for educating them, on purpose to assure the rationality of consumption. Although subdued by the outbreak of World War II, this upsurge continued during the post-war period, with the establishment, in 1956, of *Consumers' Association*, which pleaded for consumer education and their protection against the unsafe products and unfair commercial policies, the latter being regulated widely by the *Fair trading Act* in 1973. To this effect, starting with the year 1957, the first edition of the British magazine *Which ?* was published, and it had an immediate success, having as the main objective a better information of its members on the quality of the products commercialized on the British market, so that they could be aware of the choices they must make within the market.

Although it is an exclusively private organization even nowadays, the number of the members of Consumers' Association increased from year to year, becoming an outstanding attorney of the consumers at the national level, but also playing a decisive role on the international plan. Also, it maintained cohesion relations with state machinery, putting its mark on numerous governmental initiatives, as the establishment of Consumers Council in the 1960s, of the Office of Fair Trading starting with 1973 and the National Consumer Council in 1975.[1,2]

Following the same line of the British consumerist movement, in *Germany* the defense of the interests of the consumers did not transform in a mass demonstration, the different groups which activated in the field having a quite isolated character, their action focusing especially on the consumers education. To this effect, in 1953 *The Alliance of Consumer Associations* came into being, having the role of coordinating the activity of the respective groups, providing them information and especially technical counseling, in order to become an equal partner in the development of the products and services on the German market.

The *Stiftung Warentest* started to function in 1964 on its initiative, having the mission of verifying, on a completely independent base, through adequate scientific methods, the products and services of German origin before launching them on the market, the results being published in the specialty magazine *Test*, whose first number appeared in 1966. Unlike its European counterparts - the British magazine *Which?* And the French one *Que Choisir*, the German publication *Test* allowed the implication of the representatives of producers at all the levels of the operations for testing the products, on purpose to rectify any deficiency before launching them on the market. With a number of readers estimated to 5 millions presently, the magazine *Test* is considered the second most reliable institution in Germany, after the Red Cross.[3]

In conclusion, contrary to the protection regime promoted for example in France, German consumers are treated as economic agents who participate actively in the market, profiting by a representative and negotiation role at the federal level, even if more in the technical fields, reason for which the absence

of a powerful, independent movement of the consumers can be remarked.

A similar role is assigned to the consumers in *Austria*, the main association in the field which is in charge with testing the products that are to be launched on the market, on purpose to offer their members all the necessary information in order to adopt the best decisions, functioning since 1961 under the name of the *Consumers Information Association*.

### 3. Negotiation model in promoting consumer interests

Unlike the case previously presented, the negotiation model in promoting the interests of the consumers treats them as a compact social group of interests, capable of showing their concerns directly towards other groups of interests from the society to which they belong. Consequently, it is assumed that, with the producers, consumers share common goals and that, by the agency of discussions, they can reach to an agreement on a regulation framework reciprocally advantageous with regard to the protection of own interests. In this social-democratic approach, the problems of the consumers are perceived as being derived from the lack of communication between the groups of consumers and producers, reason for which the solutions intended for their overrun regards some negotiation forums between all the interested parties, followed by legal empowerment of the results obtained after the conducted negotiations. Thus, the fundamental principle which lies at the basis of this model is "*Pacta sunt servanda*" or "*Agreements must be kept!*".

The most often invoked in the discussions with reference to the social-democratic model for the protection of the consumers is the experience of Scandinavian countries, considering the fact that the economic and political regime specific to them allowed state intervention in the problems of the consumers, by taking the initiatives of consumerist movements by governmental institutions, determining the less obvious manifestation of any independent attempt in the field.

The pioneer to this effect was represented by *Denmark*, by establishing in 1935, a *Council of Household Economy*, followed by

*Sweden*, which, starting with the year 1946, adopted a series of measures concerning consumer education, accompanied by the creation, in 1951, of an institution patronized by the state, respectively *the Institute for Informational Labeling*. It reunited representatives of labor unions, retail cooperatives, feminist organizations, and also representatives of traders and producers, on purpose to encourage the labeling of the products as a means of improving the information degree of the consumers.

A characteristic of the social-democratic model is represented by the functioning of a special, autonomous institution in relation to the governmental authority, denominated *Consumer Mediator (Ombudsman)*, established for the first time in *Sweden*, in 1971, on purpose to allow the defense, before a specific institution, denominated *Market Court*, of the interests of the consumers in relation to the representatives of the producers and traders. This example was later taken over by Norway – in 1973, Denmark – in 1974 and Finland – in 1978.

A similar model was also put into practice in *Norway*, by the establishment, on one hand, of a *Consumers Council*, starting with the year 1953, to which three fields of intervention were assigned, respectively: the regulation of prices, the quality control of the products and consumer education, but also by introducing, on the other hand, in 1954, of a new law with reference to the control over prices, which allowed the state to intervene within the market by a pricing mechanism.

### 4. Conclusions

National policies designed to consumer protection, which nevertheless evolved in a different way over time, from state to state, under the influence of the internal pressures of political, social and economic nature - are more than ever subdued to the influence of external pressures, as a consequence of the process of economic globalization, becoming more concessive or even more restrictive.

Consequently, daily reality discloses to us the co-existence of several national systems, guaranteeing the consumer different levels of protection, so that, in order to increase his trust in the purchase of products which originate also from other countries than the residential one, the importance of the



realization, at regional and global level, of some joint actions on the part of world states can no longer be ignored, on purpose to avoid the differences that may appear in the international commercial relations and to surmount the problems encountered by the consumer.

## 5. References

- [1] Hilton, M., *Consumerism in 20th Century Britain. The Search for a Historical Movement*, Cambridge University Press, Cambridge, 2003;
- [2] MacLachan, P., Trentmann, F., "Civilizing Markets: Traditions of Consumer Politics in Twentieth-Century Britain, Japan and the United States" in M. Bevir, F. Trentman (coord.), *Markets in Historical Contexts: Ideas and Politics in the Modern World*, Cambridge University Press, 2004, pg. 170-201;
- [3] Trumbull, G., "Whatever Happend with *Caveat Emptor* ?", interview given to Sean Silverthorne for Harvard Business School on 7<sup>th</sup> August 2006, available on <http://hbswk.hbs.edu/pdf/item/5470.pdf>;
- [4] Micheletti, M., Follesdal, A., Stolle, D. (coord.), *Politics, Products, and Markets: Exploring Political Consumerism – Past and Present*, Transaction Publishers, New Brunswick, 2006;
- [5] Chatriot, A., Chessel, M. E., Hilton, M., *Au nom du consommateur. Consommation et politique en Europe et aux Etats-Unis au XX<sup>e</sup> siecle*, La Decouverte, Paris, 2004;
- [6] Trumbull, G., "Strategies of Consumer Group Mobilisation: France and Germany in the 1970's" in M. Daunton, M. Hilton (coord.), *The Politics of Consumption: Material Culture and Citinzenship in Europe and America*, Berg, Oxford, 2001, pg. 279-283;
- [7] Gheorghiu, G., *Consumer Protection – Worthlessness or Necessity. Consumer protection rationales*, Ed. LAP Lambert Academic Publishing, Saarbrucken, 2012.

## A Retrospective Look on the Ports Sector in Romania Before and After the Global Financial Crisis

Ghita Simona

*Academy of Economic Studies in Bucharest - Department of Statistics and Econometrics*  
[simona.ghita@csie.ase.ro](mailto:simona.ghita@csie.ase.ro)

Titan Emilia

*Academy of Economic Studies in Bucharest - Department of Statistics and Econometrics*  
[emilia.titan@csie.ase.ro](mailto:emilia.titan@csie.ase.ro)

Manea Daniela

*Academy of Economic Studies in Bucharest - Department of Statistics and Econometrics*  
[daniela.todose@csie.ase.ro](mailto:daniela.todose@csie.ase.ro)

### Abstract

*Industries and ports services may represent - by attracting domestic and foreign investments, by creating jobs at local level - a catalyst for related activities of goods and services production. As a binder between national and external business area, Ports sector can contribute, through a multiplier effect, to support the economic development of the country.*

*After analyzing the main statistical indicators for Ports activities in Romania, we concluded that there were some unfavourable developments, enhanced by global and financial crisis. The solution to stop these adverse developments could be a domestic or foreign capital infusion, in order to improve the efficiency of Ports activity, to meet the future challenges that European ports might face by 2030.*

**Keywords:** Ports sector, maritime transport, inland waterways transport.

**JEL Classification:** L92, L95, O18, R40.

### 1. Introduction. Coverage of the Ports sector. Developments in the European context

According to EUROSTAT methodology, the Ports sector is covered by the following NACE ver. 2 codes: 49.5 (Transport via pipeline); 50.1 (Sea and coastal passenger water transport); 50.2 (Sea and coastal freight water transport); 52.1 (Warehousing and storage); 52.2 (Support activities for

transportation).

The activity in the Ports sector may constitute the connection between the internal and external business environment of a country. Industries and Ports services represent - via pipeline transport, maritime and coastal transport of passengers and cargo, warehousing, storage and handling, naval operations - a catalyst for related industries. Due to its ability to attract domestic and foreign investments, to create jobs, activity in the Ports sector has a multiplier effect and may contribute significantly to the GDP growth [1].

A Memo provided by the European Commission on 23 May 2013 shows that - despite the important role of ports in the growth of the European economy - European ports will face challenges within the next period. Hence the need for their adaptation to increased freight traffic (estimated at 50% by 2030), the need for their adaptation to the changing nature of commercial activity, and the need for reducing performance disparities between European ports [2]. The European ports trades 74% of extra-EU goods and 37% of intra-EU annual traffic of goods, as well as 385 million passengers [3]. The need for modernization, the performance growth of ports activity is more prominent as many European ports were affected by the economic and financial crisis in 2008. In this context, EUROSTAT shows that Romania had a few negative records: the decrease of the gross weight goods handled in Romanian ports (by -28.5% in 2009 compared to 2008), the high decrease (-54%) of container handling in 2009 compared to 2008 and the

high decrease in inward transport (-45%) during the same period. There were, however, some positive aspects in the evolution of Ports industries and services, the EUROSTAT Report reveals an increase of 67% of extra-EU-27 transport in 2009 compared to 2008, explained by the advantageous geographical position of ports in our country.

The EU has made a top of European ports, in terms of containers volume handled in 2009. In this top Constanta port area ranked 20. Economic and financial crisis has seriously affected Ports activity, reducing by almost 57% the volume of containers handled compared to 2008 [4].

## 2. Quantitative analysis of Ports activity in Romania, during 2003-2012 period

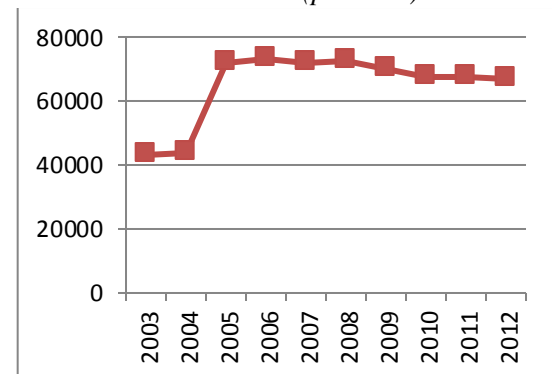
Most of the activity in the Ports sector in Romania is carried out through the port of Constanta, the most important seaport and one of the largest ports in South-Eastern Europe. Among its advantages are: advantageous geographical position (at the intersection of three important maritime corridors), high level equipment and modern facilities, considerable surface and water depth to allow access to vessels with high capacity (for goods and passengers), connection channel from the sea to the Danube River, thus ensuring combining freight maritime transport with inland waterways transport, at lower rates [5].

Analyzing the evolution of main statistical indicators of Ports industries in Romania, it appears that this area is a source of great potential for the economic development of the country, insufficient, however, exploited.

**The average number of employees.** In the period 2003-2012, in the Ports industry in Romania the average number of employees followed opposite trends. Thus, during the pre-crisis period, the average number of employees in this sector has shown an upward trend (from 43310 persons in 2003 to 72359 persons in 2008, with an average annual rate of 10.8%). After the global financial-economic crisis hit the European economy, the evolution-direction reversed, and the indicator entered on a slight downward slope, reaching a level of 66852 people in 2012 (a decrease of 2% on average per year in 2008-2012). The share of average

number of employees in the Ports sector in the average number of employees in the whole Transport and Storage branch registered an oscillating evolution, due to a reduction in the absolute value of the average number of employees in Transport and Storage branch - from 292970 people (in 2003) to 254697 people (in 2012). In 2003 14.78% of the average number of employees in Transport and Storage branch industries was employed in Ports activities, reaching 26.25% in 2012.

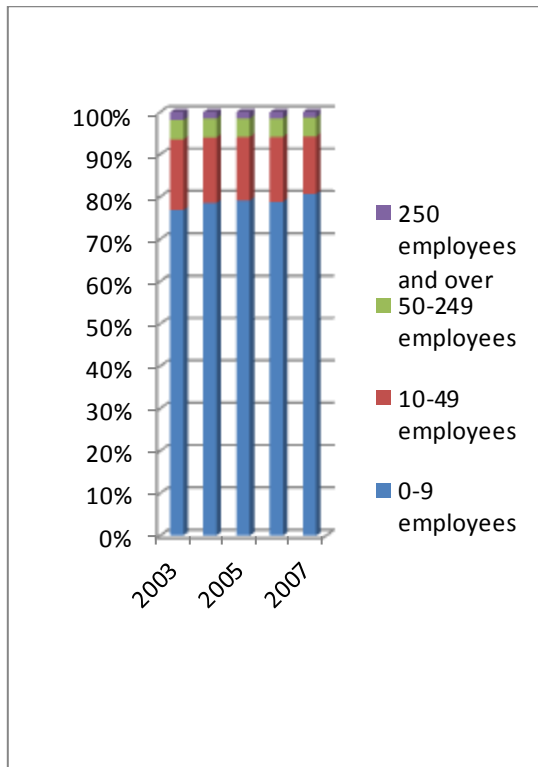
Figure 1. Average number of employees in Ports sector (persons)



Source: National Institute of Statistics – TEMPO online database. Data are provided by Statistical Register of Enterprises, updated based on administrative data sources [6]

**Number of active enterprises** – (2003-2007 sub-period): The number of active enterprises existing in the Ports sector in Romania, between 2003 and 2007 was continuously growing, from 1445 to 2129 enterprises, with an increase of 10% on average per year. The figures include active companies by the following CAEN codes: Transport via pipeline, Sea and coastal water transport Storage and warehousing, Other Supporting Land Transport Activities, Other Supporting water transport activities, cargo handling, Activities of other transport agencies. Structural changes occurred during this period in terms of the number of active enterprises by size show that the share of active micro-enterprises (0-9 employees) increased from 76.88% (2003) to 80.74% (2007); there were also decreases in the share of small active enterprises (10-49 employees: from 16.68% to 13.53%) and of the large ones (250 and more employees: 1, 87% to 1.22%).

Figure 2. Structure of active enterprises in the Ports Sector in the period 2003-2007, by size



Source: authors' computing based on data provided by the National Institute of Statistics, Tempo online database, Statistical Register of Enterprises [6]

**Number of active enterprises** – (2008-2012 sub-period): Active enterprises growth in the Ports sector in Romania continued after 2008 year (from 2092 in 2008 to 2341 in 2012), but with a lower average annual rate (of only 2,8% on average per year). Most of the active enterprises in the Ports sector were micro-enterprises (with a share of over 79% in 2012); small active enterprises had a share of almost 16%, while very large active enterprises in the Ports sector had a share of only 1%. Their share fell from 1.39% to 1% in the analyzed period. Structural mutations were lower than in the pre-crisis period. The figures include active companies by the following CAEN codes: Transport via pipeline, Sea and coastal passenger water transport, Sea and coastal freight water transport, Warehousing and Storage, Service activities incidental to land Transportation, Service activities incidental to water Transportation, Cargo Handling, Other Transportation support activities.

Table 1. Number of active enterprises in ports sector, by NACE ver. 2 codes, 2008-2012

Year	Transport via pipeline	Sea and coastal passenger water transport	Sea and coastal freight water transport	Warehousing and Storage
2008	3	2	36	237
2009	3	5	95	291
2010	3	27	103	327
2011	3	8	38	309
2012	3	6	37	319

Table 1 - continue

Year	Service activities incidental to land transportation	Service activities incidental to water transportation	Cargo handling	Other transportation support activities	TOTAL
2008	352	235	135	1092	2092
2009	504	239	150	1155	2442
2010	480	235	155	1105	2435
2011	412	229	150	1076	2225
2012	438	241	153	1144	2341

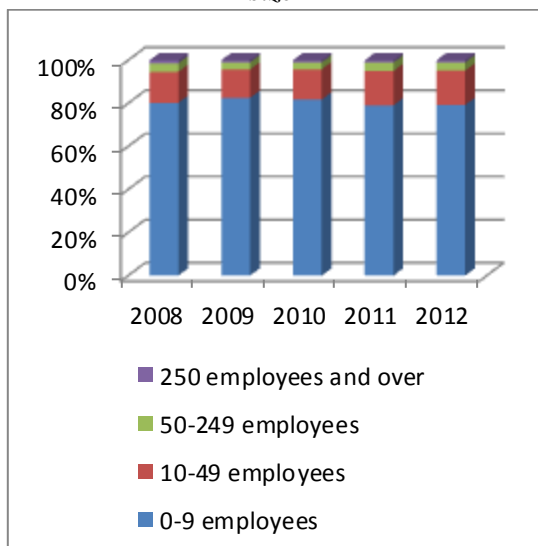
Source: National Institute of Statistics, TEMPO online database [6]

Table 2. Distribution of active enterprises in Ports Sector by size, 2008-2012 (NACE Rev. 2)

Year	Number of active enterprises				Total
	0-9 employees	10-49 employees	50-249 employees	250 employees and over	
2008	1678	301	84	29	2092
2009	2015	322	80	25	2442
2010	1991	342	77	25	2435
2011	1759	355	86	25	2225
2012	1855	373	89	24	2341

Source: National Institute of Statistics, TEMPO online database [6]

Figure 3. Structure of active enterprises in the Ports Sector in the period 2008-2012, by size

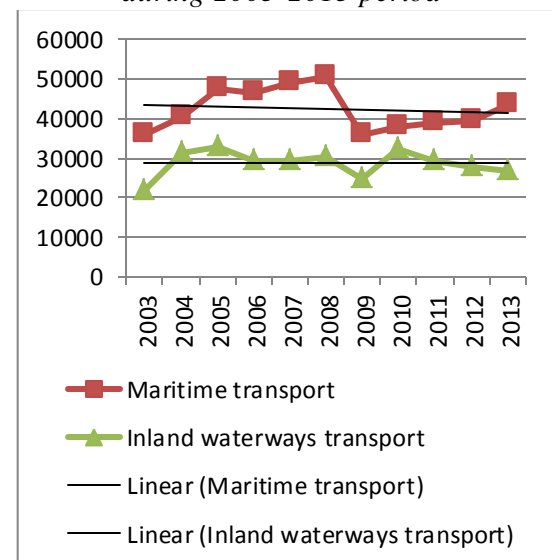


Source: authors' computing based on data provided by the National Institute of Statistics, Tempo online database, Statistical Register of Enterprises [6]

**The gross weight of goods transported by water (thousand tones):** Along the 2003-

2013 period, the evolution of gross weight of goods transported by water should be analyzed separately for the two sub-periods - pre and post crisis in 2008, both for maritime transport and inland waterways transport. During the entire period in Romania the gross weight of goods transported by sea was higher than the one carried by inland waterways transport (1.62 times higher in 2013). Global financial and economic crisis in 2008 caused a significant decrease in the indicator level, interrupting the upward trend of the previous five years. In the post-crisis period the upward evolution is resumed, but with a more attenuated slope, the indicator level has not yet returned to the level before the crisis. [7][8]

Figure 4. The gross weight of goods transported by water – maritime and inland waterways transport (thousand tones), during 2003-2013 period

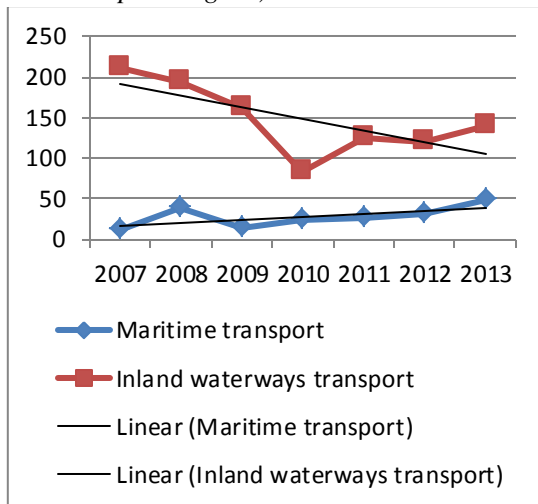


Source: National Institute of Statistics-Tempo online database, Survey on port maritime transport and Survey on port inland waterways transport [6]

**Passengers transport (maritime transport or inland waterways transport) (thousand passengers).** In the 2007-2013 period the number of passengers transported by sea registered a slight increase, although it includes passengers on sea-cruises and it is far below the number of passengers on inland waterways (95% lower in 2007, the difference reducing to 65% in 2013). Number of passengers on inland waterways registered a downward trend (from 211 thousand

passengers in 2007 to 140 thousand passengers in 2013), with an average annual rate of 7% [9].

Figure 5. Number of transported passengers via maritime or inland waterways (thousand passengers) -2007-2013



Source: National Institute of Statistics - Tempo online database, Survey on port maritime transport and Survey on port inland waterways transport [6].

### 3. Conclusions

Value of market services rendered to economic agents in water transport domain in Romania recorded in 2008-2012 period an oscillatory evolution, reaching 1138 million lei (current prices). Almost entire value of the services was made by economic agents in private sector. In the same period, the turnover of the economic agents with transport and storage activity in Constanta county has declined by 268 million lei. These results can be partially explained by decreasing number of employees in the Ports sector in the post-crisis period, but they come somehow in contradiction with the slight increase in the number of active companies in the Ports sector, and with an increasing weight of goods transported by sea.

Ports sector in Romania needs a domestic or foreign capital infusion, in order to improve and increase its performance, to meet future challenges for European ports by 2030.

### 4. References

- [1] \*\*\* „Importance of ports for economic recovery and jobs”, MEMO/12/317, European Commission, Brussels, 11 May 2012.
- [2] \*\*\* “Europe's Seaports 2030: Challenges Ahead”, Memo, Bruxelles, European Commission, 23<sup>rd</sup> of May, 2013
- [3] \*\*\* “Ports 2030 - Gateways for the Trans-European Transport Network”, European Commission, April 2014
- [4] Amerini, G.,”European port activity in 2009 hit by the general economic crisis”, EUROSTAT, European Commission, Statistics in Focus, 65/2010, Transport
- [5] <http://www.portofconstantza.com>
- [6] [www.insse.ro](http://www.insse.ro) –Tempo Online Database
- [7] <http://epp.eurostat.ec.europa.eu/portal/page/portal/transport/data/database>
- [8] \*\*\*, „Report of investigation concerning maritime transport services market”, the Competition Council, April, 2010.
- [9] [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Maritime\\_ports\\_freight\\_and\\_passenger\\_statistics](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Maritime_ports_freight_and_passenger_statistics) - Maritime ports freight and passenger statistics

## The Motivations of Electoral Absenteeism

Ghiuță Ovidiu-Aurel  
Ștefan cel Mare University of Suceava  
[ovidiughiuta@yahoo.com](mailto:ovidiughiuta@yahoo.com)

### Abstract

*The paper analyses the specialty literature on absenteeism expressed by citizens in elections. There are analyzed factors leading to absenteeism according to the literature and there are given examples of authors' own analyzes or of other authors regarding the applicability of these factors which influence the turnout in Romania, France, and USA.*

*There are analyzed as motivations of the presence/absence of the elector from voting: the social position of the elector, the economic models of utility, the type of voting and the institution for which the elections are organized.*

**Key words:** electoral absenteeism, electoral behavior, voting behavior, cost-benefit analysis

**J.E.L. classification:** D72, D61

### 1. Introduction. What is absenteeism?

Many researchers have tried to explain the causes of the absenteeism or to determine the variables which influence the rate of the absenteeism. The factors that may lead to absenteeism are sociological and circumstantial. The sociological factors are linked to social domination or they are the effect of a poor social integration, while circumstantial factors represent the elections' circumstances and the political context on the behavior of citizens [1].

Speaking about absenteeism, we first have to mention the fact that there are several types of absenteeism according to the non-participants' identity: occasional, frequent (for certain types of elections) and regular. Some researchers use only two levels of absenteeism: intermittent absenteeism (occasional and frequent) and systematic absenteeism.

"For many absentees this hypostasis is not just a simple protest but it signs, in a contradictory way, in a political project: that of making a radical critique of all forms of power and the construction of another future without passing on to the polls" [2].

A rejection of the political game can be explained by the disappointment or distrust towards parties and politicians, the lack of confidence in their abilities and skills to govern, the lack of confidence in a system's capacity to improve the conditions of the citizens [1], [3].

"To refuse exercising the right to vote means to affect the legitimacy of power founded on an episodic electoral connection, and to assert individual sovereignty in the collective future" [2].

### 2. Methodology

As a research methodology used for this paper, we can affirm that this has been conducted in a constructivist epistemological paradigm. As the research design I have taken from the specialty literature the factors influencing turnout at the polls and I analyzed them (based on our own qualitative or quantitative analysis or analysis of other authors) for democratic countries such as France, Romania, or United States of America.

I verified by the method of deduction if the motivations for which some citizens do not participate in voting are applicable also in Romania.

### 3. The social position of the elector

One explanation for absenteeism is represented by the social position. The survey conducted for Centre de recherches politiques de Sciences Politiques (CEVIPOF) in 1988 showed a very strong correlation between social position and political participation. The social position was

composed of several variables: self-positioning on a social scale, occupation, monthly family income, level of education. The categories situated on a higher position on the social scale have the most regular electoral participation.

The survey conducted by CEVIPOF in 2007 for the presidential election reveals: "When we compare the absentees' profile with that of the voters, it can be noticed that the first ones are more feminine, much younger, more from rural areas, less gifted in preparation, more often tenants where they live, usually celibate and often detached from the region" [4]. We find here the classic portrait of the absenteeism which Alain Lancelot said about, since 1968, that it reflects the integration in society: "(...) absenteeism is not a kind of perversity, which not depends only on the moral beliefs of the individuals, but a social phenomenon conditioned by the system of social relations and the system of political forces which exists at a given time; it represents in the same time the relation between certain social categories with politics and political reaction of certain categories of electors towards a situation constantly changing" [4].

Daniel Gaxie considers the existence of a phenomenon of political segregation of the disadvantages social and cultural categories. We will pursue a little bit his analysis: "To understand the functioning of the political field leads therefore necessarily to questions related to their degree of politicization that is the degree to which citizens are turning their attention to political events. This raises the issue of measuring this politicization" where "Politicization - defined as the attention to the way of functioning of the political field - depends crucially on the extent to which social agents have the feeling of finding themselves in the political events unfolding, therefore to find a sense - n.a. in politics - (the feeling of political competence)" [5]. For Gaxie the political competence is represented in a more subjective way through the sense of competence or incompetence that the electors have about the candidate, "therefore it varies depending on the possibility of the candidates to give it meaning and it implies the capacity to operate one's own political construction in the political space" [5].

The absenteeism depends also on the representation which the electors have about

the society, the place they occupy: forms of active/inactive professional integration, employment status, definite/indefinite term contract, etc., familial integration, and membership to certain religious or ethnic groups [6], [7]. But Clanché (2003), with surveys made the day after the elections from the spring of 2002, highlighted the absentees' diversity of profiles, namely he noted that these are not the disadvantaged social classes [7].

On the contrary in Romania some disadvantaged environments have a more important turnout than others. For example, disadvantaged environments which are found in rural areas have a greater turnout than the urban residents for absolutely all the types of the last two elections for each institution (Table 1).

*Table 1. Turnout comparison in rural and urban areas*

Elections	Year	% participation	
		Urban	Rural
Presidential first round	2009	<b>51,50</b>	<b>56,30</b>
	2014	<b>51,64</b>	<b>53,21</b>
European Parliament elections	2009	<b>20,40</b>	<b>36,56</b>
	2014	<b>28,69</b>	<b>36,88</b>
Legislative	2008	<b>35,63</b>	<b>44,24</b>
	2012	<b>40,49</b>	<b>43,40</b>
Local first round	2008	<b>40,77</b>	<b>61,26</b>
	2012	<b>49,88</b>	<b>65,30</b>
Local second round	2008	<b>38,28</b>	<b>62,41</b>

#### 4. Economic models of utility

There are also economic models that justify the motivations for which the electors decide not to participate in the vote, although this is the primordial right of democracy. An economic model of participation/absenteeism is represented by the formula:

$$R = P \times B - C + D.$$

This reasoning was formulated by Tullock and Riker and Ordeshok based on the equation  $R = P \times B - C$ , where R represents for the individual the gain of the voting action in relation with the action of absenteeism, P is the probability of influencing the result, B is the benefit of being chosen his party to the detriment of other party, and C the cost of the



voting action. This equation is known in the literature as the calculation of the vote. If  $P$  is very close to zero,  $R$  is approximately equal to  $-C$ : the individual should not vote. This instrumental calculation - the individual wants to use his vote for influencing the outcome of the election - is the basis of most economic theories on absenteeism.

Downs concludes that if the citizens are voting despite these things, it is because they attach value to the democratic system and want to avoid its collapse. For this, they appeal to the "long-term value of democracy." This comes to bring extra value  $D$  to the calculation of the vote: then the gain becomes  $R=D-C$ . The citizens for which  $D$  is superior than  $C$ , should vote and the other should abstain. This reasoning arises from several theories that rely on the fact that the vote decision it is not formed on its instrumental aspect (of influencing the outcome), but on its expressive aspect (to vote is a pleasure for the self, independent on the elections' outcome) [8].

If the normative theory praises the importance of citizen participation in elections, the economic theory on democracy shows that the absenteeism is a normal phenomenon of the human thinking. Non-participation in elections, from the economical vision of the vote, it is explained through the high cost relative to the expected result (or marginal costs are higher than marginal benefits). Here the marginal costs are represented by moving to the voting office and back, the time wasted doing this, and also the time invested in the pursuit of the campaign, the money spent for being informed or more informed (the elector will never hold all the information to reach a 100% rational decision).

For example, a minority ethnic group will vote in a large proportion if among the candidates they will find a representative of the group and they would rather stay home if no representative of the group to which they belong is not among the candidates. The high levels of participation in the 2008 presidential election which took place in the United States of America are explained also by the economic context (crisis) and by the national security context (the wars in Iraq and Afghanistan). The participation rate (63%) in the United States of America presidential election of 2008 is the highest

since 1964 (64.9%, official figure for 1964 is 62%, but it considers eligible also the electors who did not have the possibility to vote - African Americans from the South) [9].

Another example are the 15.000 people who will come in administration with the new government after presidential or parliamentary elections in Romania, they and their families have a personal stake to vote, but those 15.000 officials who are already in positions, of course with their families and their proteges, have the same stake (personal benefits and privileges).

## 5. Circumstantial factors

The circumstantial factors represent the nature/type of each election and they can appear whenever we have to deal with and exceptional situation (beginning of a war, the first elections after a totalitarian regime). There are studies referring to the influence of the day of the week when the elections are organized, the influence of the weather or of the amount of rain on election's day. These circumstantial factors are represented by the day of the vote - elections held over the weekend have a greater participation [10] weather on the day of the vote - each cubic inch (=16,387 cm<sup>3</sup>) of rain has caused absenteeism to rise by 3.5 points for the US presidential elections [11]. In France it was confirmed that the beautiful weather on election's day leads to decreased absenteeism [12].

Another circumstantial factor is the open or closed character of the election (the number of decision makers). The closed character of the election leads to a strong turnout. Absenteeism increases with the number of voters, a million electors extra may cause its growth with 1.6 percentage points [11].

There are also other circumstantial variables that influence participation in elections: elections calendar, electoral cyclicity, militants' and supporter of certain parties boycotts, etc.; but it still remains one more important: the stake, the importance of elections for each elector, and for the whole community.

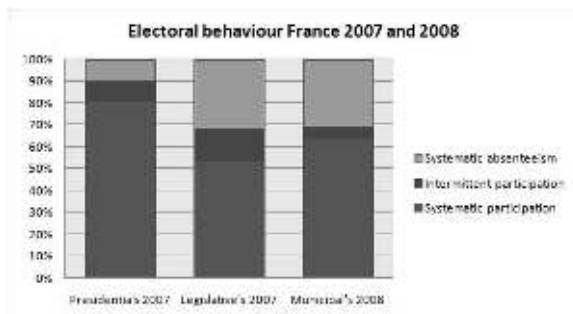
## 6. Institutions for which elections are organized

In Romania and in France the presidential and municipal elections register strong participation rates. On the contrary, the European Parliament elections have the lowest levels of participation (table 2 and figure 1).

Table 2. Turnout comparison depending on the institution for which elections are held

Participation rate in Romania		Turnout
Presidentials	2009, first round	53,52%
	2014, first round	52,31%
Locals	2008, first round	49,38%
	2012, first round	56,39%
European Parliament	2009	27,21%
	2014	32,16%
Parliamentary	2008	39,26%
	2012	41,72%

Fig.1 Comparison between turnout in France in 2007 and 2008 (presidential, legislative and municipal)



This is explained by the representations that the "electors have about the institutions referred, by the importance (strategic, symbolic, etc.) that they give to the mandate/mandates subject/subjects to the election, but also by the more or less strong social pressure depending on the symbolic value, from a social point of view, which is given to these institutions and to that ballot" [1].

## 7. Type of voting system

Another variable influencing the participation rate is the type of voting system. The uninominal voting system attracts more

attention than the one on the list, because the citizens directly vote their representative. In the list vote there are politicians whom the elector would vote and other politicians considered by the elector as inadequate (What could the elector do in this case?...One solution is not to participate at the vote).

Lijphart cited various sources which have shown that the participation rate is lower by 9-12 percent in a majority system compared to a proportional one [13].

Analyzing the system of vote, in Romania the legislation changed, and for the legislative elections from 2012 the uninominal elections there is a type of hybrid uninominal vote (pure uninominal if we have as a result an absolute majority on a college, and if not then proportional).

Table 3. Turnout comparison by type of election (proportional and uninominal)

Romania turnout in parliamentary elections	Turnout
2008	39,26%
2012	41,72%

It has also been a change from a uninominal absolute majority system to a uninominal relative majority system in the elections for mayors (2012 compared with 2008; in 2012 there was no second round of local elections).

Table 4. Turnout comparison depending on the uninominal vote type (absolute majority and relative)

Turnout in local elections in Romania	Turnout
2008, first round	49,38%
2008, second round	47,42%
2012, first round	56,39%

## 8. Conclusions

There are several motivations of electoral absenteeism, motivations which can be assigned to different paradigms: utilitarianism economic, sociological, or psychological.

In Romania there is an important cleavage between urban and rural environments regarding the turnout rate.

In general the motivations for which certain categories of citizens do not vote are being verified for Romania. The only place where the deduction has been infirmed is related to the urban-rural cleavage. I could not do comparisons between Romania and France on segmentation variables because in Romania there is officially available only the information referring to the cleavage due to the urban/rural environment of origin and the county of citizens, while in France there are according to sex, occupations, type of contract, age and region.

From these models which analyze the presence of the electorate at the vote, there are still missing the models which could refer to the attachment for the candidate's brand, attachment which could represent the only motivation for the elector.

This article represents a development of a part from a broader research, doctoral thesis *The influence of the brand on the elector's behavior* [14].

#### ACKNOWLEDGMENT

This paper has been financially supported within the project entitled „SOCERT. Knowledge society, dynamism through research”, contract number POSDRU/159/1.5/S/132406. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. Investing in people!”

#### 9. References

- [1] Lecomte, Jean-Philippe, *Sociologie politique*, Editura Gualino, Paris, 2005;
- [2] Bance, Pierre, L'abstentionnisme, un acte politique, *Libération*, 07/02/2007;
- [3] Jezovica, Milan, *Conferință Internațională Mass-Media și Alegerile Europarlamentare*, 26-27 septembrie, 2007, București, România,
- [4] Perrineau, Pascal, *Qui sont les abstentionnistes du 10 juin 2007?*, CEVIPOF, 2007;
- [5] Gaxie, Daniel, *Le cens caché*, 3<sup>ème</sup> édition, Editions du Seuil, Paris, 1978;
- [6] Thomas, Hélène, *Vieillesse dépendante et désinsertion politique*, Paris, l'Harmattan, 1996;
- [7] Clanché, Françoise, La participation électorale au printemps 2002, *INSEE Première*, nr. 877, janvier 2003;
- [8] Peralta, Susana, Faut-il maintenir le vote obligatoire?, *Regards Économiques*, IRES-UCL, nr. 11, mai 2003;
- [9] Curtis, Gans, „African-Americans, Anger, Fear and Youth Propel Turnout to Highest Level Since 1964”, *American University News*, 2009;
- [10] Mattila, Mikko Why bother? Determinants of turnout in the European elections, manuscript, *University of Helsinki*, 2001;
- [11] Shachar, Ron, Nalebuff, Barry, Follow the leader: theory and evidence on political participation, *The American Economic Review* 89(3), 1999, pp. 525-547;
- [12] Ben Lakhdar, Christian, Dubois, Eric, „Climate and electoral turnout in France”, *French Politics*, vol.4, 2006, pp.137-157;
- [13] Lijphart, Arend, Unequal participation: democracy's unresolved dilemma, *American Political Science Review*, 91 (1), 1997, pp. 1-14;
- [14] Ghiuță, Ovidiu-Aurel, *L'influence du brand sur le comportement de l'électeur*, Éditions Universitaires Européennes, 2011;

## Economic Effects of Tax Evasion

Iacob Oana Camelia  
Hyperion University of Bucharest, Romania

[oanacamelia.i@gmail.com](mailto: oanacamelia.i@gmail.com)

Volintiru Ana-Maria  
Valahia University, Târgoviște, Romania

[anavolintiru@gmail.com](mailto: anavolintiru@gmail.com)

Hohan Silvia  
Valahia University, Târgoviște, Romania

[hohan\\_silvia@yahoo.com](mailto: hohan_silvia@yahoo.com)

### Abstract

*Tax evasion is the most thorough chapter in tax law both specialists and practitioners etc. However, and in spite of everything written about the causes, methods, scope, control or penalties related to tax evasion, words that designate this phenomenon are unclear, and the area that we are exploring is uncertain. As such, tax evasion is a very difficult to say, in addition, there is no legal definition of fraud.*

*However, the outlook for this phenomenon has changed over time. It persists in all countries and in all times, despite sanctions. Moreover, it leaves many people indifferent beliefs.*

*The article deals with the concept of tax avoidance, tax evasion cases, and the economic effects of tax evasion.*

**Keywords:** Tax evasion, tax fraud, corruption, economic balance.

**JEL Classification:** H26; D73.

### 1. Introduction

Romanian Lawyers of the century were concerned about defining tax evasion. The literature written in that period is evidence of these concerns. Tax evasion was considered by specialists as being represented by "all licit and illicit methods by which escape those interested in full or in part their wealth, bond set by the tax laws." [1]

This definition of tax evasion does not fully cover the facts which it materializes, as are primarily concerned with legal tax evasion. Explanatory Dictionary of the

Romanian Language defines tax evasion as "stealing from tax obligations."

Tax evasion is defined as "avoiding the payment of tax obligations by submitting false data on sources and taxable income." [2] But tax evasion may result in many other actions of taxpayers. In addition to the spirit of fraud simply increase game of interest, whatever the tax rate set in question, there are other phones that can determine the taxpayer, hitherto honest, to a certain obfuscation.

In Romania, corruption becomes increasingly more organizational forms taking into account that illegal activities have proliferated as a result of the development and the methods used and the combination of well-defined structures involved in connections with external networks. Structured legally, corruption liking: and taking of bribery, trading in influence and receiving undue benefits, but also crimes as abuse of office, fraud, smuggling, tax evasion, money laundering, drug trafficking, banking and financial crime, or who is affected by the economy, extortion etc. In Romania, corruption is carried out by all forms mentioned above. [3]

According to legal provisions, a private company may have opened multiple accounts at different banks. Opening bank accounts is done without the consent and without notifying the tax authorities or the bank which opened other accounts, but banks are required under the Fiscal Procedure Code, to report immediately to the fiscal authorities to open bank accounts. [4] Opening a bank account is quite simple and easy by filing an application and documents showing that the company is legally established. Closing the

account is through a simple request from the trader, the bank exclusive pursuing his client's banking situation i.e. have no outstanding loans.

In this legal context can commit tax fraud largest documented "legal" drawn up by one of the bank accounts opened. To eliminate such phenomena, it is necessary that the law should provide that a trader can not open the account than bank branch in the country of your choice, and the opening of the second account can not be only in duly justified cases and under conditions whereby those interested to be informed of the opening of the second account (which has opened its first bank account, bank holding open the second account, the financial body). [5]

## 2. The causes of tax evasion

The causes are multiple tax evasions. We should recall first excessively tax burdens, especially for certain categories of taxpayers, but as reasons excessively 'which has just scale that has evasion.

In international practice, the efficiency of a tax system is not measured so the importance of tax revenue, as the degree of willingness to tax which is inversely proportional to the degree of resistance to taxes, so tax evasion. [6]

Secondly, we have mentioned failure of citizenship education and education tax payers and tax authorities overzealous, sometimes prone to exaggeration. [7]

One of the major causes of gain tax evasion is the tax legal system which, in addition to being incomplete, have large gaps, inaccuracies and even ambiguity, making the eventual taxpayer escapist have a large space for maneuver in trying to of evading legal tax obligations. [8]

Another cause of tax evasion is the subjective considerations psychology tax payer and insufficient education. It should also be noted that the lack of a well organized and control apparatus consisting of skilled personnel and properly can lead to large-scale forms of tax evasion. Of course you have noticed that one of the important causes of evasion is the lack of clear regulations, accurate and uniform, which restrict this phenomenon and to prohibit. Tax evasion is damaging both to the state and the taxpayer. First, because it deprives the state

of revenue necessary to fulfill its essential functions. Second, the taxpayer in that total taxes are distributed on a mass less revenue. Sir Austen Chamberlain stated that "evasion methods change with amazing rapidity" and "new investigation methods should be adopted at the same speed."

Sometimes, a certain part of the income or wealth of social category escapes taxation because of the way the law has taxable object setting. For example, the income criteria set by certain rules or exterior environments is usually lower than the real.

Possibilities of circumventing the IRS differs from one social class to another, depending on the nature and sources of taxable income or wealth, concrete way of determining the taxable matter, for the organization to audit and other specific factors. [9]

It is worth noting that of all walks of life, employees are those who have the least capacity to circumvent IRS because their imposition is based on the testimony of a third party - the entrepreneur. Instead, industrialists, traders employed full advantage of the possibilities of tax evasion, they offer based imposing statement. In the US, referring to federal income taxation of individuals professor A. Samuelson wrote: "On paper, the volume gives the impression that American taxation is progressive. However many items of income escapes taxation." Specifically, referring to the social and economic conditions of the transition period that runs through our country, fiscal and financial irregularities and shortcomings in economic activity due to the following causes: the possibility offered by the Law no. 31/1990 to authorize the establishment and operation of companies with many activities in the business, without checking in advance features and actual conditions of their deployment within the legal framework; minimum capital of 2,000 lei for LTDs, which does not provide for recovery of amounts due to the state budget; lack of regulation of the procedure for suspension of economic agents, although Law. 31/1990 provides for the suspension of economic agents which were found repeated violations; lack of legal provisions and stricter sanctions for lack of documents accompanying the goods traveled throughout the circuit in order to eliminate possible subsequent production

of supporting documentation for transactions captured by the monitoring body.

### 3. Economic effects of tax evasion

In countries with market economies economic activity carried out without a rigorous control of the center. Plans adopted are purely indicative, they are not mandatory for operators. The legal interpretation of the state budget was passed to highlight the role of the state budget in the economic, the budget to replace the national economy by economic function. The budget of the national economy is a foundation of process control measures economic, state intervention in economic life. To justify the budgetary function as a means of providing general economic equilibrium have launched a number of theories such as the theory of the budget of the national economy, general equilibrium theory, the theory of cyclical balancing the state budget, etc.

Secondly, the state budget is a means of correcting the economic conjuncture. Lately, many Western countries have promoted an economic policy aimed at correcting economic conjuncture with the state budget. The measures taken are different from one country to another: thus, some countries have given priority to the fight against unemployment, others maintain price stability etc. [10] To achieve these measures, some states have resorted to fiscal measures inflationary effects (increasing public spending) to stimulate investment and thus to create new jobs, while others have gone the way of tax cuts and other ways deflationary effects.

Thus, to be able to perform these functions, the state budget requires a high volume of income, especially for a secure income. In the case where, for one reason or another, estimated income and then do all the calculations in the budget law is not a reality and real income is much lower budget, state budget does not have the financial strength necessary achieve their goals.

Viewed from the standpoint of the taxpayer (especially economic agent) and the function of ensuring overall economic balance and support economic development in a predetermined direction, the effects of tax evasion, which in a first stage significantly reduces the income state budget

and thus its financial strength diminishes his needs can be divided into two categories: effects on taxpayers meet their tax obligations; effects on taxpayers who fail to meet their tax obligations.

Thus, under a high tax burden, of increased tax rates there is a big difference, economically, between taxpayers who comply with their tax obligations and those who do so. It was found that the same percentage of GDP, the tax burden is even more unbearable to lower the gross domestic product that returns the average resident. For example, a tax burden equal to 30% of GDP is more tolerable in countries with GDP of over \$2,500 per capita than in those with up to \$500. As a direct consequence of increasing taxation, appears corresponding decrease in revenues remain available to individuals and businesses for personal consumption and accumulation. After paying taxes, providing income of a taxable activity falls below the required level of reproductive labor. A number of contemporary economists would argue that excessive taxes exert a negative influence on the national economy, because it would undermine the initiative and incentive to entrepreneurs and would prevent increased production. Increased taxes would be unfair because they would deprive entrepreneurs due reward for abstinence to consume profits and capital. Taxpayers who paid into the state budget much of their income as taxes fall short of these funds and, most often, great difficulty in continuing to work in good conditions.

In addition, grant programs and support for the state's disadvantaged categories of taxpayers, the state should pay a "help" real financial. In conditions where, because of the increased share of tax evasion is diminished budget considerably, the state can not fulfill these programs, and those taxpayers do not receive subsidies, or receive a much reduced rate compared to their actual needs or not receive in time to be economically efficient.

This is all the more serious as those taxpayers who should receive temporary financial support of the state are of national importance and businesses, especially businesses that have a real need for these subsidies. The absence of these subsidies causes a serious disorder or cessation of these businesses, in which are produced serious imbalances in the national economy. [11]

On the other hand, there is a small amount of tax revenue they get from the state budget determines maintain high tax rates or increase some of them. So this high fiscal risk overlaps other risks that a trader must assume in its business conditions under which an economic agent expands investment in production and operations that bear the tax claims tax burden increases proportional and therefore will increase fiscal risk. In general, businesses seek to reduce this risk by any means tax. [12]

It follows that in order not to inhibit the tendency to make large and risky productive investment appears the need to reduce the tax burden, if not a company's profit exemption from income tax. If this happens, then one method of decreasing the tax burden and fiscal risk is the theft of much of the taxable matter of taxation.

Share increased tax evasion causes a decrease in state revenues and may cause an increase in taxation. Given that honest taxpayers have to pay a bigger share of their income in the form of taxes, and also opt for tax evasion as a method of reducing the tax burden to which they are subject, their economic activity is will take place increasingly harder. Therefore, the profits that company will get will be smaller, and therefore to maintain tax rates, revenue that that company will pay up to the state budget will be smaller. The economic strength of honest taxpayers will decrease.

This phenomenon is all the more serious as real and drastically affect the national economy, and there is no legal means by which this contribution to state revenues can be increased. Tax is one of the major sources of the Fund's budget and at the same time, financial leverage by which the state is able to stimulate development and economic activity. Through its structure, the method of determining and collecting tax is an important tool available to guide and shape state investment behavior.

This investment behavior modeling has an important role in national economic development in a particular direction to ensure greatest effectiveness. Because the orientation of economic behavior to be made in real terms, and its effectiveness is acceptable, the state budget must have a considerable financial strength that not infrequently methods for modeling

investment behavior implies automatically a reducing economic contribution to the formation of state revenues.

Thus, some tax provisions (reductions, tax refunds) are intended to incite and guide operators towards employment, being subordinate policy to reduce unemployment.

Experts warns, however, limits the use of tax for economic, namely the danger that compulsory levies extent paralyzed initiatives; risk - in some cases - the effect on international competitiveness enterprise; complicated control and favoring forms of tax evasion or avoidance. For example, the order in which the Government has decided to increase the excise tax on cigarettes imported beverages and 300% can be justified undoubtedly decrease revenue to the state budget, but tax evasion estimated at over 200 billion lei resulting almost entirely from smuggling cigarettes and alcohol can not be made good by charging excessive customs of the few customers who legally imported goods, but mostly new excise rates will urge other retailers to enter among fraudsters when they found that beverages and cigarettes through customs not withstand the power prices. As for financing the budget deficit the state must borrow interest-bearing domestic and foreign high, so traders have to incur certain loans, to be able to fund operations while the income remaining after paying debts budget state are too small to support further work in good condition. These loans bear interest high is permanently a serious obstacle to the development and expansion of business entity that has contracted the loan. Tax evasion also has economic effects and taxpayers meet their tax obligations not. Failure budgetary claims achieves increased income for that undertaking, income remains available to the taxpayer. This income, but can not follow its natural course in the business cycle because to not be found that tax evasion, it must be hidden. The trader has apparently increased efficiency, produce satisfactory income but economically these revenues have no value and can not be used in the licit economy.

These will go unreported income, without exception, be in some hidden bank accounts in the country or abroad, or will enter the underground economy contributing to its development. Development of the

underground economy involves, necessarily, an increase in the share of tax evasion.

Thus, it can produce a mechanism maintaining tax evasion tax evasion.

#### 4. Conclusions

As a conclusion to the theme, I can say that tax evasion is theft by any means, in whole or in part from taxes, fees and other amounts due to the state budget, local budgets, state social insurance budget and special funds extra budgetary by individuals and legal persons Romanian or foreign.

Tax evasion is one of the complex socio-economic phenomena of the utmost importance that states face today and whose unintended consequences seek to limit as much as eradication is virtually impossible. The effects of tax evasion direct impact on levels of tax revenues, leading to distortions in the market mechanism and contribute to inequities (enlarging them) social debt "access" and "tilt" of tax evasion from various contributors.

Had it not only the "bad" brought tax evasion, but they are not limited to that, and the state should be concerned systematically and effectively preventing the emergence and limit tax evasion.

#### 5. References

- [1] Şaguna, D., D., Tutungiu, M., E., (1995) *Evaziunea fiscală*, Editura Oscar Print, Bucureşti, p. 58.
- [2] Patroi, D., (2006), *Evaziunea fiscala intre latura permisiva si aspectul contraventional*, Editura Economica, Bucuresti
- [3] Anghelache, G., Belean, P., (2003) *Finantele publice ale Romaniei*, Editura Economica, Bucuresti
- [4] Matyas, A., Vacarel, I., (2006) *Modalitati de prevenire si combatere a evaziunii si fraudei fiscale*, Editura A.S.E., Bucuresti
- [5] Bălan, E., (2004), *Drept financiar, ed.a 3-a*, Editura All Beck, Bucureşti, p. 213.
- [6] Găină, A.,M., (2009) *Drept fiscal și procedură fiscală*, Editura Universul Juridic, Bucureşti
- [7] Minea, M., Şt., Costaş, C., F., (2008), *Dreptul Finanțelor Publice, Volum I Drept financiar*, Editura Wolters Kluwer, Bucureşti, p. 331
- [8] Birle, V., (2005) *Frauda fiscala*, Editura Teora, Bucureşti
- [9] Druckner, P.,F., (1993) *Inovația și sistemul antreprenorial*, Editura Enciclopedică, Bucureşti
- [10] Bălan, M., Bălan, G., (2013) "Social Vulnerability: A Multidimensional Analysis of the Development Regions of Romania", publicată în Volumul: *Applied Social Sciences: Economics and Politics*, Editura Cambridge Scholars Publishing (CSP), editori: Georgeta Rată și Patricia Runcan, 3-11 pp., 165 pg., 2013, ISBN(10): 1-4438-4334-2, ISBN(13): 1-4438-4334-8
- [11] Burghilea, C., Aceleanu, M., I., Gheorghiu, A., Gheorghiu, A., (2014) "Development and progressive growth after the global crisis phenomenon", *23<sup>rd</sup> IBIMA Conference*, Valencia, Spain 13-14 May 2014, ISBN: ISBN: 978-0-9860419-2-1
- [12] Cherciu, E., (2004) *Corupția, caracteristici și particularități în România*, Editura Lumina Lex, Bucureşti, p. 44.



## Innovative Economy and Knowledge Society Vectors

Iancu Eugenia

Stefan cel Mare University, Faculty of Economics and Public Administration, Suceava, Romania  
[eiancu56@yahoo.it](mailto:eiancu56@yahoo.it), [eiancu@seap.usv.ro](mailto:eiancu@seap.usv.ro)

Burciu Aurel

Stefan cel Mare University, Faculty of Economics and Public Administration, Suceava, Romania  
[aurelb@usv.ro](mailto:aurelb@usv.ro)

Kicsi Rozalia

Stefan cel Mare University, Faculty of Economics and Public Administration, Suceava, Romania  
[rozaliak@seap.usv.ro](mailto:rozaliak@seap.usv.ro)

### Abstract

*Economic progress is closely linked to the formation of innovative economy, as stage of economic society, in close correlation with human capital. Innovative economy represents the economy based on knowledge, innovation, know-how, new systems and technologies and their implementation in various spheres of economic activity. Generating new ideas, implementing them in technologies and innovations determine the quality of socio-economic development and living standards in a country. Experience shows that the development of innovative society is directly related to the concept of knowing and knowledge by developing sectors where human capital accumulation occurs and primarily in the sphere of education and science. In this context, we propose to analyze and develop strategies and methods to help identify vectors of the knowledge society. We consider in this respect that a country cannot be considered competitive if it has only natural resources; lack of access, in long-term, to health services and education, leads to reducing the ability of people to integrate socially and indirectly to affecting negatively the chances of getting a profession or a job, in the absence of education, or decreasing the ability to work, through physical damage, which will influence the country's overall economic condition.*

**Key Words:** knowledge society, human capital, innovative economy, new systems

**JEL:** M1, M2

### 1. Introduction

It is known that the national economy "sums up" the realities and performance obtained annually across all firms and / or economic "actors" in the sense that certain macroeconomic indicators (such as GDP) reflects the total added value by the population within a year. We cannot not mention the fact that the relationship between micro and macro is complex and nuanced and difficult to identify through a descriptive, mathematical, empirical or other type of model.

It is largely known that today knowledge has become a new type of resource and knowledge acquisition and processing are essential for companies throughout the entire research, development and innovation (RDI).

The basic approaches of the theory of human capital, skills and individual qualities contributed to the emergence and development of the new economy have opened new horizons in the perception of the economic phenomenon, based on innovative ideas that have created the innovative economy, humanity entering in a new stage of development which is nothing but the result of socio-economic revolution of contemporary society.

The economic foundation of social-economic revolution of post-industrial society are information technology and computer systems, high-tech manufacturing and innovative technologies, innovation systems and innovative organization of various spheres of human activity. The recent years have created a general mood about the role of human capital in economic growth and the formation of the "new economy" as a

necessary stage in the economic development of society.

## 2. Literature review

*The innovation process* has incited over time in many reflections. The Austrian economist *Joseph Schumpeter* addressed for the first time the mechanisms and factors of the *innovation process* arguing that *entrepreneurship spirit and the possibility of obtaining a temporary monopoly profits may stimulate the introduction of new products on the market and reduction of production costs*. According to Schumpeter, entrepreneurs are motivated by obtaining profit motive for making the investment in innovation / inventions; since the appearance of news from the technical / technological field and up to one in which there is a marketable product on markets it is required a certain time; thus, it can be seen a misalignment of innovation processes in companies which may partly explain the sinuous development of national economic life [6].

*Peter Drucker "sees" innovation as a specific instrument of an entrepreneur, through which he uses change as an opportunity for different businesses or services [4]*. In *"Sources of economic growth in the United States"*, *EF Denison* attempts to measure the effects of human capital on economic growth, analyzing a period between 1929-1957; the cited author concludes that there is some significant share attributable to education and qualification of employees to economic growth of a country (in theory, the state must invest in education to ensure future growth nationally) [2].

*Mihai Drăgănescu* in his work "From Information Society to Knowledge Society" shows that the knowledge society is more than the information society, in fact encompassing it [3]. Knowledge is information with meaning and information acting immediately; therefore, the knowledge society is only possible according to the information society and cannot be separated from it. Orientation towards information society based on knowledge is regarded worldwide as a necessary development to ensure sustainable development in the context of "new economy" based mainly on intellectual-intensive products and activities

and to achieve an advanced socio-human civilization.

We cannot not ask why are we talking only now about the knowledge society? Do processes of change that took place so far relied increasingly on progress in knowledge? What is new now is, on the one hand, the speed with which knowledge is renewed, the fact that the knowledge we have available almost doubles every year and on the other hand social, economic and cultural changes rights are strongly influenced by the world of information technology.

Knowledge is not just a component of the modern economy, but becomes a basic organizational principle of our existence. We live in a knowledge society because we organize the social reality based on the knowledge we have [5].

## 3. The knowledge society and the vectors of knowledge

*The knowledge society* is much more as it seeks to extend and deepen the scientific knowledge and truth about existence, is the only way that will ensure a sustainable society from an ecological point of view and will be a new stage in culture (based on the culture of knowledge involving all forms of knowledge, including artistic, literary knowledge, etc.); it provides unprecedented dissemination of knowledge to all citizens through new means, using mainly Internet, eBook and electronic methods of learning (e-learning) [1]; last but not least, knowledge society provides the basis for a future society of conscience, truth, morality, creativity and spirit.

The academician *Mihai Drăgănescu* defines in his work two major classes of *vectors of the knowledge society* [3]:

- Technological vectors,
- Functional vectors.

To enter in the knowledge society is necessary to employ a minimum number of vectors both technological and functional. The first vector is to create a "Developed Internet", which is a technological vector, then the technology of "electronic book" (technological vector) and "Knowledge Management" representing a functional vector with two meanings, one for the economic and organizational functioning of an economic entity, corporation,

multinational societies and another one for moral use of knowledge in globalized society. But the number of such vectors of knowledge society is much greater, each new vector bringing a step in the development of this society.

Analysis of these vectors, both from the point of view of the application and

implementation methods in society and the way of representation, but also the "informational" result reveals the relationship between technological and functional vectors; this is provided by information, which is in fact another vector, an informational one.

Table no. 1 Technological vectors of knowledge society

<b>Technological vectors</b>	<b>Representation</b>	<b>Information</b>
Internet	Equipment, Communications	Movement information
E-book	Equipment, Devices, Software	Information with a certain content
Intelligent agents	Special developed software based on artificial intelligence	"Data mining" information
Intelligent environment	Special developed software based on artificial intelligence	Ambient information
Nanoelectronics	Technical support for genetic information – molecular	Genetic and molecular information

Table no. 2 Functional vectors of knowledge society

<b>Functional vectors</b>	<b>Representation</b>	<b>Information</b>
Knowledge management for business entities, corporations, etc.	Economic knowledge	Content information
Management of moral use of knowledge	Moral, ethical knowledge	Content information
Biological knowledge	Molecular knowledge	Genetic information
Health care system at social and individual level	Anatomical, pathological, functional knowledge	Content information
Protecting the environment and ensuring sustainable society through a specific management of knowledge	Ambient knowledge	Content information
Deepening knowledge about existence	Philosophical knowledge	Content information Knowledge discovery
Developing a culture of knowledge and innovation	Technical, technological knowledge Innovative knowledge	Content information
Education system based on the methods of information and knowledge of the society (e-learning)	Theoretical knowledge Applied knowledge	Content information Movement information

#### 4. Innovation economy

*The new economy* is based on crucial knowledge, ideas and factors to create high standards of living where innovative ideas and technologies are essential. In the literature, the "new economy" is perceived as a complex phenomenon and interpreted differently by economists. There are used different names like: "new economy", "information society", "knowledge society",

"digital economy", "virtual economy", but all show contemporary features of society development. Whether the information society or knowledge society, all these are based on innovative ideas of human capital, which determines the innovative nature of contemporary society and its role in building them. In our opinion, the stage consisting of the *innovation society*, determining the innovation economy is a necessary step in the evolution of society.

The proposed analysis assumes that firm-level innovation activity is to introduce a new product or service or a significantly improved one or a new/ improved process, a new marketing method or a new organizational methods. The innovation must be new to the firm, but is not required to be new for the sector of activity or for the market.

From the presented data we see that Romania has a very small share allocated to

the research and development, both in the public and business sector (Table 3).

Analyzing in *structure the expenses share with RD-I after the execution sector*, namely the business sector and the public sector it is observed an upward trend that starts at 0.45% of GDP in 2006, reaching 0.57% of GDP in 2008 and 0.47% in 2010.

Table no. 3 Share in GDP of research and development spending in Romania

Share in GDP of research and development expenses											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Business sector %	0,26	0,24	0,23	0,22	0,21	0,20	0,22	0,22	0,17	0,19	0,18
Public sector %	0,11	0,15	0,15	0,16	0,17	0,21	0,23	0,30	0,40	0,28	0,29

Source: [http://www.insse.ro/cms/files/IDDT%202012/index\\_IDDT.htm](http://www.insse.ro/cms/files/IDDT%202012/index_IDDT.htm)

Analyzing structurally on economic sectors is observed that the largest turnover belongs to industry sector with innovation

that progressively increases from 11.2 in 2002 to 21.4 in 2010 (Table no. 4).

Table no. 4. Turnover from innovation as % of total turnover, on economic sectors

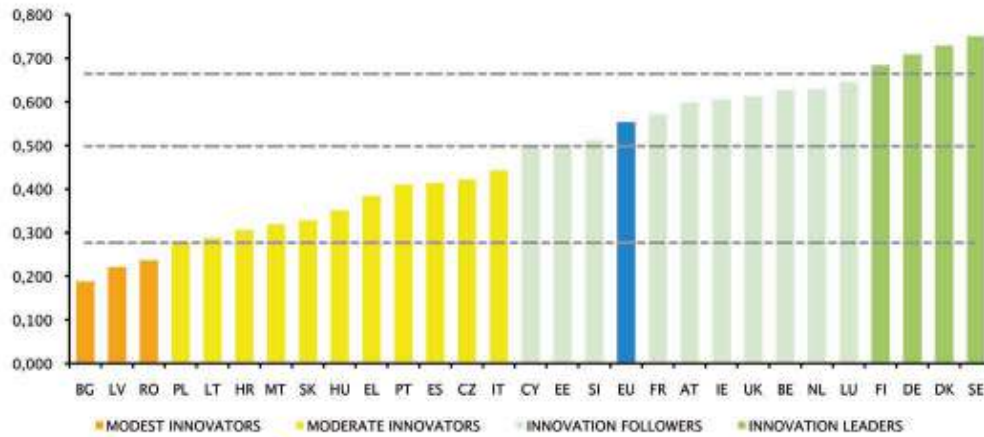
	2002	2004	2006	2008	2010
Total	9,4	16,6	18,5	14,9	14,3
Industry	11,2	20,0	21,9	20,0	21,4
Services	6,8	11,7	15,3	10,3	6,5

Source: [http://www.insse.ro/cms/files/IDDT%202012/index\\_IDDT.htm](http://www.insse.ro/cms/files/IDDT%202012/index_IDDT.htm)

The economic competitiveness is established based on the Global Competitiveness Index which includes a number of criteria, including innovativeness.

Information and technological knowledge plays an increasingly prominent role as key factors of renewal and sustainable growth, given that they have become elements of the infrastructure underpinning a competitive

economy. Positioning of states in the echelon of competitive countries is based on the adoption of a coherent and rigorously grounded policy in the dissemination and application of new technologies, innovation performance. Thus, Figure 1 shows the situation of innovation performance in EU Member States.



Source: [http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index\\_en.htm](http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index_en.htm)

Figure no. 1. EU Member States' innovation performance

The first group of innovation leaders includes member states where innovation performance is well above that of the EU, ie more than 20% above the EU average. These are Denmark, Finland, Germany and Sweden.

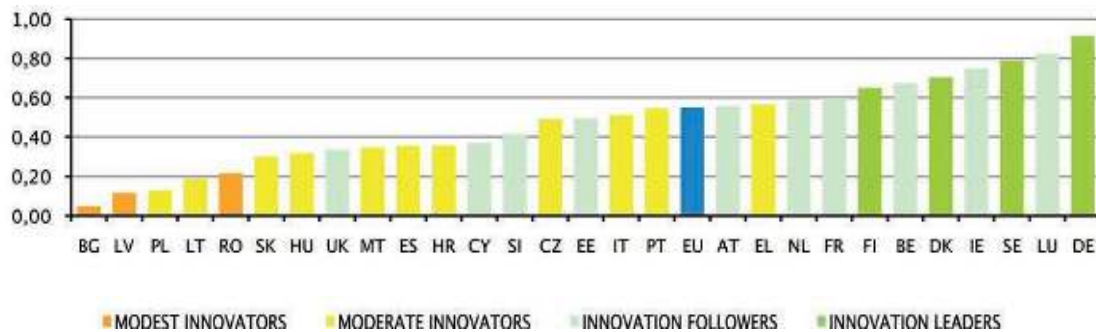
The second group includes the member states with innovation performance close to the EU average which is less than 20% and includes Austria, Belgium, Cyprus, Estonia, France, Ireland, Luxembourg, the Netherlands, Slovenia and the UK.

The third group of innovation includes the member states in which innovation performance is lower than the EU average and includes Croatia, Czech Republic, Greece, Hungary, Italy, Lithuania, Malta,

Poland, Portugal, Slovakia and Spain belong to the group of moderate innovators.

The fourth group of "modest" innovation includes member states with innovation performance well below the EU average. This group includes Bulgaria, Latvia and Romania.

In the size of innovators, leaders of innovation (Figure 2) are Germany which is the global leader, followed by Luxembourg and Sweden. Innovation systems in these countries are characterized by a large number of companies involved in innovation: innovation seems a natural strategy for companies to meet their customers' requirements and to meet competitive pressure.

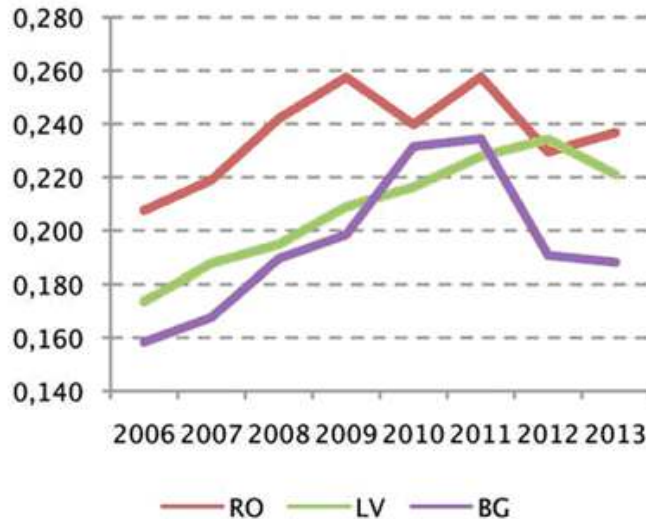


Source: [http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index\\_en.htm](http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index_en.htm)

Figure no. 2. Member States' performance in Innovators

From Figure 3 it can be seen a greater improvement in innovation for all three countries, Latvia, Bulgaria and Romania, but for Latvia, this has managed to grow steadily almost until 2012. Bulgaria has experienced a

sharp decline in its performance of innovation after 2011. Romania is the country with the highest level of innovation from the group of the three countries.

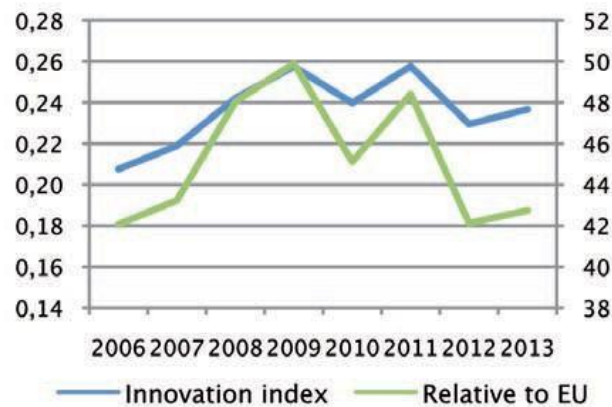


Source: [http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index\\_en.htm](http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index_en.htm)

Figure no. 3. Innovation performance

Romania is a modest innovator. The innovation capacity increased until 2009, then by 2013 had different variations. Performance in relation to the EU has declined from almost 50% in 2009 to 43% in 2013.

Romania operates below the EU average for almost all indicators: very poor performance of research and development expenditure in the business sector, knowledge-intensive services, the number of patents per 1 million inhabitants, high-tech exports as% of total exports, etc.



Source: [http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index\\_en.htm](http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index_en.htm)

Figure no. 4. The evolution of innovation in Romania

## 5. Conclusions

The research shows the importance of innovation in the development of a country. The low achievements in economic activity confirm once again that modest research in the field of innovation development (RD-I) is on a downward path towards the EU. The position of Romania on modest places regarding the degree of innovation is a direct consequence of the lack of innovation in the

whole economy. The main reason identified is *the low volume of funding for RD-I*, Romania being among the countries with the lowest rate of investment in this area, of only 0.57% in 2008. The situation got worse in 2010 when spending fell, respectively 0.47% of GDP. The weak contribution of the private sector is explained by the type of competition in the internal market, based on price and not on innovation. In addition, public funds for research are used inefficiently, because they

fail to create a spreading effect in the private sector. Research and development low expenses, both public and private, show an important problem of the Romanian economy: the lack of innovation, and even more serious, the lack of demand for innovative products.

## 6. References

- [1] Băjenescu, T. (2006) - *Internetul, societatea informațională și societatea cunoașterii. Aspecte tehnice, economice, politice și sociale*, Ed. Matrixrom, București
- [2] Denison, E. (1974) – *Accounting for United States Economic growth 1929-1969*, Publisher: Brookings Institution. Place of Publication: Washington, DC. Publication
- [3] Drăgănescu, M. (2003) - *De la societatea informațională la societatea cunoașterii*, Editura Tehnică, București
- [4] Drucker P., (1993) - *Inovația și sistemul antreprenorial*, București, Ed. Enciclopedică
- [5] Ikujiro Nonaka, Takeuchi Hirotaka (1995) - *The Knowledge Creating Company*, Oxford University Press
- [6] Schumpeter J.A. (1939) - *Business Cycles. A Theoretical, Historical and Statistical Analysis of the Capitalist Process*, Quebec, Canada, 2007
- [7][http://www.insse.ro/cms/files/IDDT%202012/index\\_IDDT.htm](http://www.insse.ro/cms/files/IDDT%202012/index_IDDT.htm)
- [8][http://ec.europa.eu/enterprise/policies/innovation-on/policy/innovation-scoreboard/index\\_en.htm](http://ec.europa.eu/enterprise/policies/innovation-on/policy/innovation-scoreboard/index_en.htm)

## ACKNOWLEDGMENT

The author, Eugenia Iancu would like to specify that this paper has been financially supported within the project entitled „**SOCERT. Knowledge society, dynamism through research**”, contract number POSDRU/159/1.5/S/132406. This project is co-financed by European Social Fund through Sectoral Operational Programme for Human Resources Development 2007-2013. **Investing in people!**”

## Analysis of Tourist Accommodation Establishments and Resident/Non-resident Tourist in Romania between 2002 and 2013

Ilie Margareta,

*OVIDIUS University from Constanta, Faculty of Economic Sciences*

Ilie Constatin

*OVIDIUS University from Constanta, Faculty of Mechanical, Industrial and Maritime Engineering*

[cosmyn2001@yahoo.com](mailto:cosmyn2001@yahoo.com)

### Abstract

*The present paper aims to reveals the result of a graphical analysis made over nights spent in Romania by resident and non-resident tourists between 2002 and 2013 and how this influences the numbers of Romanian hotels and camping locations. The methodology used is graphical analysis considering the evolutions of the above indicators. The researchers found that financial crisis influence the non-resident tourist one year earlier than the resident ones. Also, the influence of the tourist over the hotels and camping loses viability considering that the number of hotels and camping fall with almost 50% even that the number of tourist between 2010 and 2013 rises. The researchers consider that this loss of accommodation establishments are due to the oversized unused hotels and camping and the development of rural tourism, and also the underground economy should be considered.*

**Key words:** tourism, resident/non-resident tourists, hotels.

**JEL Classification:** L83

### 1. Introduction

"Tourism is a social, cultural and economic phenomenon which entails the movement of people to countries or places outside their usual environment for personal or business/professional purposes. These people are called visitors (which may be either tourists or excursionists; residents or non-residents) and tourism has to do with their activities, some of which imply tourism

expenditure. International tourism comprises inbound tourism plus outbound tourism, that is to say, the activities of resident visitors outside the country of reference, either as part of domestic or outbound tourism trips and the activities of non-resident visitors within the country of reference on inbound tourism trips" (World Tourism Organization).

As Romania want to grow its tourism potential it is necessary to analyze the evolution of tourist for both resident and non-resident tourist and also the evolution of accommodation establishment should be considered. On the other hand the reaction of tourists' o the financial crisis must be evaluated in order to find the necessary countermeasure for the fall of tourists' number in the crisis time.

### 2. Data

The data used were the nights spent at tourist accommodation establishments by resident and non-resident tourist in Romania between years 2002-2013 (named from now on as resident and non-resident tourist).

A night spent is each night a guest/tourist (resident or non-resident) actually spends (sleeps or stays) or is registered (his/her physical presence there being unnecessary) in a tourist accommodation establishment [1].

"Usually resident population" means all persons having their usual residence in a Member State at the reference time and "usual residence" means the place where a person normally spends the daily period of rest, regardless of temporary absences for purposes of recreation, holidays, visits to friends and relatives, business, medical treatment or religious pilgrimage. The



following persons alone shall be considered to be usual residents of a specific geographical area:

- those who have lived in their place of usual residence for a continuous period of at least 12 months before the reference time; or
  - those who arrived in their place of usual residence during the 12 months before the reference time with the intention of staying there for at least one year [2]
- Regulation (EU) No 1260/2013 of the European Parliament and of the Council of 20 November 2013 on European demographic statistics.

Considering the above definition the following data will be used:

- Resident tourists;
- Non-resident tourist.

Also for further analysis the number of Romanian hotels and camping places (as in numbers) was used.

### 3. Historical context

#### *Trips of EU residents: 2011 patterns* [3]

More than three out of four trips were domestic, but long outbound trips accounted for half of all tourist expenditure

In 2011, most trips Europeans made were to a destination within the Member State where they live (76 %), with fewer than one in four trips abroad. Big differences were observed across the EU. Some residents spent less than half of their holidays in their own country. That was the case for Belgium (26 %), Luxembourg (less than 1 %), the Netherlands (48 %) and Slovenia (44 %). Others stayed 'at home' for more than nine out of 10 holiday trips in 2011. That was very much the case for residents of Spain (92 %), Portugal (91 %) and Romania (93 %).

#### *Trips of EU residents: 2012 patterns* [4]

In some EU Member States, over half the total number of holidays trips were to destinations abroad; this was the case for

Luxembourg, Belgium, Malta and Slovenia. However, less than 10 % of holiday trips taken by residents of Romania, Spain, Greece and Portugal were abroad. These figures appear to be influenced by both the size of the Member State and its geographical location (smaller and more northerly countries tended to report a higher propensity

for their residents to take holidays abroad).

It is estimated that some 51.3 % of the EU-28's population took part in tourism in 2012, in other words made at least one trip of at least four overnight stays during the year. Again, large differences can be observed between the EU Member States, as this participation rate ranged from 10.0 % in Romania to 78.7 % in Sweden.

When taking into account a country's size in terms of its population, Luxembourg was the EU Member State whose residents spent the most nights abroad per inhabitant (an average of 22.6 nights per annum on holiday in 2012), followed by Cyprus (16.3), the Netherlands (12.1) and Ireland (12.0). At the other end of the spectrum, residents of Romania, Bulgaria, Greece (data for 2011) and Portugal spent, on average, less than one night abroad on holiday in 2012.

From the supply perspective, it is estimated that nearly 545 000 tourist accommodation establishments were active within the EU-28 in 2012; there were over 200 000 hotels and similar accommodation establishments that provided almost 13.1 million bed places, of which more than half (57.4 %) were concentrated in four of the EU Member States namely, Italy (2.3 million bed places), Spain (1.9 million bed places), Germany (1.8 million bed places) and the United Kingdom (1.6 million bed places). In 2012, resident and non-resident (foreign) tourists spent over 1 600 million nights in hotels and similar establishments in the EU-28.

### 4. Methodology

The methodology consists in graphical analysis of resident and non-resident tourists in Romania throughout 2002-2013 time period and if they influence the number of Romanian hotels and camping places.

The general tendencies and certain specific evolution will be investigated.

In order to use [5]

### 5. Graphical representation and analysis

The first analysis evaluated the evolution of the nights spent at tourist accommodation establishments by resident and non-resident tourist in Romania between years 2002-2013. The results will establish the influence of the

financial crisis over the flux of both resident and non-resident tourist.

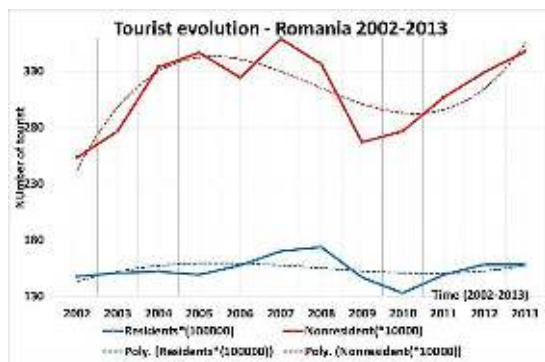
The second analysis was directed to evaluated in order to understand the evolution of Romanian hotels and camping (as numbers) accommodations due to the request of resident and non-resident tourist (as nights spent) between years 2004 and 2013 (as in 2002 and 2003 the European statistics has no record for Romania).

Because the interesting results of the second analysis a third analysis was considered in order to find the possible explanation for the inconsistencies found.

*First analysis*

As figure 1 reveals the evolution of resident and non-resident tourists in Romania is, somehow expected, slightly deferent.

*Figure 1. Resident & non-resident evolution in Romania 2002-2013.*



First we can see the difference of tourist growth between the resident and non-resident tourists from the beginning of considered time (year 2002). Between years 2002 and 2005 the non-residents number of nights spent increased with 36.69% while the resident night's number was almost constant with a rise of just 1.13%.

From year 2005 the numbers of nights spent in Romania have different evolution. While the non-residents decrease in 2006 and resume its increase in 2007, the residents has a continuous rise until 2008.

From this point forward a distinction can be observed in the way that the tourist reacted to the financial crisis. The non-resident tourist were affected sooner than the resident ones. The non-residents start it's descend due to the financial crisis starting with 2008, 2009 being the worst year with a

fall of -25.68% (between 2007 and 2009).

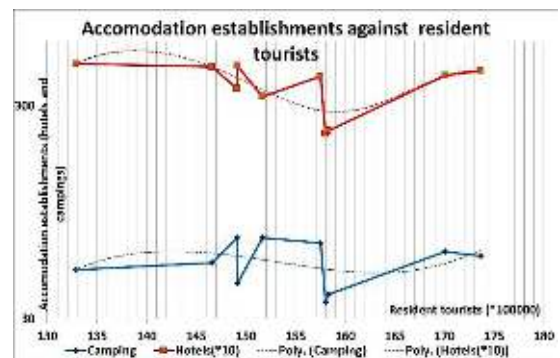
The resident descent starts one year later, in 2009, with the lowest value in 2010. In this case the fall was -23.51%, almost the same as the nonresident fall.

The same tendency is seen as the crisis period passes. The non-residents are the first to regain a rise starting with 2009 and having since than until 2013 a 30.12% growth. The residents are recovering starting one year later, from 2010 and having a growth of 19.17% until 2013. Another situation can be shown for the resident evolution: between 2012 and 2013 only a very small increase was made for only 0.19%.

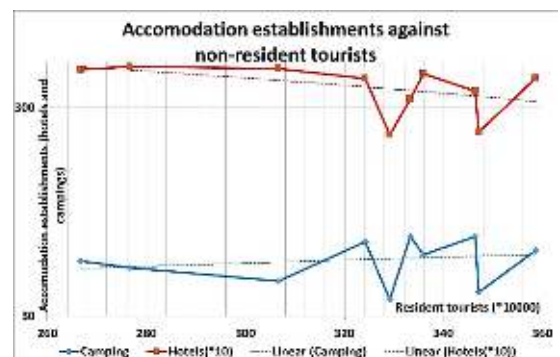
*Second analysis*

In figures 2 and 3 the evolution of Hotels and Camping numbers against the evolution of resident and non-resident tourist nights spent were analyzed.

*Figure 2. Hotels and Camping evolution against the evolution of resident tourist.*



*Figure 3. Hotels and Camping evolution against the evolution of non-resident tourist.*



In order for an easier way to follow the influence of the resident and non-resident tourist over the Hotels and Camping number, the resident and non-resident were sorted

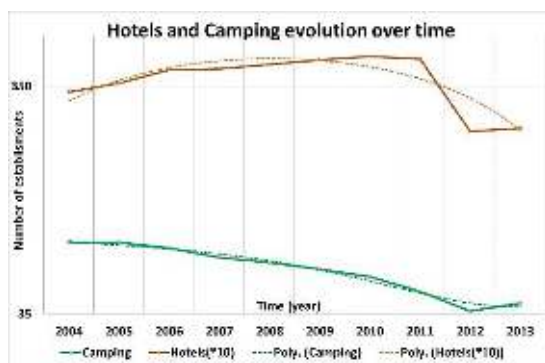
from lowest to highest. In this way the influence over the numbers of Hotels and Camping can be easier to represent and evaluate.

After the analysis the following conclusions were determined: even that the resident and non-residents nights spent in Romania rises the number of establishments such as Hotels and Camping dose not grow and dose not even have a constant evolution. The number of hotels and camping have major

### Third analysis

In figure 4 a simple representation of the Hotels and Camping evolution over 2004-2013 was made.

Figure 4. Romanian Hotels and Camping evolution over 2004-2013 years.



The most important conclusion, as the figure 4 is analyzed, is that the hotels numbers drops with -51.48% between 2001 and 2013.

## 6. Acknowledgments and Conclusion

The major conclusion of the above analysis is that the number of hotels falls by almost 50% from 2010 until 2013, while the number of camping decrease with 46% from 2004 to 2013. The important aspect is that between 2010 and 2013 the number of resident and non-residents nights spent in Romania rises.

So the question was how a growing number of tourist can be accommodated in a smaller (even with 50%) number of accommodation establishments? The answer to this question may be found in several considerations:

1. The presence of a powerful so called

- “underground economy” – the hotel’s prefer not to declare the real number of tourists that were accommodated in their establishments because of high taxes;
2. The development of rural tourism, due to European grants, that offer cheaper alternatives (at the same conditions) to the hotels;
  3. The number of hotels and camping were too big for the real number of tourist (resident and non-resident) and as the competition growth the hotels that couldn’t hold the pace with the necessary change in management, renovation and standards.

Secondary conclusions are:

- The non-resident tourist react one year earlier than the resident ones to the financial crisis;
- The fall and rise of the non-resident tourist are more sudden than the residents’ ones.

The researchers consider that further analysis should be made for deeper evaluation.

## 7. References

- [1] <http://epp.eurostat.ec.europa.eu/tgm/web/table/description.jsp>
- [2] <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R1260&from=EN>
- [3] [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Tourism\\_statistics#Trips\\_of\\_EU\\_residents:\\_impact\\_of\\_crisis](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Tourism_statistics#Trips_of_EU_residents:_impact_of_crisis)
- [4] [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Tourism\\_trends](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Tourism_trends)
- [5] <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tin00175&plugin=1>
- [6] <http://www.cactus-journal-of-tourism.ase.ro/Pdf/vol6/4%20Marin%20Andreea.pdf>
- [7] [http://67d8396e010decf37f33-5facf23e658215b1771a91c2df41e9fe.r14.cf3.rackcdn.com/publications/Travel\\_trends\\_report\\_2013.pdf](http://67d8396e010decf37f33-5facf23e658215b1771a91c2df41e9fe.r14.cf3.rackcdn.com/publications/Travel_trends_report_2013.pdf)
- [8] Richards, G.,” Tourism trends: Tourism, culture and cultural routes”, Cultural tourism trends in Europe: a context for the development of Cultural Routes. In: Khovanova-Rubicondo, K. (ed.) *Impact of European Cultural Routes on SMEs’ innovation and competitiveness*, Strasbourg: Council of Europe Publishing, 2011, pp. 21-39.

## The Analysis of the Organizational Learning Processes in Local Organizations

Lazăr Cristina

Nancu Dorinela

„OVIDIUS” University of Constanta

[cusudorinela@yahoo.com](mailto:cusudorinela@yahoo.com)

### Abstract

*Many companies have begun to admit that they need to become companies where one can learn if they want to meet the constant demand for change. Performance and learning are harmoniously intertwined. When one of these premises is neglected, the other will suffer sooner or later, as performance cannot be sustained where there is no learning.*

*Through this paper, we set to analyze the degree to which local organizations place focus on organizational learning processes in their functioning. .*

**Key words:** economic sectors, organizational learning, performance.

**J.E.L Classification:** D 83

### 1. Introduction

Learning refers to the learning potential of the Romanian organizations through encouraging the access to knowledge, to the resources of learning, the investment in the education of the employees (training, professionalizing qualifications), the sharing of knowledge among team members and its dissemination within the organization.[3][6]

Training, as a practical, active method of learning, represents the determinant element of the increase in work productivity, the main source of economic development.[5]

The staff training processes within the organization are promoted by a learning centered organizational culture and by receptivity to newness, the two being strongly correlated with the present and future company objectives.[2]

On many occasions, people are ignored

when they successfully carry out a task, even if they act in a new field where errors may arise. But, when they make a mistake, people are severely punished.[4]

In a learning organization, mistakes are considered learning opportunities, not an opportunity to punish failure, as an 'ignore the mistake'- type strategy is not allowed.[1] It is necessary to encourage assuming risks, learning from mistakes. New employees who make mistakes and are punished will no longer be able to learn new skills, instead they will learn to avoid assuming risks and the people that could help them progress. Mistakes can be transformed into useful identification tools for what works and does not work within the organization. The way mistakes are treated within the organization can erode or consolidate trust on all hierarchic levels.

### 2. The research premises

The used analysis instrument is the questionnaire addressed to 50 Romanian employees on all hierarchic levels, from all four sectors of the economy. The questionnaire has 8 items referring to organizational learning activities. Their formulation is simple and straightforward and we used interrogation methods that would lead to valid and representative results. The items have five answer choices using the Likert scale, the scale used in a survey. The Likert scale is ordinal, has five degrees (strongly disagree = 1, disagree = 2, neutral = 3, partly agree = 4, strongly agree = 5) and indicates the intensity of agreement or disagreement over the subject of an affirmation or certain characteristic.

**Fig. 1 – Evaluation of learning manifestation forms within the organization**

AFFIRMATION	Usable average			
	First sector	Secondary sector	Third sector	Fourth sector
1. Your co-workers and leaders share their experience and knowledge in carrying out a task	3,78160	3,4040	4,1808	4,18
2. In the organization you have access to the necessary resources of learning: books, films, course packs, assistance, and high quality technology.	2,77011	3,33333	3,909	4,1382
3. You are encouraged to experience and try out new things, including by allotting time for these activities.	2,42528	2,58585	3,8409	4,0851
4. The organization encourages improvement, from a professional point of view.	3,20689	3,74747	4,2764	4,3682
5. The organization is receptive to the propositions of its members.	2,89655	3,17171	4,1364	4,3297
6. The organization invests in the training and education of its members.	2,56321	2,62626	3,4091	4,0531
7. Continuous learning is a key factor within the organization	2,63218	3,20202	3,864	4,3085
8. The employees are focused on knowledge accumulation.	2.51609	2,29292	4,023	4
<b>9. Learning</b>	<b>2,88649</b>	<b>3,04545</b>	<b>3,9289</b>	<b>4,1529</b>

Source: Own development

In order to calculate the score for each item we granted 1 to 5 points according to the answer, 1 being the minimum value and 5 the maximum value. In order to get the scores (averages) for each affirmation we weighted each answer (from 1 to 5) with the number of respondents for each answer, then we divided it to the total respondents number. (Fig. 1).

**Fig. 2 – Respondents profile**

Characteristics	%
<b>Age</b>	
under 30 years old	26%
between 30 and 40	34%
between 40 and 50	22%
over 50	18%
<b>Sex</b>	
women	44%
men	56%
<b>Respondent's studies level</b>	
doctorate	6%
master	38%
higher education	48%

secondary education	8%
<b>Respondent's length of service within the organization</b>	
under one year	14%
between 1 and 3 years	24%
between 3 and 10 years	38%
between 10 and 20 years	16%
over 20 years	8%
<b>The position of the respondent in the organization</b>	
top management	36%
middle management	24%
lower management	12%
executive	28%
<b>Ownership of the organization</b>	
public	25%
mixed	2%
private	72%
<b>Organization type</b>	
public institution / autonomous administration	18%
commercial agent	78%
non-profit organization	2%

other.....	2%
<b>Number of employees</b>	
between 1 and 9	28%
between 10 and 49	44%
between 50 and 249	12%
over 250	16%
<b>The activity sector of the respondent's organization</b>	
first sector	23,85%
secondary sector	26,39%
third sector	25,75%
fourth sector	24,10%

Source: own development.

The survey unit was represented by the employees of the Romanian organizations on all hierarchy levels, from all sectors of the economy, both women and men. Most respondents are higher education and master graduates who come mainly from private organizations (Fig. 1).

### 3. Interpretation of the results

In the organization based on learning, the leader must create a culture that will lead to individual and team learning.[7]

The score obtained after studying the answers of the respondents to characteristic A1 shows the degree to which knowledge is shared and everyone has access to it, as there is a learning communication among the employees. The high score obtained by all four sectors proves that, within the studied organizations, the employees from various departments interact for counsel and reciprocal support on different common issues. Still, the barriers of collaboration and learning must be further reduced.

In the third and fourth sectors the top management encourages education by offering their employees the possibility to improve within the group or the section where they work and by offering access to the resources necessary for learning: books, trainings, films, dialog sessions, assistance, aspects evaluated through A2 characteristic, for which the usable average got high scores, 3.909 for the third sector and 4.1382 for the fourth sector. The previous observations are also true for the first and second sectors of the economy, for which they got a relatively high score of 3.33. For the first sector organizations, although they largely encourage learning, they do not offer to the

same extent the resources necessary for learning.

The A3 characteristic assesses the degree to which top management creates a work environment where learning is encouraged. For all organizations studied, regardless of the activity sector, the A3 affirmation got a lower score compared with the other elements analyzed related to creating a work environment that seeks creativity and innovation.

Romanian organizations inspire their adepts towards personal development and continuous education along their professional life, an aspect demonstrated by the score achieved for the A4 affirmation, between 3.2068 for first sector and 4.3682 for the fourth sector organizations. The scores on this item are big for secondary sector organizations, as well, 3.7474 and 4.2764 for the third sector, respectively, quite close to the score of the fourth sector score. Each person is valued and the organization supports its staff to develop their potential to the fullest.

Encouraging the education of the people includes the evaluation of performance and of the obstacle met in carrying out tasks, in order to identify the areas where education could grant an improvement, an aspect evaluated through the A5 characteristic. On this item all four scores are over neutral level, less for the first sector, which leads to the conclusion that organizations, predominantly those in the fourth and third sectors, accept useful discussions and staff feedback, which only bring benefits.

The A6-A8 items analyze the extent to which the studied organizations invest in the education of their employees, as continuous education and the importance of knowledge accumulation are key elements.

The scores obtained by the first sector organizations are the lowest compared to the other sectors, as they are below the neutral level, which denotes a lack of preoccupation from the organizations' part regarding the education of their employees and a lack of understanding of the role of education as a basis of the individual's existence and of the society (score 2.56321).

The same thing applies for the secondary sector organizations regarding the A6 item, the score being 2.6262. From the scores from A7 and A8 items for the first and secondary

sectors, it results that, in order to develop in the knowledge based economy, they need to gather the necessary resources in order to expand the availability of opportunities for continuous education, thus being the only way to achieve and maintain the individual skills and abilities, improving and adapting them as the technology and the contents of the work change.

As to investing in training and preparing their staff for the third sector, the score was 3.4091, therefore leading to the conclusion that in these organizations education is considered an important variable for their development and progress. In the context of the knowledge based economy, the permanent access to education is considered of extreme importance through the role education plays in providing what nowadays represents one of the most important elements to describe economic performance - high competitiveness. In this context, the score the organizations in the fourth sector, 4.0531, correlated with the scores from the A7 and A8 items, allow their employees to cope with the competition of the knowledge based economy.

The total score of learning places the fourth sector organizations on the highest position, with a score of 4.1529 – the closest value to the desired maximum of 5. These values allow us to conclude that these organizations' staff can cope with the swift changes of the knowledge based economy, which is based on the quick depreciation of skills. In order to be competitive, workers must permanently adapt their abilities and skills. In this direction, continuous learning is vital. The same thing can be said related to the workers of the third sector's organizations, their score being a little below the fourth sector, at 3.9289.

The total score of learning obtained by the first and second sectors are placed, one below the neutral value (2.88649) and one at its limit (3.04545). For these organizations, the road to knowledge must start with learning.

#### 4. Conclusions of the research

Nowadays, there is the necessity (also proved by the strong connection between learning and performance) that the employees should be efficiently prepared and bettered through workplace training

programs, through access to the resources necessary for learning, through the encouragement of experience and the dissemination of knowledge within work groups, all for the development of a work force as qualified as possible.

The training of the staff must be efficiently implemented, taking into account their training needs, the way people learn, as well as the options regarding the training method.

Although in a dynamic economic environment made of knowledge based organizations everyone should contribute ideas, seek continual improvement, Romanian leaders have not yet fully understood their necessity. Therefore, there still exists a need for the leaders to intervene in encouraging the employees to look at things differently and urging them to achieve the performance over what they thought possible.[6]

The training of the workers in order to cope with competition in the knowledge based economy involves a new model of education and training, a model of continuous learning from childhood to retirement from the work market.

For most organizations, the ability to create a durable future is directly proportional with the way that their own employees' intellectual capacity is encouraged and developed.

#### 5. References

- [1] A World Bank Report, "Lifelong Learning in the Global Knowledge Economy: Challenges for Developing Countries", The World Bank, Washington, D.C., 2003.
- [2] Archibugi, D. and Lundvall, B.-Å., 2001. „The globalizing learning economy. European Socio-Economic Research Conference". New York: Oxford University Pres
- [3] Commission staff working document, Progress towards the common European Objectives In Education and Training, Indicators and benchmarks 2010.2011, Chapter 1, Making lifelong learning and mobility a reality, 1. Participaționa in Lifelong learning.
- [4] Jones, A.B.,1999. „Knowledge Capitalism Business. Work and Learning in the New Economy", Oxford University Pres, Oxford.
- [5] Ovidiu Nicolescu, Luminița Nicolescu, *Economia, firma și managementul bazat pe*

- cunoștințe*, Economica Publishing, Bucharest, 2005.
- [6] Ovidiu Nicolescu, Ciprian Nicolescu, *Organizația și managementul bazate pe cunoștințe, Teorie, metodologie, studii de caz și baterii de teste*, Pro Universitaria Publishing, Bucharest, 2011.
- [7] Ovidiu Nicolescu, Ciprian Nicolescu, *Intreprenoriatul și managementul întreprinderilor mici și mijlocii*, Economică Publishing, Bucharesti, 2008.



# Modeling a Product Launching Process Based on a Decision Tree

Lungu Ion

Academy of Economic Studies

[ion.lungu@ie.ase.ro](mailto:ion.lungu@ie.ase.ro)

Stancu Ana-Maria Ramona

Academy of Economic Studies

[ana\\_maria\\_ramona@yahoo.com](mailto:ana_maria_ramona@yahoo.com)

## Abstract

*The authors intend to achieve a model to launch a new banking product on the market, meaning a students' credit card. In doing that, a questionnaire was achieved and it was administered to 385 students from 5 faculties. The model based on the decision tree was fulfilled after the data analysis and it will indicate whether the banking product to be launched should or should not be tested in advance.*

**Key words:** decision tree, bank card, commission, banking product, students.

**J.E.L. Classification:** L8 (L86)

## 1. Introduction

A decision tree is a classification model that can be viewed as a tree, and each subtree is a response to a question of classification, the leaves are partitions of the data set according to the classification performed and nodes present statistical information. [1]

The decision trees are methods which analyse multiple variables and are applied in complex situations.

The decision trees are capable to complete and to substitute:

- some forms of statistical analysis (for example: the multiple linear regression);
- techniques and instruments used in data mining (for example: the neuronal networks);
- some advanced forms in business intelligence.

The decision trees are based on algorithms which identify various

segmentation ways which take part from a data series providing the tree branches.

The tree is formed of:

- decision knots;
- tree branches representing the system status. [2]

The decision trees could be updated several times during the events, based on the achievement of the decision processes, of the system status initially described which become or do not become real.

## 2. Achieving a model to a banking product launching process

The next step consists of modeling the "Piraeus Bank" product launching, actually the Visa Shop & Cash debit card for the "\$STUDENT Package" students.

This card provides the following facilities to the students:

- online Banking free access, meaning zero administration commission;
- special economy account for students, with a 6.75% annual rate of the demand deposit;
- zero commission for the monthly administration. [3]

The bank could choose one of the following variants:

- to give up launching;
- to launch the product immediately to be sold on the market;
- to test the product selling with a reduced number of students.

Based on the test, the following results could be obtained:

- a) the new banking product could be chosen by less than 25% of students;
- b) the banking product could be chosen by less than 25% of students, but not less than 50% of them would buy it for a second time;

c) the banking product could be chosen by more than 25% of the students, but at least 50% of them would buy it for a second time.

The table below shows the following settled probabilities.

*Table1: The consequences of alternatives*

	< 25 %	> 25 %		Probability
		Come back < 50%	Come back > 50%	
Success (S)	0.16	0.24	0.20	0.60
Failure (E)	0.28	0.08	0.04	0.40
Probability	<b>0.44</b>	<b>0.32</b>	<b>0.24</b>	<b>1</b>

Source: [4 ]

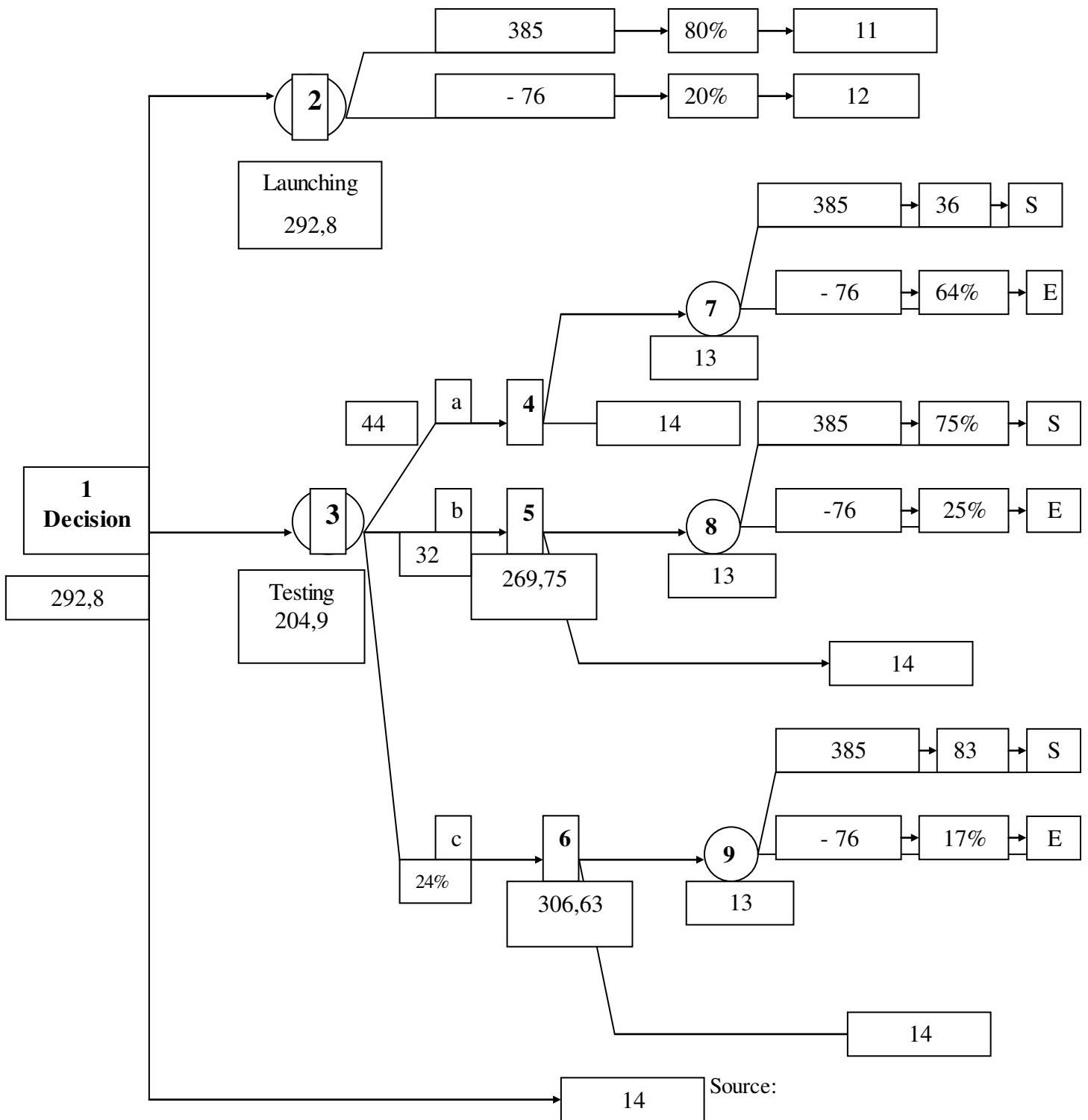
If the test result shows that the banking product did not attract the students' attention in universities, then the "Piraeus Bank" has as solutions:

- to give up the students' banking product called "\$STUDENT Package";

- to launch the banking product on the market.

These possible situations could be presented in a diagram in the form of a nonsymmetrical decision tree.

Figure 1: Decision trees



Where:

- 11: Success
- 12: Failure
- 13: Launching
- 14: giving up

To calculate values in knots 1,2,3 one should first move to the right, by making the calculations in a reverse order, starting from knots 7,8,9 towards knots 1,2,3.

Table2: Conclusions drawn from decision- tree

Probability of a success or a failure in the case:		
a).	Success (S):	0,16 / 0,44 = 0.36 (36 %)
	Failure (E):	0.28 / 0.44 =0.64 (64 %)
b).	Success (S):	0.24 / 0.32 = 0.75 (75 %)
	Failure (E):	0.08 / 0.32 = 0.25 (25 %)
c).	Success (S):	0.20 / 0.24 = 0.83 (83 %)
	Failure (E):	0.04 / 0.24 = 0.17 (17 %)

Based on these percentages, one could calculate the knots value 2,7,8,and 9:

**For knot 2:**

$$= 385 * 80\% - 76 * 20\% = 292,8$$

**For knot 7:**

$$= 385 * 36\% - 76 * 64\% = 89,96$$

**For knot 8:**

$$= 385 * 75\% - 76 * 25\% = 269,75$$

**For knot 9.**

$$= 385 * 83\% - 76 * 17\% = 306,63$$

Here are the following **CONCLUSIONS**, according to the figure:

- there are two solutions in knot 4:
  - Launching – there will be 309 students wishing to get the banking card;
  - Giving up - in the case of 0 students loss.
- in knot 5: it seems to be more advantageous, because 269.75 persons wish to get a banking card.
- in knot 6: if 30% of the students wish the banking card, there is a chance that over 50% of them get it, that means 303.63 students.
- in knot 3, the evaluation will be:

$$89,96*50\%+269,75*32\%+306,63*24\% = 204,8912$$

- in knot 1, there are three possibilities:
  - to give up the banking product, in such case no student will benefit from it;
  - to launch the banking product on the market, and in such case it will be bought by 204.9 students;
  - to test the banking product on 104.9 students before launching it on the market.

### 3. Conclusion

According to the data analysis and to the calculations achieved, the “Piraeus Bank” should decide if they test the product before launching it on the market, as it cost is 87.9, that means

$$\text{No. of pers. Launched} - \text{no. of pers. Tested} = 292.8 - 204.9 = 87.9.$$

### 4. References

- [1]<http://steconomiceuoradea.ro/anale/volume/2006/statistica-si-informatica-economica/29.pdf>
- [2] Asist. Univ. Dr. Karoly Mike, Conf. Univ. Dr. Dan Sorin Șandor, Lect. Univ. Dr. Raluca Gârboan (Antonie), Asist. Univ. Drd. Bianca cobârzan (radu) - Analiza politicilor publice și evaluarea programelor în ADMINISTRAȚIA PUBLICĂ – Suport de curs
- [3] <http://www.piraeusbank.ro/Persoane-Fizice.html>
- [4][http://www.scritub.com/management/TEHNIC\\_I-DE-OPTIMIZARE-A-PROCES22149.php](http://www.scritub.com/management/TEHNIC_I-DE-OPTIMIZARE-A-PROCES22149.php)
- [5][http://www.scritub.com/management/TEHNIC\\_I-DE-OPTIMIZARE-A-PROCES22149.php](http://www.scritub.com/management/TEHNIC_I-DE-OPTIMIZARE-A-PROCES22149.php)

## Theoretical Debates about Corporate Social Responsibility

Maha Liviu-George

"Alexandru Ioan Cuza" University, Iasi

[mlg@uaic.ro](mailto:mlg@uaic.ro)

Hertug Iulian

"Alexandru Ioan Cuza" University, Iasi

[iulian.hertug@google.com](mailto:iulian.hertug@google.com)

### Abstract

*This paper explores the concept of Corporate Social Responsibility and presents the theoretical debates about it. On the one hand, there are numerous opinions claiming that the only real responsibility the companies have is combining different production factors for developing economical activities in order to gain and sustain profit while complying with the game's rules. On the other hand, a totally different approach is based on the idea that the existence of a decision making structure and of a value set and responsibilities as a base in decision making are important arguments in giving moral responsibilities to companies. Beyond the controversy created by its use, important are the effects that such strategies have, not only on the organization activity, but on society, too.*

**Keywords:** corporation, society, responsibility, marketing, business strategy.

**J.E.L. Classification:** M14, M30, F23.

### 1. Introduction

Many multinational corporations have appeared in the press being accused of bribery and corruption, abusing human rights, sanction busting, dumping, undermining governments, exploiting uneducated consumers, using forced labor, exploiting natural resources, low wages and using child labor. The fact that standards and "the way of doing things" differ from country to country is a big problem for multinational corporations. That cannot be a justification for the existence of the abuses that we mentioned before but raises the question of

the role of business in society and of its responsibility for some social problems.

This paper explores the concept of Corporate Social Responsibility and presents the theoretical debates about it.

After the implications of American accompanies in Chile's "coup d'état" (1973) and the bribe given to Japan politicians (1975), the social responsibility studies were launched and the first ethical and social principals for CSR were created.

A short list of relevant international initiatives about CSR:

- 1976 – OECD (*Organization for Economic Co-operation and Development*) adopted the guide for multinational businesses that provides standards for a responsible business conduct.
- 1977 – ILO (*International Labour Organization*) adopted the trinity declaration on principles about Multinational Companies and Social Politics ("*MNE Declaration*") which provided guidance to companies, governments and associations of employees or employers in fields like work relations, work conditions and living standards. These guidelines were later used in regulations, legislations, guidelines and framework agreements related to this subject.
- 1993 – "*The White Book*" of European Commission, document that was focused on economic development, the jobs being the primary approach of European Union on CSR.

When, in this period, United Nations, European Commission (European Union) and World Bank started to create divisions of CSR, it started to become a requirement more than a strategic option for companies.

- 1996 – launching of *European Business Network for Social Cohesion* - EBNSC (that became “*CSR Europe*” in 2000).
- 2001 – The European Commission published *Green Paper on Promoting an European Framework for Corporate Social Responsibility*.
- 2003 – The European Council adopted a resolution on Corporate Social Responsibility (2003/C 39/02).
- 2009 – The Lisbon Treaty entered into force and started to offer a legal framework and instruments to the European Union to face the future challenges.

The economist Howard R. Bowen presents in his book “*Social Responsibilities of the Businessman*” the concept of Social Responsibility as the compatibility of the enterprises’ policies, decisions and facilities with the objects and values of the society. [1] Bowen argues that companies need to think about the social results too, when they are taking decisions.

According to Kotler’s opinion, Corporate Social Responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources. [2]

Hamilton [3] considers that CSR can be defined as the notion that corporations have an obligation to society to take into account not just their economic impact but also their social and environmental impact.

The European Commission’s definition of CSR is: „A concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis”.

According to the definitions we mentioned, CSR is understood to be the aggregate of the economic, legal, and ethical actions as well as philanthropy (voluntary responsibility) which are expected by a society for a specified time. [4] [5]

Figure 1. Corporate Social Responsibility Pyramid



Source: Carroll, A.B., “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders”, *Business Horizons*, Vol. 34, 1991, pp. 39-48 [6]

In her article “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders” Carroll indicates four different areas of social responsibility and states that the company may only achieve its responsibilities by conducting its social responsibilities.

## 2. The company with only one real obligation - the profit

This problem has brought into prominence, throughout the time, the interest of specialists in the field, with plenty of articles and studies trying to answer the question of whether or not there is a company social responsibility. The Romanian economy development and the process of Romania’s integration in the European Union, as well as the attracting new Foreign Direct Investments policy have determined Romania to confront with social responsibility practices, but also to deal with the theoretical controversies these strategies tend to generate.

On the one hand, there are numerous opinions claiming that the only real responsibility these companies have is combining different production factors for developing economical activities in order to gain and sustain profit while complying with

the game's rules [8]. The manager's role also implies choosing the proper production technology and assuring the required human, material and financial resources. Thus, the company can only survive if offers to clients the goods and the services they ask for while maintaining low production costs, beneath the market's prices.

In terms of quality and price, a highly competitive offer makes an economy dynamic. Competition is the only one responsible for people's access to better products and services at lower prices. Thus, the only social role a company assumes from this point of view narrows down to producing the goods and services clients deserve, an high efficiency being the only way to survive on the market.

Within this context, it becomes more and more clear that the social and environmental problems must be entrusted for the governments which benefit from authority, adequate resources and the best specialists in the field. Involving companies in trying to solve this type of problems would lead to a dropout from the economic efficiency of a company. Based on the principles of an open market, each player fulfills its duties and assumes a certain social role which, nevertheless, benefits the entire society.

From this perspective, one can claim that Corporate Social Responsibility becomes an integrated part of the firm's strategy while trying to place as advantageously on the market in order to boost its profits comply with the other economic goals. Mere notoriety does not count anymore for guaranteeing one's success in the business. Companies cannot afford to draw upon themselves bad publicity for neglecting social responsibility problems. The past few decades were marked by significant changes in consumers' behavior. Their expectations increased gradually, not only in terms of quality and pricing of a product, but also in how they perceive companies dealing with social interest aspects.

Under these circumstances, an efficient management could also imply the existence of similar approaches to answer as good as possible to external stimuli. This is not perceived as an obligation anymore, but as an oriented behavior towards satisfying the expectations of stakeholders (employees, managers, owners, clients etc.) [8]. The

consumer's satisfaction increases through this particular approach, while the client wishes to identify himself with the company. Moreover, one can easily notice an improvement in potential customers' opinions, with them tending to lean on a favorable attitude towards a company they do not necessarily know. As a result, the firms being more actively involved in the social responsibility system are less exposed to risks involving negative publicity, and benefit from a larger sympathy in the community, as opposed to their counterparts. [9]

Nobody can deny the fact that assuming the entire social responsibility at a company level has a significant influence upon the image of that company, as well as upon the brands that the specific company is associated with. The specialized literature stresses that these typical actions tend to draw advantages in terms of reputation and brand capital, with the first addressing the company exclusively, while the latter being client-oriented. More social responsible companies enjoy a positive public reputation and an improved brand image within consumers. [10] On the contrary, other studies claim that 75% of a company's value is the direct result of its reputation. [11]

Under these circumstances a marketing strategy will not limit to a visual identity and creating intelligent advertising campaigns anymore, but will also take into consideration some Corporate Social Responsibility criteria. Companies engage in these endeavors for future potential financial gains. Also, by practicing the minimum price policy or similar other types of benefits, companies can reach a better reputation and recruit or keep high qualified employees. [12]

### **3. The company that is responsible to the society**

A totally different approach that the one presented until now is based on the idea that the existence of a decision making structure and of a value set and responsibilities as a base in decision making process are important arguments in giving moral responsibilities to companies. In other words, companies have to be responsible to the society in which they activate because that is the right thing to do, not because such a

strategy will bring better financial results and a bigger profit.

Studies and personal experience of each and every one of us can make us think that, regardless of the situation, the concept of "good" represents one of the objectives of human action, even if its perception is always subjective. Thus, although the decision is governed by factors covering or relating to respond to the need to obtain a higher degree of utility, there are a lot of situations in which, at a higher or lower rate, elements of moral nature make their presence felt in these managerial mechanisms. On a market characterized, often, by similar products in terms of quality and/or price or value for money, it is possible that the influence of these ethical factors become essential and decisive in taking the decision.

It can be seen that the support of such a theory requires reconsideration of the company status, which is somehow personified to be able to associate the concept of morality and be held accountable, in terms of the level of morality, for their actions [13]. Thus, the corporation becomes a "global citizen", which has the same obligations in terms of social and environmental protection, like any other "good" global citizen.

Another argument in support of this approach is the fact that any company is not operating away from the rest of society, it is a creation of society and, therefore, it has to serve the society's needs. In this context, one company's actions will influence the behavior of others, the decisions taken by their management level producing effects on all stakeholders, clients, providers, employees, owners and even the public.

A not insignificant aspect is how society relates to these corporations, what do people expect from them, and what is even more interesting, how are this expectations evolve as society develops and the standard of living of the inhabitants increases. [14] From this point of view, a democratic way of decision taking and a most appropriate corporate conduct will improve company's image, but this measures are not enough as long as there not accompanied by a new vision on the "reason of being" for business. [15]

In this aspect, Handy (2002) brings into discussion Article 14, section 2 of the German constitution which states that "Property imposes duties. Its use should also

serve the public weal." and quotes Dave Packard, founder of the company HP, which said "I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company so that they are able to accomplish something collectively that they could not accomplish separately-they make a contribution to society, a phrase which sounds trite but is fundamental."

Other authors, as is the case of De George [16], stresses the idea of the corporation as a social institution, pointing out that companies are established basing on the rules set by the state in which they want to run operations, including some mechanisms, that also, allow withdrawal of the operating license if society's expectations are not met. In this way companies become "corporate citizens", institutional citizens with rights and obligations, like any other citizen.

The concentration process of economic activities and the increase of economic power of transnational corporations gives them a bigger and bigger economic power, embodied in possession of substantial resources too, allowing them to assume the quality of financing of some projects aimed at the good of society true the responsible spending of money. This perspective becomes more and more suggestive taking into account the fact that business decisions have social and environmental effects, for which corporations must take responsibility, and act accordingly, especially when we are talking about aspects as, for example, is the case of global warming and resource depletion.

#### **4. Conclusion**

Corporate Social Responsibility is a new concept that appears in the context of economical concentration and increasing importance of transnational corporations and the role they play in the world economy.

There is no unified approach to associate a meaning to this phrase, being accepted a few different definitions, more or less similar, belonging to both professionals in the



field, as well as some theorists, and some international institutions.

The difficulty of an uniform approach in terms of defining the concept of CSR is justified, measurably, by the fact that it requires a personification of the company, that becomes "responsible" and assume a "social role", somewhat contrary to current issues perception of the company and its mission.

Another difficulty derives from the different perspectives of the stakeholders on the decisions taken within a company; something that for an employee or his family may seem a responsible action, for a shareholder might mean something else.

Beyond the difficulties encountered attempting to define the concept, it is certain that on a bigger and bigger scale companies are including CSR elements in their business strategies.

Use of CSR by corporations maintain a high level the dispute regarding the reliability of these measures; there are many opinions that assumes that the social responsibilities is a simple marketing tool, useful in providing a net differentiation from the competition.

It is difficult to distinguish between the reliability and the desire to improve image, because decisions are made at company level people, which can sometimes feel responsible for that business impact on society. Beyond the controversy created by its use, important are the effects that such strategies have, not only on the companies' activity, but on society, too.

A reality is the fact that transnational companies have a special contribution, through the role in technological evolution, circulation of information, production diversification, increasing the quality of goods and services, to the economic and even social progress.

### Acknowledgement

This work was supported from the European Social Fund through Sectorial Operational Programme Human Resources Development 2007–2013, project number POSDRU/159/1.5/S/142115, project title "Performance and Excellence in Doctoral and Postdoctoral Research in Romanian Economic Sciences Domain".

### 5. References

- [1] Bowen, H.R., *Social Responsibilities of the Businessman*, Harper&Brothers, NY, 1954, p 6.
- [2] Kotler, F., Lee, N., *Corporate Social Responsibility- Doing the Most Good for Your Company and Your Cause*, John Wiley & Sons Inc., Hoboken, New Jersey, USA, 2005, p 3.
- [3] Hamilton, L., Webster, P., *International Business Environment*, second edition, Oxford University Press, 2012, NY, p 312.
- [4] Carroll, A.B., "A Three-Dimensional Conceptual Model of Corporate Performance", *Academy of Management Review*, Vol.4, 1979, pp. 497-505
- [5] Carroll, A. B., "Corporate Social Responsibility: Evolution of a Definitional Construct", *Business & Society*, Vol.38 (3), 1999, pp. 268-295.
- [6] Carroll, A.B., "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders", *Business Horizons*, Vol.34, 1991, pp. 39-48.
- [7] Friedman, M., "The Social Responsibility of Business Is to Increase Its Profits", *New York Times Magazine*, 1970, pp. 32-33, 122-124.
- [8] Archie, B., Carroll, A.B., Shabana, A.M., "The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice", *International Journal of Management*, 2010).
- [9] Curras-Pereze R., "The Role of Self-Definitional Principles in Consumer Identification with a Socially Responsible Company", *Springer*, 2009.
- [10] Dospinescu, N., *Relații Publice, Comunicare Media și Managementul Reputației*, Ed. Tehnopress, 2011.
- [11] Creel, T., "How Corporate Social Responsibility: Influences Brand Equity", *Management Accounting Quarterly*, 2012, p.1.
- [12] McWilliams, S., "Corporate Social Responsibility and Financial Performance: Correlation and Misspecification", *Strategic Management Journal*, 2000, pp. 124.
- [13] Goodpaster, K.E., Matthews, J.B., "Can a Corporation Have a Conscience", *Harvard Business Review*, 1982, p 230.
- [14] Anshen, M., "Changing the Social Contract: A Roll for Business", 1970, reprinted in Beauchamp, T., *Ethical Theory and Business*, 2<sup>nd</sup> edition, London, Prentice Hall, 1983, p 302.
- [15] Handy, C., "What is a business for?", *Harvard Business Review*, 2002, p54, <https://hbr.org/2002/12/whats-a-business-for>.
- [16] De George, R., *Business Ethics*, 7<sup>th</sup> edition, London, Pearson, 2010.

# Impact of Economic Crisis on Education

Mihai Mihaela

*The Bucharest University of Economic Studies*

[mihaela2173@yahoo.com](mailto:mihaela2173@yahoo.com)

## Abstract

*The global economic crisis is a period characterized by a sharp drop in economic activity that affects people in many ways.*

*We can say that its beginnings were in 2007 in America with both microeconomic and macroeconomic nature causes. The effects were felt different from one nation to another, but we can say that the most affected countries are considered developing and third world.*

*Were observed global effects, some of which - few in number - can be considered constructive, and governments have acted both individually and at EU level to protect the economy.*

*We consider education as a victim of the economic crisis. The main objective of this study is to analyze the impact of economic crisis over the education.*

**Keywords:** economic crisis, education, globalization.

**J.E.L. Classification.:** [A2](#), [I21](#), [J60](#)

## 1. Introduction

"The latest evaluations and the European Commission high-lights the role that the low level of economic knowledge, the financial global crisis had greater impact. Although European Union pays great attention on financial education in recent years, many European countries still do not respond appropriate to the problem, and the population still does not have enough knowledge to help them understand financial services and products to make the right decisions", said in March 2014 Mugur Isarescu at the international conference "financial education: investment in the future of society."

Extrapolating, we can expand, however, the whole educational system. And, if you

were to talk about higher education, we can say that it was changed after the economic crisis, both at micro and macro. Short term impact of the economic crisis was at micro institutional, but what may be considered more important is the long term impact of the economic crisis on education, a greater planning and macro policy. Moreover, the global economic crisis has validated the idea that it is natural to consider higher education as any other economic service. Which leads us to the conclusion that it is important to have an accuracy and responsibility in addressing educational policies, the more that we are in a time when neo-liberalism has dominated financial global policymaking.

## 2. The rate of early school leaving RPT (%)

There is a major impact of poverty on primary and secondary education children and the economic crisis did nothing to increase the rate of non-schooling and school dropout. This stands out especially among children from a low socio-economic background.

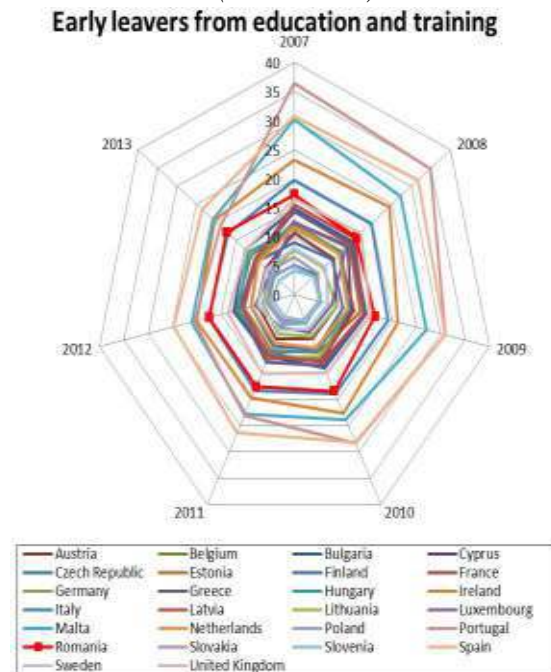
Moreover, dropout, besides the effects observed at the micro level, reflected to the individual, aggravate the economic and social development at the macro level. In this way, the European Commission has set between the main objectives of the Europe 2020 strategy, reducing the average rate of early school leaving in the EU, from the current 14.4% to below 10% [3][6].

Related to this aspect, José Manuel Barroso, European Commission president, said: "Europe cannot afford to leave behind so many young people who have the potential to contribute to our societies and economies. We must harness the potential of all young people in Europe, in order to recover from the crisis. "

In Romania the financial crisis have been felt since 2010, the dropout rate following an

upward trend thereafter. School dropout rate went from 18% in 2007-2008 decreased to about 15% and then increased to 16%.

Figura 1 - The rate of early school leaving (2007-2013)



Source of Data: Eurostat

### 3. The youth unemployment rate (%)

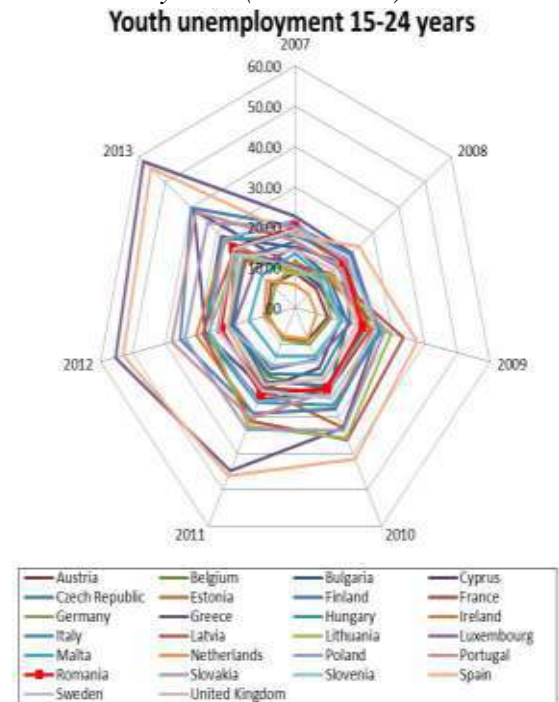
Youth unemployment is one of the most pressing issues both among EU countries as well as globally.

The perspective of the younger generation to the previous one is not very bright, whether the material, professional or social plane. This is due to the "evaporation" of jobs.

In general, for graduates in Europe now expects to make as many 60 applications before landing their first job, and the average wait between graduation and employment approaching six months, and more than half of them are worried about their career development [3][4][5].

The major problem of unemployment among young people is due to their over-qualification, and the fact of not receiving answers to CVs they send leads to the impossibility of building a life around.

Figura 2 – Youth unemployment: 15-24 years (2007-2013)



Source of Data: Eurostat

From the data analyzed it is clear that Spain and Greece have the highest rate of youth unemployment from any of the countries in the history of the euro area. Moreover, the Netherlands is the country with the lowest unemployment rate among young people, and in Italy and Portugal, it has increased.

The impact of the recession, especially on children, will be felt long after its passed. To minimize these effects, governments have adopted strategies and policies aimed to reduce the number of unemployed people in general and that of young people specifically.

What is really important is that young people understand that they have more chances to find a job if they increase the level of competence.

### 4. Level of education and education expenditure

The economic crisis has prompted thousands of Europeans to migrate in search of a place to eat. At the same time governments have significantly reduced public spending and in recent years the funds allocated to education were also reduced.

This was seen especially in countries hardest hit by the crisis: Greece, Hungary and

Ireland, where the funds allocated to education were low in all levels of education, from pre-school to higher education.

On the other hand, according to an OECD study the effects of the crisis on education systems can be presented as limited,

since it has been found that many of these countries increased the funds allocated to education. The purpose was to counter the crisis and economic recovery.

Education was one of the priority areas to stimulate economic growth [3][4][5][6].

*Figura 3 - Education and Training 2010-2020 strategic framework*

ET 2010 for the Lisbon Strategy	ET 2020 For Europe 2020
<ol style="list-style-type: none"> <li>1. To reduce the percentage of early school leavers to no more than 10%</li> <li>2. To ensure that at least 85% of young (20-24 year olds) people complete upper secondary education</li> <li>3. To cut the percentage of low-achieving pupils in reading by at least 20%</li> <li>4. To increase the number of graduates in mathematics, science and technology (MST) by at least 15%, and to decrease the gender imbalance in these subjects</li> <li>5. To have 12,5% of adults (25-64) participate in lifelong learning</li> </ol>	<ol style="list-style-type: none"> <li>1. The share of early leavers from education and training should be less than 10%</li> <li>2. The share of 30-34 year olds with tertiary education attainment should be at least 40%</li> <li>3. The share of low-achieving 15-year olds in reading, mathematics and science should be less than 15%</li> <li>4. At least 95% of children between 4 years old and the age of starting compulsory primary education should participate in early childhood education</li> <li>5. An average of a least 15% of adults (25-64) should participate in lifelong learning.</li> </ol>

Source: European Commission (2011c)

### 5. Analysis and Interpretation of Results

Among the EU member states has been a higher demand for education, mainly at vocational school and higher education courses. This was seen especially among people aged over 25 years.

Regarding incentives, their targeting is especially to vocational education, training and higher education courses. We consider this development as normal given the situation on the labor market requires first measures of short and medium term.

In Romania's case, the trend is considered relatively similar. As can be seen, in recent years, a slight increase in the coverage of education and a decrease in the rate of early school leaving, on the other hand, the EU Operational Program Human Resources Development (HRD) put the 3.5 billion euros available to Romania in 2007-2013 for training programs and capacity building.

But do not forget the demographic decline facing Romania in the last 20 years, a process that causes a student's decrease in all levels of education. Surely this situation will persist and will worsen in the coming years.

In Romania, as in many countries, the crisis has led to accelerating the pace of reforming the education system, policies adopted in this regard by bringing major changes to the education system, observed long-term effects [1][2].

If in Ireland was an increase in the importance of R & D, as a result of education reform in Slovenia, from its implementation were included development programs for the unemployed and vulnerable groups.

Note that between the rate of early school leaving and unemployment among youth is a strong correlation.

In France youth unemployment is more than twice higher than the national rate. At the same time the number of young people who leave school without any qualifications is over 100,000 each year. To reduce these problems has adopted a system of subsidized labor force aimed at young people aged between 16 and 25 years, who are not qualified and from areas affected by unemployment.

In Spain, a country quite severely affected, have not taken steps to create jobs directly due to restrictions and austerity

measures. Tried in early 2012 a reform bill which proposed facilities for the employers. But because the reducing and compensation for unlawful dismissal was greeted negatively by trade unions and opposition parties because it implied a worsening unemployment.

In 2013 in Italy, the government approved some measures to combat youth unemployment. Thus, it gives tax breaks for employers who hire people under 30 with permanent employment contracts. The package included incentives for training, apprenticeships and internships.

A look at the Germany shows that even this was not spared by the crisis. Angela Merkel said that youth unemployment is the danger facing Europe. German educational system focused on discipleship and not on simply academic study only to prevent a "lost generation". The system adopted to combat youth unemployment is one dual, a mix of classroom learning and learning from practical experience.

The problem of youth unemployment was too high in some countries for many years. The crisis has only served to reinforce this.

## 6. Conclusions

To recover the economy after the global crisis hit hard, EU governments have sought to develop and implement measures to boost its education as one of the priority areas. But there are other situations in which reduced funds allocated for education regardless of educational level. Thus, in countries most affected by the crisis, Greece, Hungary, Iceland and Ireland they were reduced from pre-school up to university level.

But, given that the labor market situation requires measures of short-term or at most medium, emphasis was placed on developing skills-based education, in the vocational training courses and on higher education.

In addition to indices listed above, another important aspect of this analysis is child poverty. In this regard, a report released by UNICEF shows that the largest increases in poverty among children, between 2008 and 2012 was observed in southern European countries: Greece, Italy and Spain.

One solution would be economies of south to reach a balance, important considering investing money in issuing

policies to create jobs.

It is normal that every country wants to structure their economy in a completely different way. But if there is a functional model to a country is more cost effective to check if it folds and the economy of another country, with the necessary changes required by national characteristics or necessary to create a new model, completely different for each country. The latter is supported by the need to be competitive and prosperity.

At the same time it is essential to note how much the world has changed, how it evolved. Thus developments in recent years China, India, Brazil, South Korea, etc., countries that were competing with European countries did, because the offer attractive and innovative products in these parts of the world, let us market share decline and therefore prosperity.

As a general conclusion on a continent with a constant aging population, youth unemployment is unsustainable. What is even more serious, according to statements British Prime Minister David Cameron this month at the G20 summit, "the euro zone tossing" and allow "a new recession, with high unemployment", 6 years after the onset of the previous recession. He discussed a possible new major economic crisis.

## 7. Acknowledgements

This work was co-financed from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU 159/1.5/S/134197 "Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain".

## 8. References

- [1] Voineagu, V., Țițan, E., Șerban, R., Ghiță, S., Todose, D., Boboc, C., Pele, D. (2007). Teorie și practică econometrică, Editura Meteor, București
- [2] Andrei, T., Bourbonnais. R. (2008), Econometrie, Editura Economica, Bucuresti
- [3] [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Main\\_Page](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Main_Page)
- [4] <http://www.uis.unesco.org>
- [5] <http://www.oecd-ilibrary.org/statistics>
- [6] <http://data.worldbank.org/indicator>

## How Strong is the Correlation between GII and GEI?

Moise – Titei Adina

*Ovidius University of Constanta, Faculty of Economic Sciences*  
[adinatitei@yahoo.com](mailto:adinatitei@yahoo.com)

### Abstract

*In the present paper we try to find a connexion between two indexes which measure the gender inequality and gender equality in human development. The first one is Gender Inequality Index (IHDI) developed by the United Nation Development Program. The second one is Gender Equality Index, developed by the European Institute for Gender Equality. The aim for both of them is to show the public which is the difference in human development between women and men in terms of income, education, health, labour market participation and some other domains. So, we try to put in correlation these two indicators and also to measure how strong it is.*

**Keywords:** gender inequality, gender equality, human development, Gender Equality Index, Gender Inequality Index  
**J.E.L. Classification:** O10, O15

### 1. Introduction

The issue of gender inequality is of very complex nature. It is deeply rooted in history, culture and traditions of a society.

In the last years, measuring gender inequality in human development was a primary objective for some international organizations. Starting from the truth that the countries with unequal distribution of human development high inequality between women and men, and countries with high gender inequality also experience unequal distribution of human development, these organizations want to know how high is the inequality and which are the possible solutions to reduce it.

Inequalities are very important determining a neglected dimension of development. These can be highly damaging

and often have major economic and political consequences [5].

When we analyse the gender inequality in human development, Anand and Sen propose to take into consideration the contrast between the efforts and sacrifices made by each, on the one hand, and the rewards and benefits respectively enjoyed, on the other hand. This contrast is important for a better understanding of gender injustice in the contemporary world. They also propose another important subject which to be brought into discussion. It is the problem of women's efforts and contributions, without commensurate rewards [1].

The gender inequality could affect the long-term economic growth. Starting from this hypothesis, Klasen had made a study, based on cross-country and panel regression, and found that the gender inequality in education directly affects economic growth by lowering the average level of human capital. Also, he found that economic growth is indirectly affected through the impact of gender inequality on investment and on the population growth [2].

The previous study was extended by Kalasen and Lamanna. This new study investigates not only the impact of gender gaps in education, but also the inequality in employment. Using time period for 40 years and panel data, the researchers have found that gender gaps in education and employment considerably reduce economic growth [3].

Also, other researchers identified a connexion between gender equality and financing for development. They found that higher political implications and a substantial financing in developing countries could determine greater gender equality, resource mobilization, and improvements in societal wellbeing [4].

It is now widely recognised that gender inequality blocks progress on development goals in significant and tangible ways. This is

because gender relations assign men and women different and unequal roles and entitlements, which act as barriers to women being able to benefit fully from development interventions [6].

In terms of money, women's poverty is, in part, a result of their socially enforced gender roles and without addressing the causes of gender inequality women's poverty will persist.

## 2. The Gender Equality Index (GEI)

Developed by European Institute for Gender Equality, the Gender Equality Index is a synthetic indicator that measures how far (or close) the EU and its Member States are from achieving a society that is both gender equal and performant. The first index values were communicated in 2013, but the data refers to 2010, because that is the moment when maximum data availability, was provided over time and across Member States. The Index will be updated every 2 years.

The Index is a measure of gender equality for the EU, which tries to capture various aspects of economic and social life. Core domains include work, money, knowledge, time, power and health. In addition to these domains, it opens up a space for satellite domains that can measure gender equality issues from other perspectives (such as violence and intersecting inequalities). Each domain was then further subdivided into sub-domains.

For each domain it analyses of the gender indicators used, in the EU-27 and across Member States, to examine the gender gaps. These gaps can work towards women, where women are over-represented compared to men, or towards men if the reverse is true. This analysis provides a comprehensive overview of the gender indicators selected and provides valuable data to illustrate the key gender equality issues identified.

After applying the quality criteria established for selecting indicators and after analysing the results provided by the multivariate analysis, the final set of variables used in the construction of the core Index is determined, as well as its structure in domains and sub-domains.

Following the methodology in calculating the GEI, we see that the scores of this index

are between 0 and 100. Where the score is 100, we talk about to the complete gender equality. Any value below 100 indicating a proportional lack of gender equality in a given indicator, with full gender inequality at 0 index value.

## 3. The Gender Inequality Index (GII)

The Gender Equality Index is developed by United National Development Program and it is published every year in the Human Development Report.

The latest report highlights the disparities in health, education and employment, between women and men. It presents HDI values separately for women and men for 148 countries. At world level, the average value of female HDI is about 8 per cent lower than the male HDI value [9].

GII reflects gender-based disadvantage in three dimensions: reproductive health, empowerment and the labour market. It shows the loss in potential human development due to inequality between female and male achievements in these dimensions. The indicators chosen for the aspect of *reproductive health* constitute *maternal mortality ratio* and *adolescent fertility rate*; the indicators for *empowerment* constitute *female and male shares of parliamentary seats* and *population with at least secondary education (% ages 25 and older)*; the indicator for *labor market* constitutes *labor force participation rate* for persons age 15-64.

Also, the GII is built on the same framework as the HDI for a better description of the differences in the distribution of achievements between women and men. It measures the human development costs of gender inequality. For the year 2013, GII values vary tremendously across countries, they range from 2.1 per cent to 73.3 per cent.

So, the GII ranges are between 0, where women and men are equal, and 1, where one gender fares as poor as possible in all measured dimensions. Unlike the HDI, a higher Gender Inequality Index value indicates poor performance [9].

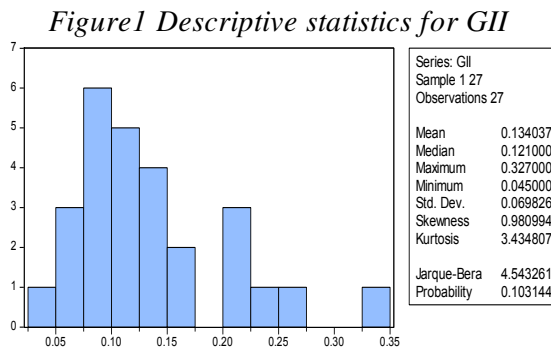
## 4. The Correlation between GII and GEI

As we mentioned above we want to put into correlation the two mentioned indicators

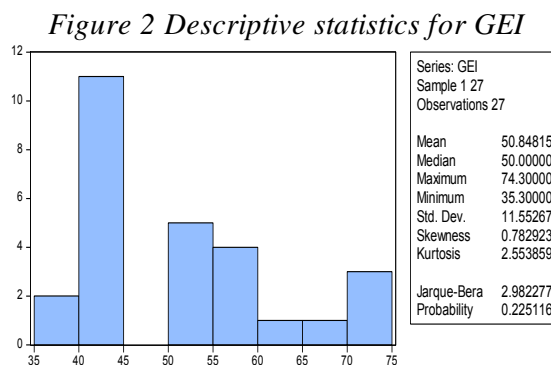
which measure gender equality and, also, gender inequality between women and men, for EU Countries.

The values for Gender Equality Index are calculated using a final set consisting of 27 indicators for the 27 Member States, processed at aggregated level for 2010. Therefore, the year 2010 was chosen because it is the last year for which all the variables considered were available [7].

Taking into account these explanations we used for the analysis of the Gender Inequality Index values for 2012, because most components of the index refer to the moment 2010. The sources of data are UNDP database and Human Development Report 2013.



We can notice that the average value of the GII is 0.1340, with a variation between the minimum value of 0.045 (for Netherlands) and the maximum value of 0.327 (for Romania). The values of the statistical tests show that the distribution is not perfectly symmetrical (the value of skewness is not zero). Additionally, we notice that in the data series, the values ranging between the minimum and the average value of the series are far more numerous than those in the second half of the variation interval.



We can notice that the average value of the GEI is 50.84, with a variation between the minimum value of 35.30 (for Romania) and the maximum value of 74.30 (for Sweden). The values of the statistical tests show that the distribution is not perfectly symmetrical (the value of skewness is not zero) the distribution being rather flat (kurtosis <3).

*Table 1 – The values for GII and GEI*

Country	GII	The Rank in EU after GII	GEI	The Rank in EU after GEI	The Rank Difference (GII-GEI)
Austria	0,102	11	50,4	13	-2
Belgium	0,098	10	59,6	6	4
Bulgaria	0,219	24	37,0	26	-2
Cyprus	0,134	16	42,0	19	-3
Czech Republic	0,122	15	44,4	15	0
Denmark	0,057	3	73,6	2	1
Estonia	0,154	20	50,0	14	6
Finland	0,075	6	73,4	3	3
France	0,083	8	57,1	7	1
Germany	0,075	5	51,6	11	-6
<b>Greece</b>	0,136	17	40,0	25	<b>-8</b>
Hungary	0,256	26	41,4	21	5
Ireland	0,121	14	55,2	9	5
<b>Italy</b>	0,094	9	40,9	23	<b>-14</b>
Latvia	0,213	23	44,4	16	7
<b>Lithuania</b>	0,057	4	43,6	18	<b>-14</b>
Luxembourg	0,149	19	50,7	12	7
Malta	0,234	25	41,6	20	5
Netherlands	0,045	1	69,7	4	-3
Poland	0,140	18	44,1	17	1
<b>Portugal</b>	0,114	13	41,3	22	<b>-9</b>
<b>Romania</b>	0,327	27	35,3	27	0
Slovakia	0,171	21	40,9	24	-3
Slovenia	0,080	7	56,0	8	-1
Spain	0,103	12	54,0	10	2
Sweden	0,055	2	74,3	1	1
<b>United Kingdom</b>	0,205	22	60,4	5	<b>17</b>

Sources: HDR 2013 and Gender Equality Index Report 2013

Table 1 presents the ranking for EU countries and it also shows us the difference between ranks. As you see the concordance is not absolute. For some countries the values of ranking are close, but for others there are significant differences. In the last category



we mention Greece, Italy, Lithuania and Portugal with negative differences. A spectacular positive distance is registered for the United Kingdom, which in the first ranking is near the end, but in the second occupies one of the first places. Also Estonia, Latvia, Luxembourg record positive differences.

Unfortunately, for Romania the situation is alarming. Our country is positioned on the last place, in both rankings. Romanian women are disadvantaged compared with men in almost all domains which were taken into account for the composition of the indices.

Data analysis indicates a Pearson coefficient value of -0.62083. Obviously, a negative correlation, which is explained through the way in which was built the ranking for each of the indices. Also, the present value indicates a moderate correlation between the variables.

## 5. Conclusions

The issue of gender inequality has been much debated among the circles of academicians and policy makers. They consider that it has gained importance as a matter of concern on intrinsic grounds, while the use of gender gaps as a macroeconomic variable has been recently embraced by the economists.

The discrimination toward women in fundamental rights, education, access to credit, participation in the public life and employment could not only harm the women concerned, but also could impose a cost on the entire society.

If we ask why the gender equality for Europe is so necessary, we can say that the promotion of gender equality is not only essential for development, but also, it is an instrument for setting in motion the development. Economic research also shows that investments in gender equality can stimulate economic growth, thus expanding the resource pool to be able to continue development and growth.

Unfortunately, in many EU Countries, women have less access to education, health and employment opportunities than men.

*Acknowledgement: This work was supported by the project "Excellence academic routes in the doctoral and postdoctoral research – READ" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/159/1.5/S/137926.*

## 6. References

- [1]. Anand, S.; Sen, A. - "Gender inequality in Human Development: theories and measurement", *Occasional Paper 19, UNDP*, New York, 1995;
- [2]. Klasen, S. "Low schooling for girls, slower growth for all? Cross-country evidence on the effect of gender inequality in education on economic development." *World Bank Economic Review* 16(3): 2002, p. 345-373;
- [3]. Klasen, S., Lamanna, F. "The impact of gender inequality in education and employment on economic growth: new evidence for a panel of countries." *Feminist Economics* 15(3), 2009, p.91-132;
- [4]. Seguino, S.; Berik, G.; Rodgers, Y. "Promoting Gender Equality as a Means to Finance Development", *Friedrich Ebert Stiftung, Berlin*, 2010;
- [5]. Stewart, F. "Horizontal inequality: A Neglected Dimension of Development.", *WIDER annual lecture 5. UNU-WIDER*, Helsinki, 2002;
- [6]. Woodroffe, J.; Esplen, E. "Gender equality and the post-2015 framework." *Gender and Development Network*, 2012;
- [7]. *Gender Equality Index Report*, European Institute for Gender Equality, 2013;
- [8]. Human Development Report 2013;
- [9]. Human Development Report 2014.

# The Gender Equality Index and the Gender Gaps for EU Countries

Moise – Titei Adina

*Ovidius University of Constanta, Faculty of Economic Sciences*  
[adinatitei@yahoo.com](mailto:adinatitei@yahoo.com)

## Abstract

*The European Institute for Gender Equality developed a specific index for measuring how equal women and men are in the EU countries, including in their analysis six core domains. In this present article we want to bring to attention the gender gaps in the EU countries, which represent the difference in the levels of achievement between women and men. We also want to highlight the ranking for different aspects aimed at gender equality and investigate the available solutions to promote women activities for the general progress.*

**Keywords:** gender equality, human development, composite indices

**J.E.L. Classification:** O10, O15

## 1. Introduction

Gender inequality issues covered international concerns and ensured gender equality is an essential condition for human development. In recent years, all the international debates, which have the human development as theme, brought into question the inequalities in the opportunities of women and men.

Social observers have long noted that the status of women and overall socio-economic development tend to go hand-in-hand. On the one hand, in the poorest countries, as a rule, girls get less education than boys, there is less investment in women's health than in men's, legal rights of women in the economy and in marriage are weaker than men's rights, and women have less political power. On the other hand, when they tried to identify special factors that determine gender inequality and their influence, they highlighted the fact that it can be explained to a considerable extent by religious

preference, regional factors and civil freedom. [1]

Over time, in an attempt to measure gender inequalities, numerous composite indicators have been developed. United Nation Development Program has developed three of them, namely *Gender Development Index*, which takes into account educational attainment, longevity and income; *Gender Empowerment Measure*, targeting participation in governmental, managerial decision-making and participation in professional roles and in economic activities in general; *Gender Inequality Index* which include information about labour marketing, empowerment and reproductive health.

World Economic Forum developed an indicator named *Gender Gap Index*, which takes into account economic participation and opportunity, educational attainment, health and survival and political empowerment.

Other indicators are *Gender Equity Index* developed by Social Watch, *Social Institutions and Gender Index* developed by the Organisation for Economic Co-operation and Development and Inequality-adjusted Human Development Index also developed by the United Nation Development Program.

In the year 2013, the European Institute for Gender Equality published Gender Equality Index Report, as of the result of three years of work by various contributors. Its role was to quantify the magnitude of gender based disparities and also to reveal those EU countries that are role models in dividing resources equitably between women and men, regardless of their initial level of resources. The Gender Equality Index will be updated every 2 years.

All these indicators enhance the importance of gender equality for human development and economic progress.

## 2. Calculating the Gender Equality Index

The Gender Equality Index is a measure obtained by compiling individual indicators on the basis of an underlying model of the multi-dimensional concept that is being measured. It uses a database of variables that are valid, easily interpreted, sex-disaggregated, harmonised at EU, available over time and complete for all Member States level [4]. Also, the construction of composite indicator used is based on the widespread and internationally accepted procedure developed by the OECD and the European Commission's Joint Research Centre [2].

The starting point for computing gaps between women and men is:

$$\gamma(x_{it}) = \left| \frac{\tilde{x}_{it}^w}{\tilde{x}_{it}^a} - 1 \right| \quad (1)$$

where the calculation is carried out for the variable  $X$  for the  $i$ -th country in the period  $t$  in order to obtain the percentage that women  $\tilde{x}_{it}^w$  represent over the total average for both sexes. In this way  $\gamma(x_{it})$  always identifies the gender equality point at 0. In fact, for reasons of interpretability, it is reversed by relation:

$$1 - \gamma(x_{it}) \quad (2)$$

where the value 1 means complete gender equality and any value below that indicating a proportional lack of gender equality in a given indicator.

The first formula is used to compute gender gaps for all the indicators included in the database. After that, a correcting coefficient is applied following the equation:

$$\alpha_{x_{it}} = \frac{\tilde{x}_{it}^a}{\max \tilde{x}_{it}^a} \quad (3)$$

where  $\max \tilde{x}_{it}^a$  represents the maximum value of the average or total of each variable used for the correction.

The final metric  $\Gamma_{x_{it}}$  is computed using gender gaps (equation 2) and the correcting coefficient (equation 3).

$$\Gamma_{x_{it}} = 1 + \left[ \alpha_{x_{it}} \cdot (1 - \gamma(x_{it})) \right] \cdot 99 \quad (4)$$

After the treatment and transformation of all potential indicators into comparable gender gaps, the next step involves choosing the final dataset for the Index calculation.

Choosing the set of indicators to be included in the index is a crucial step. In this sense multivariate analysis results are used, making sure that the data refer to the same year.

In conclusion, for the construction of Gender Equality Index, the deciders have to take numerous decisions, with references to the imputation of missing data, as well as the methods used for weighting and aggregation. Also, the final score for each country and the position in ranking depend on the used method.

## 3. The gender gaps for EU countries - some comparisons

The Gender Equality Index allows comparison between countries in terms of gender equality and it is meaningful for various policy areas of analysis. The usefulness of the Index derived from the objectives of the European Commission and it aims to provide a synthetic measure of gender equality, a tool to support decision-makers in assessing how far a given Member States is from reaching gender equality.

The main domains covered by the Index of Gender Equality are work, money, knowledge, time, power and health. As we mentioned above, the Index values and its components are between 100 and 1, where value 100 means absolute equality between women and men. Among EU Countries, Sweden is the country in which we find the highest gender equality, with a Gender Equality Index value of 74.3, while in Romania the value of Index 35.3 registers the lowest equality.

Table 1- Scores of the Gender Equality Index

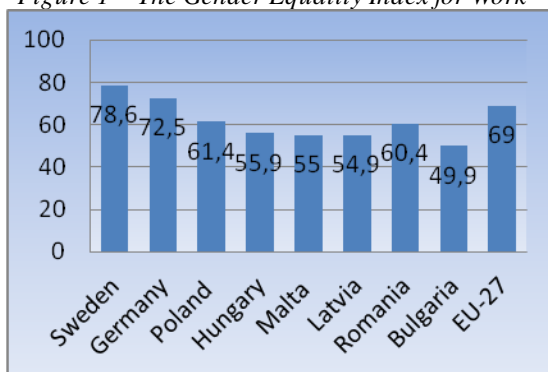
Country	Index Value	The Relative Distance to EU average (%)
<b>Sweden</b>	74.3	37,59
<b>Denmark</b>	73.6	36,30
<b>Finland</b>	73.4	35,93
<b>Netherlands</b>	69.7	29,07
.....	.....	.....
<b>Italy</b>	40.9	-24,26
<b>Greece</b>	40.0	-25,93
<b>Bulgaria</b>	37.0	-31,48
<b>Romania</b>	35.3	-34,63
<b>EU-27</b>	54.0	-

Source: [www.eige.europa.eu](http://www.eige.europa.eu)

The work domain means the position of women and men on the European labour market and it takes into consideration three subdomains: participation, segregation and quality of work, which are measured with six indicators, showing a mixed picture in gender terms. On average, men in the EU have more flexibility in their working life although this is highly adjusted by employment activity sectors.

Here Romania registered an Index value of 60.4, much higher than Bulgaria with 49.9, but we are still below the EU average.

Figure 1 – The Gender Equality Index for Work



Source: [www.eige.europa.eu](http://www.eige.europa.eu)

Female employees are more likely to work in temporary and part-time jobs, and less likely to be promoted. Contemporary development strategies can strengthen patriarchal institutions, expose women to exploitative production practices, and force them into low-paying jobs—all of which undermine gender equality [3].

In the domain of money, Romania is on the last place in Europe, with a value of 39.0 for this domain. The situation is not good in the rest of Europe either. With a score of 68.9 on average the EU-27 is two-thirds of the way in achieving gender equality.

In 2010, throughout the EU, women earned less and received less income than men, with a progress in closing the gender gap very slow.

For measuring gender equality in terms of money, the sub-domain of the financial resources is investigated with indicators which define the gaps in earnings, as well as in disposable income. For the sub-domain of economic distribution, the gaps are measured in terms of income distribution and the risk of poverty.

Analysing the results for money domain for EU countries, it is likely that this score actually underestimates the true extent of the gap between women and men when it comes to the share of income. It is possible that the available gender indicators ignore the power relations between women and men, which can lead to an unequal sharing of income within households. [2]

The domain of knowledge examines differences between women and men in education and training. The two sub-domains measured are, on the one hand educational attainment of segregation and, on the other hand, lifelong learning.

Again, Romania has the lowest score. The value 28.8 positions our country half the way towards gender equality for the EU.

Table 2 – Gender Equality Index scores for the domain of knowledge

Country	Index value for knowledge	The Relative Distance to EU average (%)
<b>Denmark</b>	75.1	26,2
<b>United Kingdom</b>	68.8	19,9
<b>Finland</b>	67.0	18,1
<b>Poland</b>	44.0	-4,9
<b>Hungary</b>	35.1	-13,8
<b>Bulgaria</b>	32.0	-16,9
<b>Romania</b>	28.8	-20,1
<b>EU-27</b>	48.9	-

Source: [www.eige.europa.eu](http://www.eige.europa.eu)

In conclusion, we can state that for the domain of knowledge, the EU Member States have only attained the middle point towards gender equality with a mean value of 48.9 at total level, showing that this one remains unequal in terms of gender.

The domain of time measures the inequalities in the division of time between women and men, the allocation of time spent between economic, care and social activities. The obtained values for this one show us that there are very important differences between women and men in the division of time spent on care and social activities.

The average value for EU level is only 38.8 and four countries obtained scores below 20.0. These are Bulgaria, Greece, Slovakia and Romania. On the top of the ranking is the Netherlands with the maximum value of 71.3.

After comparing the index values for the two sub-domains, we can say that the average index for EU is higher for the equality in the sub-domain of care activities, than in the sub-domain named social activities. This trend exists in most EU countries, with the exception of the Netherlands, Finland, Germany and Austria.

The domain of power is represented by the indicators such as ministerial representation, parliamentary representation and regional assemblies representation, to measure the political sub-domain. To measure the economic sub-domain the indicators members of boards and members of central bank are used.

Analysing the values of the index we can observe that in this domain exists a significant deficit in gender equality, confirmed by the average score of 38.0 at EU level. Sweden has the maximum score with value of 74.3; seven countries have the index value higher than the average value, but the other countries have values in falling, until a minimum of 12.2 for Cyprus.

The last domain examines issues related to gender and health. It is a simultaneous measurement of health status and health access. It is an area for which the index records the highest value at EU level. The average value of 90.1 reflects both the small gender gaps and the low level of unmet needs that characterise health provision in the EU.

All the countries have registered the values upper than 80.0, which can lead us to believe that in this domain women and men are almost equal. But, in fact, the challenge in this area is to ensure a good health for all the people.

#### 4. Conclusions

The problems of gender equality came to the attention of audiences in the last 50 years, but they are mainly discussed in the last 20 years. Measuring the size of the problem is a prerequisite for identifying the best solutions, because gender equality provides fairness and justice between women and men in relation to the share of benefits and responsibilities.

Generally, the concept of equality is not specifically dedicated to the gender equality, but rather to social equality, providing a possible approach to determine relevant

domains of gender equality. Obviously, the gender equality is almost always recognised as vital to economic growth, prosperity and competitiveness. From the value and social justice perspective, empowering women and providing them equal rights and opportunities for fulfilling their potential is long overdue. From a business, economy and competitiveness viewpoint gender equality is a necessary condition for progress.

Approached from multiple points of view, gender equality aims to achieve the equality of participation and opportunity, which facilitates diversity of thoughts opinions and approaches, because gender gaps are pervasive across the whole world and does not avoid the EU countries.

The Gender Equality Index (GEI) shows that the EU is half-way towards gender equality. The range of index scores reveals the broad scale of variation throughout the EU in terms of gender equality achieved overall. There is, of course, much room for improvement especially in the domains of work and economic independence.

Unfortunately, as you see, the gender inequality is still a problem not only for the countries with low human development but also for EU countries.

*Acknowledgement: This work was supported by the project "Excellence academic routes in the doctoral and postdoctoral research – READ" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/159/1.5/S/137926.*

#### 5. References

- [1] Dollar, D., Gatti, R. - *Gender Inequality, Income, and Growth: Are Good Times Good for Women?*, Policy Research Report on Gender and Development, Working Paper Series, No. 1, The World Bank Series, 1999;
- [2] Nardo, M. M., et all - *Handbook on Constructing Composite Indicators: Methodology and User Guide*, OECD, European Commission, Joint Research Centre, 2008;
- [3] Tinker, I.; Bo Bramsen, M. - *Women and World Development*. Washington, D.C.: Overseas Development Council, 1976;
- [4] *Gender Equality Index Report*, European Institute for Gender Equality, 2013;

## Analysis of Fiscal Policy Measures during 2005 - 2013. The Case of Romania

Moraru Camelia

Academy of Economic Studies, Bucharest

[cami.moraru@yahoo.com](mailto:cami.moraru@yahoo.com)

Popovici Norina

„Ovidius” University, Faculty of Economic Sciences, Constanta

[norinapopovici@yahoo.com](mailto:norinapopovici@yahoo.com)

### Abstract

*The latest economic and financial crisis highlights the need for fiscal policy to correct macroeconomic imbalances. Although in recent decades, policy makers have resorted to monetary to mitigate external shocks, this time, fiscal policy plays the main role in the context of economic recovery. Fiscal policy is the main tool used by the government to influence the economy, to make changes in taxation and execution of budget expenditures area. Authorities control, through this instrument, macroeconomic variables such as aggregate demand, disposable income, or in other words, overall economic activity, taking into account the business cycle phases.*

**Keywords:** growth, fiscal consolidation, sustainability

**J.E.L. Classification:** E61, E62

### 1. Introduction

Restoring growth is a challenge for Romanian Government, which must apply fiscal measures, in order to continue the positive trend of GDP without damaging the sustainability of public finances. Romania was strongly affected by the economic crisis which began in 2008. Although the government measures were taken, the Romanian economy return to growth has been slow and lengthy due to poor functioning of the engines of economic growth.

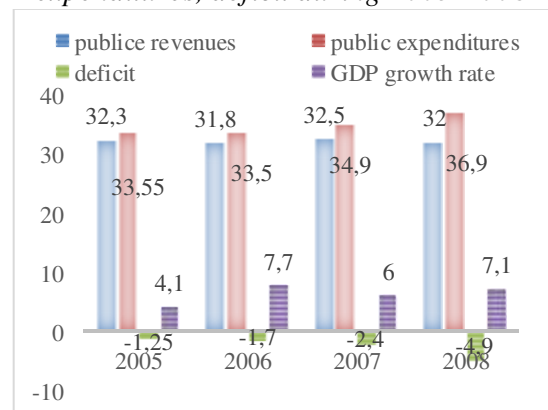
For an economy like Romania, an emerging one, it is important that fiscal and budgetary policies to act as engines of

economic growth. It is already known that Romania is a country with: poor economic performance reflected by the low scores of global competitiveness index of 4.08 in 2011 (position 77 out of a total of 142 countries), down by 10 positions from 2010; fiscal and macro-financial high risk (about 0.7 according to the European Commission); exposure to huge fiscal and external budget risk.[1]

### 2. Fiscal policy during 2005-2008 (economic boom)

During 2005-2008, Romania was ranked among the countries with the highest economic growth in Europe. To accelerate growth, the government chose to cut taxes from 1 January 2005. The year 2005 is the year of introduction of the flat tax in Romania, which meant mainly a lower rate of corporation tax from 25% to 16%, and a flat tax on personal income to 16%.

Figure 1. Evolution of GDP, revenues, expenditures, deficit during 2005-2008



Source: processed data from [mfinante.ro](http://mfinante.ro)

This was actually a fiscal relaxation in

order to increase net income to boost purchasing power to encourage demand and attracting foreign direct investment. Also, tax on dividend was doubled, share reaching 10% and income tax on microenterprises increased from 1.5% to 3%.

Statistics have shown that GDP has experienced an impressive growth averaging 6.43% between 2005 and 2008, growth correlated with increased spending, doubled in nominal terms over the same period.

Table 1. Fiscal policy measures during 2005-2008

Measure	Role	Effect
Decrease in income tax from 25% to 16%	Increase in net income Encouraging demand Attracting FDI	To accelerate economic growth
Establishing income tax to 16%		
Dividend tax is doubled, reaching 10%		
Enterprises' income tax was doubled from 1.5% to 3%		

Source: own processing

With the introduction of the flat tax on wages, it is noted that fiscal policy changes direction from social issues area to economic interests, thus highlighting the role of leverage in detrimental of sewer role of this indicator.

In Romania, the application of the flat tax of 16% in 2005 resulted, on medium term, to an economic growth, driven by three factors: (i) appearance of dark economy, (ii) increasing private consumption due to high net wage, (iii) increasing investment by companies. However, as costs have increased significantly in upturns, fiscal policy had no room for maneuver at the beginning of the economic crisis.

Upon entering the crisis, Romania had an unfavorable macroeconomic situation. Apart from Latvia, Romania was heavily dependent on foreign capital inflows, both in public and private sector. High twin deficits (real budget deficit of 5.4% GDP and the current account deficit of 13% GDP in 2008) led to the contraction of the private sector and

increasing public debt, due to reduced revenues.

### 3. Fiscal policy in the recession 2009 – 2011

The effects of the global crisis arrived in Romania in late 2008. For Romania, the effects of financial crisis were felt indirectly in the economy, but the impact was major. The close connection of Romanian economy with international economic flows (real and capital) favored during 2000-2008 the catching-up process, but spread of the financial crisis from the US to Europe also affected the Romanian economy [3].

Much of the world's countries had to adopt during 2009 - 2011, a series of measures to combat the negative effects of the financial crisis that affected the entire planet. Government measures promoted, regardless their nature, had the aim reducing the undesirable effects of economic contraction in business. Even though anti-crisis government programs in the world have been ambitious, studies show that the real effect of the programs on the economy is directly linked to governmental efficiency and the ability to quickly enter resources within means of production.

As the economic crisis has been particularly severe in 2009, the government chose to impose considerable fiscal restrictions, which aimed at reducing costs and increasing the tax burden, particularly through the introduction of lump tax rate, called minimum tax and the reduction of tax deductibility. These measures have led to lower spending on goods and services [2].

During 2010, it was intended to reduce the budget deficit to 5.9% of GDP (target subsequently revised to 6.8% of GDP), and for this to be achieved, fiscal policy has become even more restrictive and has promoted a bold package of fiscal consolidation, that concerned:

- temporarily decrease of public wages by 25%
- the decrease of social spending by 15%;
- the increase of VAT rate at 24%, respectively with 5 percentage points.

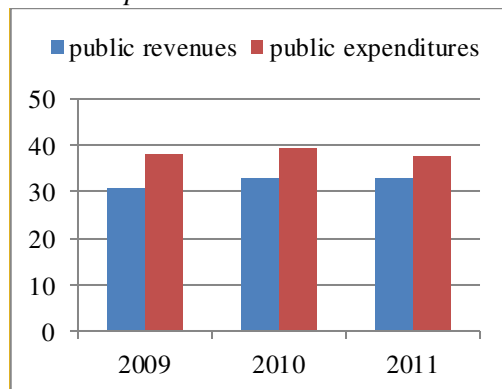
The ambitious building program was focused on increasing the rate of VAT, but the tax collection efficiency remained low.

For example, the efficiency rate of collecting VAT and social contributions in Romania (ratio between default rates and legal) are among the lowest in Eastern Europe countries, respectively 52% for VAT (compared to 90% in case of Estonia or 71% in case of Bulgaria) and 65% for social contribution.

These fiscal measures continued in 2011, resulting in a contraction in the demand for goods and services and hence the demand for bank loans.

Measures applied had the expected results, as demonstrated by the amount of budget revenues reached.

Figure 2. The evolution of income and expenditure in 2009-2011



Source: own processing

Budget revenues have increased by 7.2% in 2010, due to increased revenues from indirect taxes, the main factors being VAT revenues (up 14.3% than the previous year) and excise (increase of 11.5 % than the previous year). This increase reflects the increase in the VAT rate and the efforts of policy makers to combat tax evasion.[5]

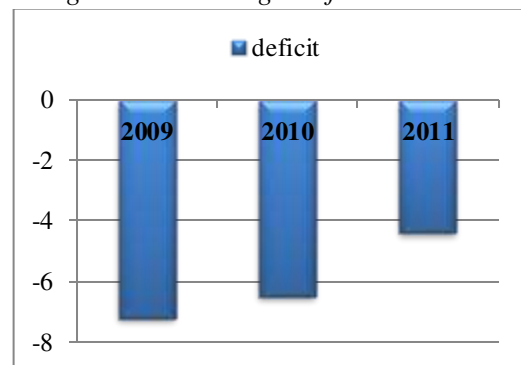
In terms of budget expenditures, they showed a higher rate of growth, even if the personnel expenses were reduced by 8.6% compared to 2009 and capital decreased by 11.7% from 2009.

Budget deficits accumulated during economic expansion and the decrease of GDP real by 7.3% led to an increase in the budget deficit to 8.3% in 2009, compared to 5.4% of GDP in the previous year.

In 2009-2010, the budget deficit registered a significant increases. The causes behind this increase are: reduced economic output, lower budget revenues amid by the economic crisis, increasing the share of the

shadow economy, excessive spending for the fulfillment of social programs, institutional factors and political instability.

Figure 3. The budget deficit in 2009-2011



Source: own processing

Since the budget deficit has reached a peaked in 2009, the government proceeded to implement austerity measures, which have resulted in diminishing from year to year, this indicator. Thus, this index in 2011 was 5.5% of GDP (31.97 billion lei), down to the value reached in the previous year, 6.8% of GDP.

Through the tax increases and spending cuts of the recession, the government sought to improve budget balance, which, on the contrary suffered a deep decline.

Table 2. Fiscal policy measures during 2009-2010

Year	Fiscal policy decisions	Effects
2009	Change in excise duties	The measure is wrong, according to economic theory, during crisis is not efficient to increase taxes. Incentive for evasion. Was affected the level of revenues
	The introduction of minimum tax	More than 250.000 SMEs have completed their work.
	Limiting cars and fuel costs	Appropriate measure for period of boom, not crisis. Measure negatively influenced the automotive market, however hard affected by the crisis.
	Introducing the concept of inactive taxpayer	Sanitizing business environment
2010	Increased tax revenue from gambling by 5	Neutral measure, the number of premises being lower than in the



<i>percentage points</i>	<i>past</i>
<i>VAT was increased to 24%</i>	The measure lead to a deapest crisis, causing to a decrease in consumption (Romania = only EU country where consumption declined 6 years in a row), intensified evasion. The additional amounts collected were used to hold the deficit in financing limits.
<i>The increase of some taxes (cars, buildings)</i>	The measures are widening crisis affecting the automotive market, discourages investment in buildings (the active form of saving).
<i>Eliminating minimum annual tax</i>	It creates two separate fiscal periods.
<i>15% reduction in social spending</i>	Budget revenues in 2010 recorded growth
<i>Reduction in public sector wages by 25%</i>	Budget revenues in 2010 recorded growth

Source: own processing

Regarding the minimum annual tax payable by companies, was introduced as a measure against tax evasion, but sparked controversy among the people regarding the negative effects that it has generated on short term and its existence was a short one [6].

#### 4. Fiscal policy during 2012-2013

In 2012 fiscal policy was balanced and prudent, with character well-defined and objectives and targets well-defined: further fiscal consolidation to ensure sustainable budget deficit targets; keeping public debt to a sustainable level on long term; implementing policies to reduce and prevent the emergence of arrears.

In 2013 fiscal consolidation action continued, through rising incomes at a faster rate than the increase in costs, with a package of fiscal measures targeted at broadening the tax base and the principle of solidarity. Fiscal consolidation package aimed mainly at increasing revenues, whose level was the lowest in the European Union, as a share of GDP. Surplus income due to the tax measures was oriented towards investment expenditure (1.8 billion lei) and to reduce the budget deficit (1.1 billion lei)[7].

Also, emphasis was placed on reducing wastage costs and payment arrears in transport infrastructure and health, but also on the proper management of public debt.

Measures taken in 2012-2013 to boost growth are:

1. increase household incomes by rosing with 7.4% of public wages, thus salaries are reunificated from the reduction by 25% in 2010;

2. increase of minimum wage to 750 lei (February, 1st 2013) and then 800 (June, 1st 2013);

3. pensions indexing by 4%;

4. financing investment from funds attracted from the EU in order to increase their effectiveness. Investment spending in 2013 represents 5.9% of GDP and 16.6% of total spending, but for 2016 are expected to be 7.8% of GDP and 21.8% of total expenditures;

5. increase of 55.000 jobs according to the project budget;

6. state aid for investments in the economy.

#### 5. Conclusions

Fiscal measures are considered unable to counteract the negative effects of the financial crisis, if not included in a package of other economic measures. In other words, fiscal policy must be combined with other macroeconomic policy, mix of measures being adopted by many different countries.

An optimal package of fiscal measures should be characterized by its application in a timely manner (the need for action is immediate); duration (the crisis will persist for a long period of time); diversified (single tax measure is accompanied by a high degree of uncertainty); quota (the need to prevent another great depression involves a commitment to do more); collectively (each state has a tax system involving measures) and sustainable (not to lead to a debt explosion and adverse reactions of financial markets) [4].

To create an optimal set of tax measures must take into account several factors such as the rapid adoption and implementation of these. Regarding the duration of the impact, most arguments are in favor of adopting transitional measures because they are more efficient in terms of liquidity's constraints.

These transitional measures have an impact on current prices and on future consumption. Fiscal policy decisions are always based on information available at the time, in real time. Most of the time the results are partial and are regularly reviewed, so that fiscal policy can have different results than those obtained finally in real time.

## 6. References

- [1] Câmpeanu, E., Pădurean, E., (2011). Fiscal Shocks and the Reaction of Automatic Stabilizers, *Journal of International Scientific Publication: Economy and Business*, 5(3), 476-488;
- [2] Dornean, A., Oanea, D.C., (2013). Foreign Direct Investment and Post Crisis Economic Growth. Evidence from European Union, *Economic Paper* 65(6), 46-60;
- [3] Dornean, A., Işan, V., Oanea, D.C., (2012b). The impact of the recent global crisis on foreign direct investment. Evidence from Central and Eastern European Countries, *Procedia Economics and Finance*, 3, 1012-1017;
- [4] Easterly, W., Rebelo, S., (1993). Fiscal Policy and Economic Growth: An Empirical Investigation. *Journal of Monetary Economics*, 32, 417-458;
- [5] Moraru, C., Popovici, N., (2013). The Impact of Budgetary Revenues on Economic Growth. Study Case: Romania, *Ovidius University Annals Economics Sciences Series*, XIII (2), 322-326;
- [6] Richard, W. K., Geoffrey, M. B. and Robert, K. T. (2009); "The Macroeconomics of Fiscal Policy", Cambridge, MIT Press;
- [7] Spilimbergo, A., Symansky, S., Blanchard, O., Cottarelli, C., (2008). Fiscal Policy for the Crisis, *IMF State Position Note*.

\*\*\* [www.mfinante.ro](http://www.mfinante.ro)

\*\*\* [www.ec.europa.eu](http://www.ec.europa.eu)

## Acknowledgement

*This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.*

# There is a Connection Between Wages and Human Capital in Romania?

Neagu Olimpia

"Vasile Goldis" Western University of Arad

[olimpian2005@yahoo.com](mailto:olimpian2005@yahoo.com)

## Abstract

*The paper investigates the link between the level of wages and salaries and human capital of employed population. The paper proposes an analysis at macroeconomic level in two steps: firstly, by extracting the volume of wages and salaries from GDP (income approach) and secondly using the wages indice. In both cases, through a linear econometric model, we demonstrated a strong, statistically validated link between wages and educational level of employed population in Romania*

**Key words:** wages and salaries, human capital

**J.E.L Codes:** J31, J24

## 1. Introduction

To find an answer to the question if wages reflect or not the human capital endowment of an economy is a concern of economists as well as of policy makers. Economists' concern is to find the most expressive proxies for human capital and evidence to argue the relationship with wages and policy makers are interested in effectiveness of their economic measures regarding labour market and human capital accumulation.

It is well known that in Romania the wages and salaries have continually increased since 1990. But we don't know if this evolution is correlated or not with educational level of labour force.

In order to bring a contribution to clarify this dilemma, the paper aims to investigate the influence of educational level of employed population, as expression of human capital, on wages and salaries, in two measurements, as aggregate income and as growth indices.

The paper is organised as follows: after a short literature review on human capital and

earnings, data and methodology of the study are exposed in the section 3 and main findings are described in the section 4 and the last section is dedicated to conclusions.

## 2. Literature review

The impact of human capital in earnings has been investigated in numerous studies in the economic literature.

The modern research on human capital was predominated by the investigation of the relationship between human capital and earnings. Jacob Mincer [1],[2],[3],[4], Gary S. Becker [5] and their followers were focused on highlighting the human capital investments costs (inclusively time), analyzed the investments during compulsory and post-compulsory education and they formalized the optimisation rules of choices in such investment and they estimated the relation between wages and education. For example, according to Mincer [3], the log of individual earnings is a linear dependence of schooling years.

Later on, in '70s the focus of researchers was directed to the relationship between earnings distributions and human capital theory, leading to a valuable work authored by Griliches and Mason [6], Welch [7], Blaug [8] and Rosen [9].

There were several studies highlighting partial positive correlations between earnings and education and nutrition [10], [11]. Other studies were focused to argue that the education investment costs is returned by higher wages on the labour market [12].

A large debate was maintained across several studies around the problem of human capital measurement. The discussions and findings on this topic are very well summarized by Wößmann [13] and Folloni and Vitadini [14].

### 3. Data and methodology

The dependent variables proposed to be investigated are wages and salaries costs and wages indices. The values of wages and salaries costs in Romania at current prices (in millions Euro) for the period of 1997-2013 are collected from EUROSTAT data base, from the section displaying the components of GDP in the income approach (nama\_10\_gdp tabel). The values of wages indices for the same period, with the year of 1996 as reference (=100), were collected from NISE data (TEMPO Online series: TEMPO\_FOM110A tabel).

Our explanatory variable is human capital. We propose as proxy of human capital an educational index reflecting the educational level of employed population.

$$EDI_i = \frac{Q_{1i} \cdot 1 + Q_{2i} \cdot 2 + Q_{3i} \cdot 3}{3} \quad (1)$$

where: EDI is the educational index for the year i,  $Q_{1i}$  is the share of the primary educated in the employed population,  $Q_{2i}$  is the share of the secondary educated in the employed population and  $Q_{3i}$  is the share of tertiary educated people in the employed population.

The values of total employed population, primary (0-2 ISCED level), secondary (3-4 ISCED level) and tertiary (5-6 ISCED level) educated employed people were collected from EUROSTAT data base.

The empirical investigation is based on the following regression equations:

$$W_i = C + EDI_i \cdot c_1 + \varepsilon \quad (2)$$

where:  $W_i$  is the value of wages and salaries in the year i,  $EDI_i$  is the educational index,  $c_1$  is regressor parameter, C is the intercept and  $\varepsilon$  is the error.

$$I_{W_i} = C + EDI_i \cdot c_1 + \varepsilon \quad (3)$$

where:  $I_{W_i}$  is the wages indice for the year i related to the year of 1997 (=100).

Both equations were estimated by Ordinary Least Squares (OLS) and the hypotheses regarding the heteroscedasticity, autocorrelation and normality of errors were verified.

### 4. Main findings

The regression results of the estimation of equation 2 are displayed in the Table 1.

Table 1 Estimation results, equation 2

Dependent Variable: WAGES				
Method: Least Squares				
Sample: 1997 2013				
Included observations: 17				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-287114.8	31189.45	-9.205511	0.0000
EDI	495993.7	49450.68	10.03007	0.0000
R-squared	0.870245	Mean dependent var		25505.35
Adjusted R-squared	0.861594	S.D. dependent var		12727.12
S.E. of regression	4734.856	Akaike info criterion		19.87342
Sum squared resid	3.36E+08	Schwarz criterion		19.97145
Log likelihood	-166.9241	Hannan-Quinn criter.		19.88317
F-statistic	100.6023	Durbin-Watson stat		1.061875
Prob(F-statistic)	0.000000			

Source: author's own computation

The model is statistically validated due to the fact that the value of Prob. (F-statistic) is 0.000000 lower than 0.05, the statistical significance threshold. The value of F-statistic is  $100.6023 > 4.49 (F_{0.05,1,16})$  meaning that the hypothesis according to which the model is not valid is rejected and the conclusion is that the model is statistically validated.

The independent (explanatory) variable is statistically validated because the value of Prob is 0.0000 lower than 0.05, the statistical significance threshold.

The value of R-squared coefficient (0.8702) shows that 87.02% of the variation of wages can be explained by the influence of educational level of employed population.

The value of adjusted R-squared coefficient is 0.8615, close to the value of of R-squared coefficient, showing that the sample is representative for a concise reflection of the reality.

As a conclusion of the above lines, we identified a validated strong and positive correlation of wages with human capital.

The estimated equation is:

$$W = -287114.8 + 495993.7 \cdot EDI \quad (4)$$

The value of  $c_1$  is 495993.7, meaning that, when human capital of employed population increases with one unit, the level of wages can raise with 495993.7 monetary units at a

standard error of 49450.68. The Prob. value is  $0.0000 < 0.05$ , in conclusion this parameter is statistically significant.

Table 2 -White test, equation 2

Heteroskedasticity Test: White				
F-statistic	0.540029	Prob. F(2,14)	0.5944	
Obs*R-squared	1.217568	Prob. Chi-Square(2)	0.5440	
Scaled explained SS	1.286675	Prob. Chi-Square(2)	0.5255	
Test Equation:				
Dependent Variable: RESID^2				
Method: Least Squares				
Sample: 1997 2013				
Included observations: 17				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.12E+09	8.25E+09	-0.498804	0.6257
EDI^2	-9.94E+09	2.09E+10	-0.475886	0.6415
EDI	1.28E+10	2.63E+10	0.488546	0.6327
R-squared	0.071622	Mean dependent var	19781350	
Adjusted R-squared	-0.061004	S.D. dependent var	33595477	
S.E. of regression	34605034	Akaike info criterion	37.71568	
Sum squared resid	1.68E+16	Schwarz criterion	37.86272	
Log likelihood	-317.5833	Hannan-Quinn criter.	37.73030	
F-statistic	0.540029	Durbin-Watson stat	2.087501	
Prob(F-statistic)	0.594395			

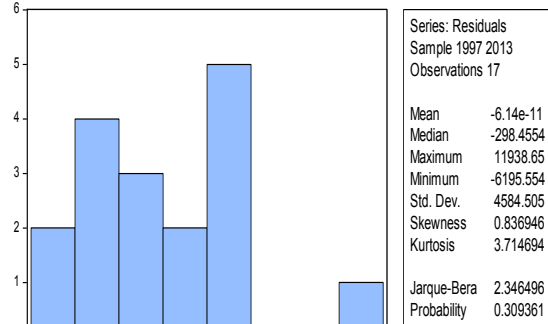
Source: author's own computation

We verified the hypothesis of errors heteroscedasticity by applying the White test. The results are displayed in the Table 2. The null hypothesis, according to which the estimation results are not significant, is accepted. The hypothesis of homoscedasticity is confirmed because  $F=0.540029 < F_{0,05;1,16}=4.49$ . Furthermore, the value of ObsR-squared (1.217568) is lower than  $\chi^2_{0,05;2}(5.99)$ , meaning that the errors are homoscedastic.

Using the Durbin-Watson test (see Table 1), for a number of 17 observations,  $\alpha = 0.05$ ,  $k=1$  independent variable, we find  $d_1 = 1.13$  and  $d_2 = 1.38$ . The value of Durbin-Watson test is 1.061875.  $d_1 = 1.13 > 1.061875$  meaning that the null hypothesis is rejected, the errors are positively autocorrelated.

In order to verify the normality hypothesis of errors, we use the Jarque-Bera test (Figure 1). The value of JB test (0.309361) is lower than the  $\chi^2_{0,05;2}(5.99)$ , meaning that the null hypothesis is accepted, the errors are following a normal distribution.

Figure 1-Normality test of errors



Source: author's own computation

As we can notice from the Table 3, the model is statistically validated because the value of Prob is  $0.0000 < 0.05$  the statistical significance threshold.

Table 3 Estimation results, equation 3

Dependent Variable: IRW				
Method: Least Squares				
Sample: 1997 2013				
Included observations: 17				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-893.1059	84.94881	-10.51346	0.0000
EDI	1616.425	134.6858	12.00145	0.0000
R-squared	0.905681	Mean dependent var	125.7118	
Adjusted R-squared	0.899393	S.D. dependent var	40.65767	
S.E. of regression	12.89604	Akaike info criterion	8.061849	
Sum squared resid	2494.618	Schwarz criterion	8.159874	
Log likelihood	-66.52571	Hannan-Quinn criter.	8.071593	
F-statistic	144.0348	Durbin-Watson stat	0.896070	
Prob(F-statistic)	0.000000			

Source: author's own computation

Furthermore, the value of F-statistic, 144.0348 is lower than 4.49 ( $F_{0,05;1,16}$ ), concluding that the null hypothesis is rejected and the model is statistically validated.

In a proportion of 90.58% the variance of wages indice can be explained by the variance of educational endowment of employed population (the value of R-squared is 0.90581).

The sample is representative for a concise reflection of the reality due to the value of adjusted R-squared (0.89939) very close to that of R-squared (0.90581).

The explanatory variable is validated due to the value of corresponding Prob. (0.000) lower than 0.05.

As conclusion, we found a validated strong and positive correlation of wages indice with human capital.

The estimated equation is:

$$W = -893.1059 + 1616.425 \cdot EDI \quad (5)$$

Applying the White test to verify the hypothesis of errors' heteroscedasticity (Table 4), we notice that F-statistic is lower than 4.49 ( $F_{0,05;1,16}$ ). This means that the null hypothesis is accepted and, further we find that the value of ObsR-squared (2.806827) is lower than  $\chi^2_{0,05;2}$  (5.99), meaning that the errors are homoscedastic.

Table 4 -White test, equation 2

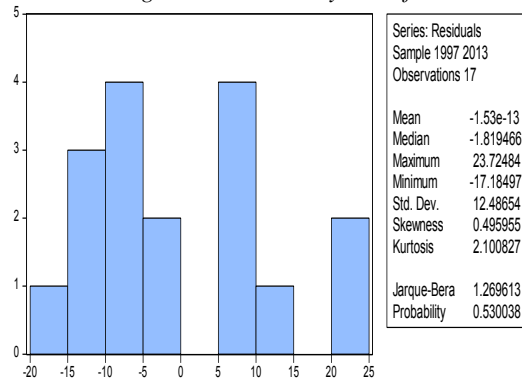
Heteroskedasticity Test: White				
F-statistic	1.384312	Prob. F(2,14)	0.2828	
Obs*R-squared	2.806827	Prob. Chi-Square(2)	0.2458	
Scaled explained SS	1.202789	Prob. Chi-Square(2)	0.5480	
Test Equation:				
Dependent Variable: RESID^2				
Method: Least Squares				
Date: 11/06/14 Time: 21:46				
Sample: 1997 2013				
Included observations: 17				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-44851.58	36978.27	-1.212917	0.2452
EDI^2	-110918.6	93593.80	-1.185106	0.2557
EDI	141398.8	117728.7	1.201056	0.2497
R-squared	0.165107	Mean dependent var	146.7422	
Adjusted R-squared	0.045837	S.D. dependent var	158.7008	
S.E. of regression	155.0210	Akaike info criterion	13.08378	
Sum squared resid	336441.0	Schwarz criterion	13.23082	
Log likelihood	-108.2122	Hannan-Quinn criter.	13.09840	
F-statistic	1.384312	Durbin-Watson stat	1.712245	
Prob(F-statistic)	0.282757			

Source: author's own computation

Regarding the errors autocorrelation, the Durbin-Watson statistic (see Table 3) has the value of  $0.896070 < d_1 = 1.13$  ( $d_2 = 1.38$ ). This means that the null hypothesis is

rejected and the errors are positively autocorrelated.

Figure 2 - Normality test of errors



Source: author's own computation

As it is shown in Figure 2, the value of JB test (1.269613) is lower than the  $\chi^2_{0,05;2}$  (5.99), meaning that the null hypothesis is accepted, the errors are following a normal distribution.

## 5. Conclusions

The paper intended to demonstrate the link between wages and human capital of employed population. In an analysis in two steps, we used two measures for wages, as dependent variable: wages and salaries as component of GDP (income approach) and the wages indice, as variation to the year of 1997 as reference.

Estimating the regression parameters of a linear regression equation we found a strong statistical link between educational level of employed population and the level of wages and salaries cost, (as a component of GDP in the income approach), for the period of 1997-2013.

According to our findings, human capital emerged as a statistically validated variable explaining wages evolution in Romania during 1997-2013.

## 6. References

- [1] Mincer, J., "Investment in human capital and personal income distribution", *Journal of Political Economy* 66(4), 1958, pp.281-302.
- [2] Mincer, J., "The Distribution of Labor Incomes: A Survey with Special Reference to the Human Capital Approach", *Journal of Economic Literature*, 1970, p.1-26.

- [3] Mincer, J., *Schooling, Experience and Earnings*, Columbia University Press, 1974.
- [4] Mincer, J., "Studies in Human Capital", in *Economists of the twentieth century: The collected essays of Jacob Mincer*, v.1, Cambridge University Press, 1993.
- [5] Becker, G.S., *Capitalul uman. O analiză teoretică și empirică cu referire specială la educație*, București, Editura ALL, 1997.
- [6] Griliches, Zvi & Mason, William M., "Education, Income and Ability", *Journal of Political Economy*, 1972, pp. S75-S103.
- [7] Welch, Finis R., "Education in production", *Journal of Political Economy*, 1970, Vol.78, pp..35–59.
- [8] Blaug, M., "A View on Human Capital", *Journal of Economic Literature*, 1976, pp. 827-855.
- [9] Rosen, S., "Human Capital: A Survey of Empirical Research", *Research in Labor Economics*, Volume 1, 1977, pp..3-39.
- [10] Strauss, J., Thomas, D., "Human resources: empirical modeling of household and family decisions", In: Behrman, J.R., Srinivasan, T.N. (Eds.), *Handbook of Development Economics*, vol. 3A, North-Holland, Amsterdam, Chapter 34, 1995, p.1183–1123
- [11] Card, D., "The causal effects of education on earnings", In O.C. Ashenfelter and D. Card (eds), *Handbook of Labor Economics* (Vol. 3A). Amsterdam: North-Holland, Elsevier, 1999.
- [12] Murnane, R., Villet, J., Levy, F., "The Growing Importance of Cognitive Skills in Wage Determination", *Review of Economics and Statistics*, Vol.77, No.2, 1995, p.251-266.
- [13] Wößmann, L. (2003), "Specifying human capital", *Journal of Economic Surveys* 17, pp. 239–270.
- [14] Folloni, G. and Vittadini, G., "Human capital measurement: a survey", *Journal of Economic Surveys* 24, 2010, pp. 248–279.

## Some Reflections on Knowledge Management within NGOs

Neagu Olimpia

"Vasile Goldis" Western University of Arad

[olimpian2005@yahoo.com](mailto:olimpian2005@yahoo.com)

### Abstract

*The paper aims to draw conceptual definitions in an overview on the issue of knowledge management in NGOs. Motivation for knowledge management, environment, and main features of knowledge management in NGOs are exposed and annotated. NGOs are interested to be more efficient and effective in their effort to offer social value to their beneficiaries. Therefore, they are interested to adopt the knowledge management vision and practices*

*The paper's assertions are based on the theoretical concepts of knowledge management and on the 20 years of author's experience in the civil sector in Romania.*

**Key words:** knowledge management, NGOs  
**J.E.L Codes:** D01, D83

### 1. Introduction

The issue of knowledge management in NGOs is less studied and investigated by economists. But more and more, NGOs are interested to adopt knowledge management vision and practices in their current activities due to the congruity between the perspectives of both areas: knowledge management and NGOs have both a people-centred perspective.

There is a lack of conceptualizing work of knowledge management in NGOs, taking into considerations the specific of the civil sector organisations. This specificity means mainly: a social focus, based on their mission, volunteering-based activities, services for general community benefit, social value offered to their beneficiaries.

The paper proposes some conceptualization of motivation for knowledge management, environment of knowledge management and draws its main features in NGOs.

### 2. Motivation for knowledge management in NGOs

Internal and external pressure makes effective operation of organisations difficult.

NGOs are faced with a high rate of fluctuations, namely, voluntaries are moving from organisation taking with them important knowledge of organisation operations that must be re-learned by new volunteers.

In NGOs members and volunteers are committed to give a part of their expertise and time to contribute to the NGO's goals. By some authors [1], knowledge is considered to be that which is embedded within individuals and occurs either as a result of experience, or is generated through thinking or reasoning; otherwise it remains as data or information. From this perspective, very close to the context of NGOs, knowledge can be seen as an activity that can be easy facilitated in organisational context.

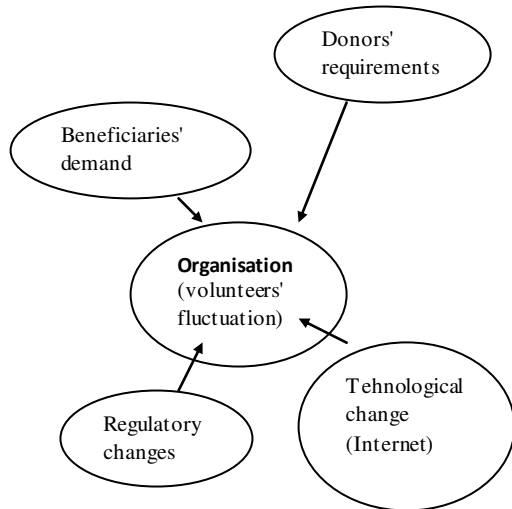
The requirements of NGOs donors and financiers are including sophisticated electronic systems to monitor and report the progress of financed projects, activities and expenses.

Changes in government legislation and regulatory practices provide a steady flow of new threats and opportunities [2].

NGOs' beneficiaries are demanding higher quality services or adapted services to their needs. Subsequently, organisations are being forced to move faster and at new levels of personalized interaction with their beneficiaries, inclusively online. To address these challenges, organisations has to develop management methods that accept information as valuable resource, convert information into knowledge and generate value-added services from that knowledge.



Figure 1 -Internal and external pressure on NGOs



Source: adapted by [2]

Dealing with these pressures requires adequate methods to manage organisational knowledge. Managing knowledge within an organisation involves a composite of people and information technology [2].

### 3. Knowledge management's environment in NGOs

NGOs are subjects of influences of several factors: internal and external, micro- and macroeconomic. As a consequence, knowledge management processes in NGOs are affected by influencing factors that are depicted in Figure 2.

In the internal organisational environment, the main problem is to manage the knowledge embedded in the staff and volunteers (tacit knowledge) and make effective the processes of knowledge creating, gathering, organising, retrieving and leveraging. As noted by [3], turning tacit knowledge into explicit knowledge is one of the key functions of a knowledge management strategy.

The internal organisational environment has to be a relational one, to support the creation of, and maintain, the following processes: generate and support motivation (the positive interactions among people, fun and pleasure that individuals have in their networking activities); organisational culture (the sense of belonging, membership, mutual understanding and social grounding); social

climate (to increase self-esteem and foster motivation for a wider visibility, to value the individual in the organisation and allow each member of the organisation to be valued by others, the agreement of respect and trust, the self-perception of usefulness, the significance of one's contribution to group activities, and to be considered a useful contributor to the organisation's goals [4].

The structure of internal environment has a critical influence on services offered to the NGOs beneficiaries. The governance system, the vision of leaders and managers, the absorptive capacity of changes, new ideas and new technology, the competencies of members, employees and volunteers are shaping the services dedicated to the NGO's target groups. Beneficiaries have become more sophisticated and expect to receive complex information, through online channels (e-mail or interactive websites).

International donors and European Financing Programmes developed information systems to be uploaded with information on the progress of projects and activities for which they deliver financial support.

Stakeholders and partners of NGOs need to be informed periodically on the NGOs current activities mainly by online channels.

Figure 2 Organisational knowledge's environment



Source: adapted by [2]

#### 4. Features of knowledge management in NGOs

Lettieri, Borga and Savoldelli (2004)[5] investigated the role that knowledge management plays in achieving excellence in non-profit organisations. They identified six types of knowledge within non-profit organisations: accounting/administrative, managerial/organisational, teaching/training, fundraising, public relations, marketing, operational and miscellaneous.

As stated in a previous paper [4], the main features of knowledge management in NGOs are:

- *Collaboration and the ability to connect individuals or groups;*

- *Nature of expertise and access to experts;*

- *Communities of practice- enabling the organisation's members to access specific groups to post issues, solve problems, or discuss key topics.*

- *Knowledge networking connects groups of people with systems and applications;*

- *Access of all members to a knowledge database (of reports, facts, experiences, legislative data base);*

- *Information sharing by using collaboration, mentoring and socialisation to inform people.*

As people-centred entities, NGOs are interested to strengthen their organisational development and culture. Approaches based on organisational development, with regard to the organisational structure and culture to facilitate and enhance the interaction between individuals, fostering knowledge sharing are belonging to several authors in the knowledge management literature (see [6], [7]). NGOs are intensively facilitate the personal development of individuals and social interactions between staff and volunteers through communities of practice, networking and other forms of socialisation (working groups, forums, debates) in order to serve better their beneficiaries and access all available funds to support their activities. Research on human resources management suggests that practices related to the development of individuals can increase the performance of the organisation, facilitating the creation and flow of knowledge capable of generating innovation ([8], [9]).

Knowledge management is facilitated by the willingness of persons to share their knowledge and expertise ([10], [11]). It is well known that in NGOs staff and volunteers are motivated to share their knowledge and expertise, especially in the case of senior managers and volunteers. Through adequate human resources practices, organisations can develop an organisational culture that encourages the acquisition and sharing of knowledge [12]. NGOs are concerned about their organisational culture and are focused on strengthen the connection between volunteers, staff and experts groups of members, by networking, forums, internal debates, periodical meetings.

The knowledge management process in NGOs requires individuals with personal characteristics that fit into the organisation's culture and beliefs, embedding primary knowledge capable to contribute to the organisational knowledge, as it is stated by [10] and [13]. Thus, the NGO's initiatives related to human resources development (selection, training, development) have to be conceived in such way to contribute to the knowledge management process, as it is concluded by [14] and [15].

Human resources practices are seen as a key element for increasing the absorptive capacity and knowledge creation [16]. This finding can be easily applied within NGOs, in the context of knowledge management. First, NGOs are organising periodical training courses for employees and volunteers to update their knowledge and skills or to re-learn the organisational procedures with beneficiaries.

Schulze and Leidner (2002)[17] made a distinction between two possible models of knowledge management in organisation: an objective and a subjective model. In their subjective model knowledge is inherently identified and related to human experience through social practice of knowledge, as seen in the work of community of practice as it was argued by Brown and Duguid (2001)[18]. We consider that this model is adequate for NGOs, due to their social orientation and their mission to deliver social value to their beneficiaries.

Managing knowledge within NGOs means first, enabling the organisational learning and second, stimulating the internal interactions between individuals, between

and within various groups of members, staff and volunteers [19].

## 5. Conclusions

The paper intended to offer an overview of some conceptualisations related to application of knowledge management in NGOs.

Use of knowledge management in NGOs is motivated by the internal and external pressure to which NGOs are exposed, related to the manage flows of knowledge, in order to deliver a higher social value to their beneficiaries and accomplish their mission.

The components of the knowledge management's environment affect the flows of knowledge, their creation, use and retrieving and the effectiveness in delivering social value to the beneficiaries.

The main features of knowledge management in NGOs are generated by their specificity: volunteering-based activities, concern to strengthen their organisational culture, proper human resources practices and organisational learning process enabling the process of knowledge management.

## 6. References

- [1]. Brauner, E. and Becker, A., "Beyond knowledge sharing: the management of transactive knowledge systems", *Knowledge and Process Management*, Vol. 13 No. 1, 2006, pp. 62-71.
- [2]. Silver, D., "The knowledge management Cycle", in: *Working the Web in Competitive Intelligence: Analytic Frameworks for Management Action Strategies*, Conor Vibert Editor, Mason, Ohio: Soutwest Thomson, November 2003, Chapter 11.
- [3]. Groff, T.R. and Jones, T.P., *Introduction to Knowledge Management*, Burlington, MA: Butterworth-Heinemann, 2003.
- [4]. Neagu, O. a, "Organisational knowledge and human capital: a conceptualisation for the non-profit sector", *Proceedings of the 14-th European Conference on Knowledge Management*, Kaunas University of Technology, vol.1, 2013, pp.496-505.
- [5]. Lettieri, E., Borga, F. and Salvodelli, A., "Knowledge management in non-profit management", *Journal of Knowledge Management*, Vol.8 No.6, 2004, pp.16-30.
- [6]. Rowley, J. "Knowledge management in pursuit of learning. The learning with knowledge cycle", *Journal of Information Science*, 27(4), 2001, pp.227-237.
- [7]. Gonzalez, R.V.D. and Martins, M.F., "Knowledge management: an Analysis from the Organizational Development", *Journal of Technology Management & Innovation*, 9(1), 2014, pp.131-147.
- [8]. Pandey, S.C., Duta, A., "Role of knowledge infrastructure capabilities in knowledge management", *Journal of Knowledge Management*, 17(3), 2013, pp.435-453.
- [9]. Collins, C.J., Clark, D.C., "Strategic human resource practice, top management team networks, and firm performance: The role of human resources practices in creating organizational competitive advantage", *The Academy of Management Journal*, 46(6), 2003, pp.740-751.
- [10]. Cardoso, L., Meireles, A., Peralta, C.F., "Knowledge management and its critical factors in social economy organizations", *Journal of Knowledge Management*, Vol. 16 Iss.2, 2012, pp.267-284.
- [11]. Quigley, N.R., Tesluk, P.E., Locke, E.A., Bartol, K.M., "A multilevel investigation of the motivational mechanisms underlying knowledge sharing and performance", *Organisation Science* 18(1), 2007, pp.71-88.
- [12]. Zaginski, M.A.S.G., Lima, E.P., Costa, S.E.G., "Organizational competence building and development: Contributions to operations management", *International Journal of Production Economics*, 144, 2013, pp.76-89
- [13]. Vlachos, I.P., "The effect of human resources practices on organizational performance: evidence from Greece", *International Journal of Human Resources Management*, 19(1), pp.74-97.
- [14]. Chen, C.J., Huang, J.W., Hsiao, Y.C., "Knowledge management and innovativeness: The role of organizational climate and structure", *International Journal of Manpower*, 31(8), 2010, pp.848-870.
- [15]. López, S.P., Peón, J.M.M., Ordás, C.J.V., "Managing knowledge: the link between culture and organizational learning", *Journal of Knowledge Management*, 8(6), 2006, pp.93-104.
- [16]. Sparkes, J.R., Miyake, M., "Knowledge transfer and human resource development practices: Japanese firms in Brazil and Mexico", *International Business Review*, 9, 2000, pp.599-612.
- [17]. Schultze, U., Leidner, D.E. *Studying knowledge management in information systems research: discourse and theoretical assumptions*, MIS Quarterly, 2002.
- [18]. Brown, J.S., Duguid, P. "Knowledge and Organization: A social-practice perspective",

- Organisation Science*, 12(2), 2001, pp.198-213.
- [19].Neagu, O. b. "Organisational learning and knowledge management within NGO", *Ovidius University Annals of Economics*, Tom XIII, issue 1, 2013, p.568-572.

## Analysis of Tourism Offer and Traffic Manifested at Constanta County Level during the Period 2005 – 2013

Nenciu Daniela Simona

„Dimitrie Cantemir” Christian University of Bucharest, Faculty of Tourism and Commercial Management Constanta

[nenciu75@yahoo.com](mailto:nenciu75@yahoo.com)

Constandache Mihaela

„Dimitrie Cantemir” Christian University of Bucharest, Faculty of Tourism and Commercial Management Constanta

[mihaela\\_constandache@yahoo.com](mailto:mihaela_constandache@yahoo.com)

Condrea Elena

„Ovidius” University of Constanta, Faculty of Economic Sciences

[elenacondrea2003@yahoo.com](mailto:elenacondrea2003@yahoo.com)

### Abstract

The increase of the quality of tourist services and diversification of services offer should be the primary objective for tourism entrepreneurs of Constanta County. Thus, the Romanian seaside resorts shall be included in the international tourist circuits, being able to satisfy a stringent external demand in terms of comfort, safety and quality of tourism services.

The number of tourist reception facilities bearing accommodation functions, has registered during the period 2005 – 2012 slight fluctuations. Therefore, during the period 2005 – 2010 it has registered a slight increase from one year to the other in the number of tourist reception facilities bearing accommodation functions. In 2011 this indicator has registered a decrease by 38,10%. This was largely due to the closure of certain old large size hotels from the resorts located on the south coast which were not arranged nor could be opened and inserted into the tourist circuit. At the level of 2012 and increase in the number of tourist reception facilities bearing accommodation functions by 8,68% was registered, compared to the previous year.

**Key words:** tourists, analysis, tourism demand, potential, average stay.

**J.E.L. Classification:** L83, M31

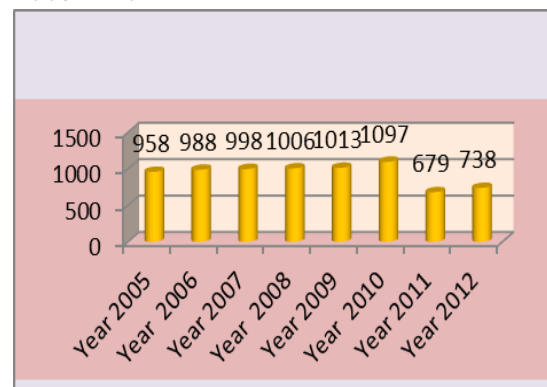
### 1. Introduction

In 2013, the number of tourists arriving in Constanta County, decreased by 7,95% compared to 2012 [2]. One of the factors which generated this decline was represented by the lower period of the sunny days during the summer 2013, the weather being quite whimsical, with rainy weekends.

### 2. Indicators of tourism offer

The number of tourist reception facilities bearing accommodation function, has registered during the period 2005 – 2012 slight fluctuations.

Gf.no.1 Tourism reception facilities bearing accommodation functions already existing Constanta County during the period 2005 – 2012



Source: Processing based on the processed data from the *Statistical yearbook of Constanta County, 2013*, accessed on

www.constantina.insse.ro

Therefore, during the period 2005 – 2010 it has registered a slight increase from one year to the other in the number of tourist reception facilities bearing accommodation functions. In 2011 this indicator has registered a decrease by 38,10%. This was largely due to the closure of certain old large size hotels from the resorts located on the south coast which were not arranged nor could be opened and inserted into the tourist circuit. At the level of 2012 and increase in the number of the *tourist reception facilities bearing accommodation functions* by 8,68% was registered, compared to the previous year.

During the analysed period, the largest percentage of the total tourist structure with functions of tourist accommodation, is born by the villas and the bungalows (53,65% at the level of 2005, 51,72% at the level of 2006 and 51,40% at the level of 2007, 51,78% at the level of 2008, 51,78% at the level of 2009, 51,68% at the level of 2010, 43,74% at the level of 2011 and 46,20%). On the second position are the hotels, followed by the camping. At the level of 2011, the number of hotels was equal to the number of tourist villas already existing in Constanta County. At the level of 2012, hotels have held a percentage of 41,19% of the total tourist reception structures bearing accommodation functions [2].

$$63906 / 84690 \times 100 = 75,46\%$$

At the level of 2012, the percentage of the number concerning the available beds in hotels, of the total number of accommodation places was of 75,46 %.

*Gf.no.2 Usage index of the accommodation capacity at the level of Constanta during the period 2005 – 2013*

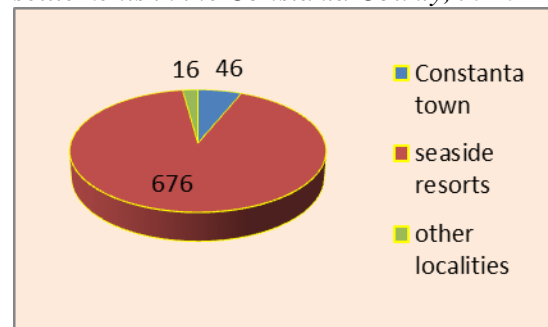


Source: Processing based on the process of data from the *Statistic yearbook of Constanta*

county 2013 and from the *Monthly Statistical Bulletin 01/2014*, taken from www.constantina.insse.ro.

During the period 2005 – 2013 the highest level of capacity utilization of functional accommodation has been the year 2009, when this indicator registered the value of 45,30%.

*Gf.no.3 Distribution of the accommodations facilities, on types of settlements in the Constanta County, in 2012*

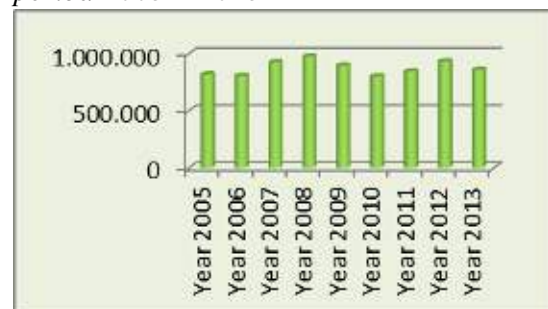


Source: Processing based on the process of the data from the *Statistic yearbook of Constanta county 2013 and from the Monthly Statistical Bulletin 01/2014*, taken from www.constantina.insse.ro

Tourist structures from the seaside resorts belonging to Constanta County have the highest percentage (91,59 %) of all structures from the county [2].

### 3. Tourism demand indicators

*Gf.no. 4 The number of tourists who arrived in Constanta County during the period 2005 – 2013*



Source: Processing based on the process of the data from the *Statistic yearbook of Constanta County 2012 and from the Monthly Statistical Bulletin 01/2014*, taken from www.constantina.insse.ro.

Index variation in time of tourist demand [1]

$$I = (\text{number of tourists arrived in year } 1 /$$

number of tourists arrived in year 0) x 100.

I 2006/2005 = (807.000 tourists/821.000 tourists) x 100 = 98,29 %

98,29 % -100% = - 1,71 %

In 2006, the number of tourists who oriented to Constanta town, as a tourist destination, decreased by 1,71% compared to 2005.

I 2007/2006 = (926.000 tourists/807.000 tourists) x 100 = 114,75 %

114,75 % -100% = 14,75 %

In 2007, the number of tourists who oriented to Constanta town, as a tourist destination, increased by 14,75% compared to 2006.

I 2008/2007 = (977.975 tourists/926.000 tourists) x 100 = 106 %

106% -100% = 6%

In 2008, the number of tourists who arrived in Constanta County, increased by 6% compared to 2007.

I 2009/2008 = (897.665 tourists/977.975 tourists) x 100 = 91,78 %

91,78 % -100% = - 8,21%

In 2009, the number of tourists who arrived in Constanta County, decreased by 8,21% compared to 2008.

I 2010/2009 = (803.000 tourists/897.665 tourists) x 100 = 89,46 %

89,46 % -100% = - 10,54%

In 2010, the number of tourists who arrived in Constanta County, decreased by 10,54 % compared to 2009.

I 2011/2010 = (846.884 tourists/ 803.000 tourists) x 100 = 105,46 %

105,46 % - 100% = 5,46%%

In 2011, the number of tourists who arrived in Constanta County, increased by 5,46% compared to 2010.

I 2012/2011 = (933.900 tourists/846.884 tourists) x 100 = 110,27 %

110,27 % - 100% = 10,27 %

In 2012, the number of tourists who arrived in Constanta County, increased by 10,27 % compared to 2011.

I 2013/2012 = (859.634 tourists/933.900 tourists) x 100 = 92,05 %

92,05 % - 100% = - 7,95 %

In 2013, the number of tourists who arrived in Constanta County, decreased by 7,95 % compared to 2012 [3].

One of the factors which determined this decrease was represented by a shorter period of sunny days during the summer season 2013, the weather being quite whimsical,

with rainy weekends [4].

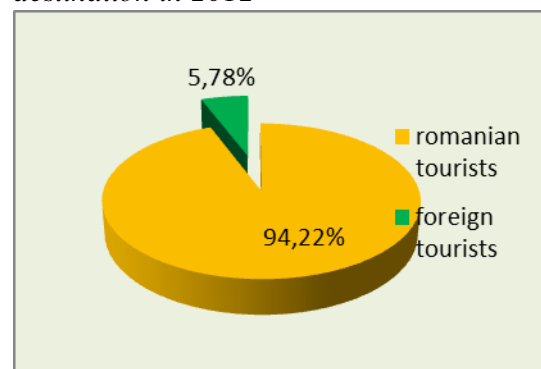
The number of tourists who arrived in the first term of the year 2013 was of 34,5 thousand of people, compared to 35,4 thousand people in the first term of 2012, a 2,7% decrease being registered. The number of overnight stays also decreased: 99 thousand overnight stays in the first term of 2013, compared to 100 thousand overnight stays registered in the same period of the previous year.

Foreign tourists, numbered to 3811 people in first term of the year 2013, are by 31,7% fewer than the foreigners who arrived during the same period in 2012 and they represent 11,0% of the total tourists.

The number of tourists who arrived in the first three months of 2014 [5] was of 36,8 thousand people, compared to 34,5 thousand people in the same period in 2013, an increase by 6,8% being registered. Also the number of the overnight stays increases during this period: 113,3 thousand overnight stays in the first three months of 2014, compared to 98,8 thousand overnight stays registered in the same period in 2013.

Foreign tourists, numbering 5097 people in the period January – March 2014, are by 33,7% more than the foreign tourist who arrived in the same period in 2013 and they represent a percentage of 13,8% of the total number of tourists.

Gf.no.5 Structure of tourists who have accessed Constanta County as a touristic destination in 2012

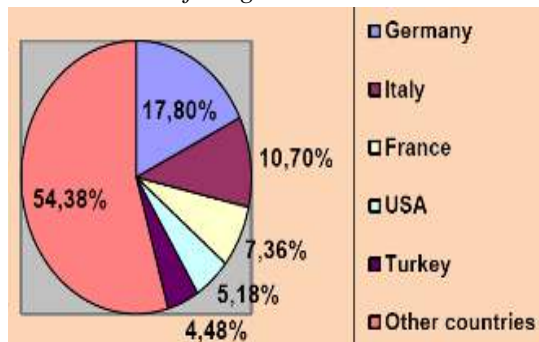


Source: Processing based on the process of the data from the *Statistic yearbook of Constanta County 2012* and from the *Monthly Statistical Bulletin 01/2013*, taken from [www.constantina.insse.ro](http://www.constantina.insse.ro)

For the year 2012, Romanian tourists who

have accessed Constanta county, as a touristic destination, represented 94,22% of the total tourists who arrived in this County. The low percentage of the foreign tourists from the total of tourists, who have accessed this area, was determined mainly by the quality-price ratio, characteristic for tourism products sold on the Romanian seaside which involve average quality tourism services, at high prices. Then, foreign tourists place a high value on the safety of the tourist, neglected aspect, unfortunately on the Romanian seaside.

*Gf.no.6 Structure of foreign tourists who have arrived in Constanta County in 2011, on countries of origin*



Source: Processing based on the process of the data from the *Statistic yearbook of Constanta County 2012 and from the Monthly Statistical Bulletin 1/2013*, taken from [www.constantina.insse.ro](http://www.constantina.insse.ro)

For the year 2011, the highest percentage of the foreign tourists who have accessed Constanta county, as a tourism destination, is represented by the German tourists (17,80%), followed by the Italian tourists (10,70%), French tourists (7,36%), American tourists (5,18%) and Turkish tourists (4,48%).

During the period January – February 2012, in Constanta County, 3640 foreign tourists checked in. The highest percentage of the total foreign tourists who have accessed this county, as a tourism destination, is represented by the German tourists (15,24%), followed by the Spanish tourists (11,34%) and the American tourists who represent a percentage of 8,37%.

For the year 2012, the highest percentage of the total foreign tourists who have accessed Constanta county, as a tourism destination, is represented by the German tourists (20,21%), followed by the French tourists (8,80%), Italian tourists (7,20%),

Russian tourists (6,76%), American tourists (5,08%), Turkish tourists (3,18%) and English tourists (3,17%).

During the analysed period, the highest value of the number of overnight stays, was registered in 2007 (4.469.000 overnight stays). For the year 2013, this indicator registered a decrease by 7,77 % compared to the previous year.

During the period 2005 – 2012 the average stay registered a slight decrease from one year to the other which is explained by the tourists' tendency to practice tourism just during the weekend to the detriment of medium and long stays. At the level of 2013, this index increased slightly by 0.5% compared to the previous year.

Although a series of investigations have been carried out, especially as far as Mamaia resort is concerned, and the seaside attracts during the summer season a significant number of tourists who practice weekend tourism, although the product offer is not so diverse and is not in line with the trends of tastes and preferences of tourists. Tourists from Germany and the Scandinavian countries who previously oriented to the Romanian seaside, as a tourism destination are currently orienting to competing destinations as the Mediterranean Sea and Aegean Sea, as well as to Croatia and Bulgaria.

Currently, entrepreneurs in this area as well as tourism authorities in the field of tourism are making efforts to re-launch tourism in the region, by drawing up and implementing certain strategies which aim at transforming the coast line into a competitive destination.

*Graphic no.7 Tourism density in relation to the population, during the period 2005 - 2013 (tourists / inhabitant)*



Source: Processing based on the process of the data from the *Statistic yearbook of*



*Constanta county 2013 and from the Monthly Statistical Bulletin 01/2014* taken from [www.constantainsse.ro](http://www.constantainsse.ro)

During the period 2005 – 2013 the highest value of tourism density in relation to the population was registered for the year 2012 (1,36 tourists / inhabitant).

## 6. Conclusions

Romanian seaside tourism entrepreneurs should pay special attention to personal policy aimed at: attracting trained workers in this area, getting their loyalty by means of incentives for employees and granting facilities to those employees, who provide high quality services, support for regular improvement of employees in this area. Adopting certain strategies to attract, retain and stimulate the personnel employed in tourism, which shall determine in time, the increase in the quality of the employees' benefits, which will result in attracting and retaining tourists.

## 7. References

- [1] Nenciu, D.,S., *Marketing strategies for the development of Romanian tourism*, EX PONTO Publishing House, Constanta, 2009
- [2] \*\*\* *Statistic yearbook of Constanta county 2013*, taken from [www.constantainsse.ro](http://www.constantainsse.ro)
- [3] \*\*\* *Monthly statistical bulletin 01/2014*, taken from [www.constantainsse.ro](http://www.constantainsse.ro).
- [4] \*\*\* *Monthly statistical bulletin 02/2014*, taken from [www.constantainsse.ro](http://www.constantainsse.ro).
- [5] \*\*\* Constanta County Department of Statistics, *Evolution of the main statistical indicators of Constanta county*, first term of 2014, processed from [www.constantainsse.ro](http://www.constantainsse.ro).

## Innovation and Market Value of Firms – A Challenge of a Changing Romanian SMEs

Oncioiu Ionica

Titu Maiorescu University

[nelly\\_oncioiu@yahoo.com](mailto:nelly_oncioiu@yahoo.com)

### Abstract

*A special topic covered in the research done in recent years is related to SME innovation. Because information is the key resource and output, the intangible economy is the source of economic value which affects all the markets transactions. This study is an exploration of the dynamics of the present Romanian firm's valuation in the financial markets landscape. I offer first an overview of the characteristics of the market value of firms and of the general impact of the recent crisis on the Romanian SMEs. I further outline the main constraints faced by the firm's market value in the specific Romanian context and sketch current trends of Romanian small enterprises. I employ hereby a holistic and monetary method - Tobin's  $Q$  - which I state as rewarding when investigating the evolution of market value of the Romanian small enterprises, and apply it to a set of empirical data, in order to assess the evolution of these Romanian small enterprises during the period 2009-2013. Based on the results of this analysis, I formulate in the conclusions a set of recommendations which are aimed to support the consolidation of the Romanian firm's value in the marketplace. Practitioners and academicians can benefit from this study's insights.*

**Key words:** market value firms, intangible assets, accounting, marketplace

**J.E.L. classification:** M41, L2, D7

### 1. Introduction

Since the '90s, an ever-increasing number of research institutes and companies, especially in northern Europe have begun to make very serious problem of measurement, evaluation and expression of intangible assets

including the firm's valuation in the financial markets, and these efforts have led in recent years proposing a very large number of these theories and methods have been developed for measuring the time tend to apply uniform standards of reporting form. Moreover, the largest share of GDP is produced in firms capitalizing on accounting estimations regarding intangible assets [1].

The central theme of this article is the development of the market value firm's issues as intangible asset at international, European and national level. Against this background I searched for reasonable answers to the following questions: How should it define and measure the market value firms? To what extent the market value firm as intangible asset is influenced by the accounting convergence process, and how can accounting manage to obtain relevant accounting information regarding better environmental reputations? What is the lost opportunity to create value where there is inadequate management systems knowledge? How does SMEs ensure that the market value firms it wishes to extract from intangible asset is appropriate for its business strategy? These are some questions to answer which is given by measuring intangible.

The present research started from the idea that, at a global level market value of firms as intangible assets is an important reality of the enterprise. On the technical side regarding the determination of innovation capacity of SMEs, I intend to particularly develop the patterns of innovation issue in an evolutionary framework (idea-invention-innovation-market model, interactive model of innovation and multipolar model) and through an international approach.

In order to obtain answers to the already mentioned questions, I used the White Paper of SMEs edition 2013 [2] as data source and applied a forecasting model whose algorithm is based on the Tobin's  $q$  method - on data

from 2009 - 2013 related to Romanian listed companies. In the following, I present first the current trends of research, of conceptual framework and of international, European and national legislation framework on the topic of intangible assets. I address then the technical and practical aspects concerning the recognition, measurement and presentation of intangible assets. In the next step, I present the results of empirical investigation of the market value of firms as intangible asset in the context of accounting convergence.

This paper aims at shedding a different light on the value of the intangible asset of firms, as an important factor leading companies to invest in intangible assets is their desire to reduce uncertainty of the business we run and also to maintain and gain advantages related to demand or costs in relation to competition. It's about the fact that in general any standard capital generated advantage, tangible; it's easy imitated by competitors [3]. At the same time that companies make investments in intangible results are specific (e.g. skills and human resources skills, organizational culture, credibility, reputation, customer relationships are created, etc.)

In other words, intangibles become an important way to gain competitive advantage and help companies to cope with rapid changes taking place in the market.

Further, I argue that the market value of firms as intangible asset is to be adapted to Romanian companies and I focused on methods based on financial indicators. A method includes using financial models and, on the one hand provides a general representation of the intellectual capital of organization supporting a determination of their money and, on the other hand, because of the nature their very general and brief no intangible enable administration for the purposes of creating value.

The conclusion emphasizes that value a company's intangible assets is determined as the difference between market value of the company and its book value generate added value for a company in the interest of owners and society at large, and that the accounting for this type of intangible asset at the fair value becomes a necessity in the context of international accounting convergence.

## 2. Literature review

The effect of economic changes on a firm's market valuation should be measurable and these assets should provide real returns in the form of higher output.

During the recent decades the idea of an increase in importance of the intangible assets has gained increasingly more acceptance. It is often considered nowadays that "intellectual capital is the engine of the new economy" or that the most valuable commodity is represented by "knowledge and information" [4]. The new economy is viewed as an economy where the value of companies lies in the knowledge and skills of business managers / employees rather than in the value of tangible assets. Moreover, many economists have stressed the importance of intellectual capital as a production factor in comparison to the traditional assets. There are two main theories on economic growth: the neo-classical theory of exogenous growth and the theory of endogenous growth [5]. Intangible assets are reflected different in the endogenous model. According to endogenous growth model, the production growth is defined as a function dependent on the accumulation of intangible assets. In time, permanent growth is possible only if the intangible capital stock virtually changes endlessly.

The study identified further six categories of key factors for increasing innovation company value: setting salaries from the start, measuring employee's performance, increasing productivity, talent management (identifying key positions and best personnel to occupy these positions, opportunities for professional development and career planning), pay according to performance and strategic communication. The first three categories depend on the company's market orientation and the other three categories are universally applicable. Each factor was given a score from 1 (worst) to 100 (best), in order to calculate the importance of each one in the value creation process. The scores were in the range 4-81, a score above 60 meaning that the company manages its human capital well, and a score below 40 meaning that the company needs to review its human capital strategies.

From a practical perspective, market value of firms results from the sum of three

components: skills (talents, experience, and competencies), attitude (motivation, managerial qualities) and intellectual agility (the ability to innovate, to enterprise).

Innovation is the ability to build on previous knowledge and generate new knowledge. It is essential for renewal and development of the company. The know-how of the company can be created and developed through innovation. There are companies that have a low innovation level, although they have a very high research and development budget. In the economics literature, the most important indicators of intellectual agility are considered to be:

- Cost savings due to ideas suggested by managers;
- New solutions or new processes;
- Index of diversification of the company [6].

Recent studies that emphasize the weak points of national innovation systems (inadequate internal organization of enterprises, of educational system, etc.) relative are previous results [7]. On the one hand, one can notice that research is decreasing in most sectors, excepting the high-tech one, on the other hand, innovations generated by research - development are more incremental than radical and, therefore, have a moderate impact on long-term economic growth. Moreover, the tendency is to move towards using current cost in response to failure of the model based on historical cost accounting to resolve issues posed by the effect of changes in prices of non-monetary assets.

According to Acme Widget's [8] the stock price determines the current market value of the company. This value reflects: 1) the market understands of the value of the firm's fixed innovation assets based on company's balance sheet; 2) it reflects the market's perception of its intellectual capital and ability to leverage that capital in its marketplace.

One final point concerning the quantification of firm's market value is the importance of the time dimension to value innovation measurement. Of course, none of the methods, the classical one based on historical cost, respectively the new one based on current or market values, is infallible. Reluctance to calculate the size of the value of innovation and market value of

firms is explained by the difficulty and the costs of implementing the existing measuring procedures, but also by the need to select relevant indicators.

In agreement with Patrick H. Sullivan [9] the most common reasons for Knowledge Company to produce "money based valuation of an intangible assets are: litigation; tax-related transactions; joint ventures; intracompany transfers; business decision-marking; out-licensing/sale; in-licensing/purchase; R&D investment; portfolio management; in-kind contributions; exploitation potential; and initial estimate of value".

### 3. Methodology

The most common quantitative approach to measurement firm's market valuation is to relate total factor productivity or profit growth to measures innovation.

The Tobin's  $q$  [10] is a method that is part of a broader category that of methods based on market value of firms reporting to their book values. These methods are often used to measure and evaluate the ease mathematical brainpower.

Tobin's theory assumes that will be less likely to buy an asset a company if its value is less than the cost of the replacement net, and vice versa, is more likely to buy a company active if it is worth more than its net replacement cost.

" $Q$ " is the ratio between the market value of the company and its book value of intangible assets. When " $q$ " has a value higher than one - this means that the company's market value is higher than the book value of its intangible assets - the company achieved monopoly profits (a value higher than the sector average reported revenue / investment). Obviously, the higher the " $q$ ", the higher the value the company's intellectual capital (this is calculated as the difference between market value of the company and its tangible asset value).

"When  $q$  is very large (for example 2: an asset worth more than 2 times its book value) means that the organization obtains large revenues from this asset. Therefore it is considered that this indicator " $q$ " is a measure of what economists call "monopoly rents", i.e. a company's ability to unusually high profits because it has something that

others do not. This is the very definition of intellectual capital, as competitors have the same fixed asset but one of them has something unique - people, systems, customers - enabling him to obtain more money than others." [11]

A high value of "q" is observed more frequently in organizations that really more knowledge and new technologies and in companies where human capital is the source of most knowledge. [12]

If the value of "q" decreases, this means that the value of its intangible assets also is reduced. These trends are a signal to future investors that there are no guarantees regarding the company's ability to increase profits.

It is considered that this model is useful in the following cases:

- When making comparisons between very similar companies (e.g. companies operating in the same sector or same market and easily comparable tangible assets);
- When you want to highlight the direction of development of intellectual capital value of a company;
- When evaluating a company's assets as a whole and not individual assets;
- When comparisons are made referring to long periods of time.

In summary, the criticism of this method took into account the volatility of capital market rates, often outside the control of management, which directly affects the market value of the company's intellectual capital.

For purposes of this paper, we calculate Tobin's q as:

$$q = \frac{\text{Market Value (Equity+Debt+Preferred Stock)}}{\text{Replacement Value (Plant+Equipment+Inventory+Short Term Assets)}} \quad (1)$$

Thus, for a firm with no intangible asset value, the market value of the firm should equal the replacement value of its tangible assets, and Tobin's q should equal 1. As the value of the firm's intangible assets increases, the value of Tobin's q will increase accordingly.

In the reviewing the literature, the market value of the firm is thus the sum of the values accruing to the tangible and the intangible assets of the firm, that is,  $MV = V_T + V_I$ . Dividing both sides by the tangible asset of the firm gives us

$$q = MV/V_T = 1 + V_I/V_T \quad (2)$$

where MV is the market value of the firm, and  $V_T$  and  $V_I$  are the portions of firm value attributable to the tangible and the intangible assets of the firm, respectively.

To estimate the impact of various factors on the intangible asset value of the firm, the following regression equation is estimated:

$$(q - 1) = V_I/V_T = \alpha + \sum \beta X + \varepsilon \quad (3)$$

where X is a matrix containing the explanatory and control variables that are thought to affect intangible asset values.

An alternative semi-log specification may also be used, where the right-side variable is the natural log of q:

$$\ln(q) = \alpha + \sum \beta X + \varepsilon \quad (4)$$

In Romania, managing innovation and market value of firms is still considered an issue with a high novelty and complexity degree, fact which explains why still limited attention is paid to this issue both conceptual and in the application.

Employing intangible resources to create innovation value firm is a significant challenge for specialists in Romania. Generally, Romanian companies have strengths and weaknesses that manifest in relation to the involvement of managers and the human dimension of the enterprise. Since the recent economic crisis due to global crisis is strongly present, I decided to use an holistic and monetary method that allows assessing the implications of the market value of the company, with examples from 223 Romanian Small and Medium Enterprises. Another objective is the comparative analysis of how the values added by the intangible assets will evolve, calculated as the difference between market value and innovation value of the audited firm after businesses have been affected by economic crisis, with the assumption that the economic crisis would not have occurred in Romania. The dependent variable in equation (3) and (4) of regression is Tobin's q for 2013 (database White Paper of SMEs edition 2013). The coefficients on the independent control variables are generally as expected,

based on model previously.

I consider this analysis illustrative by using the indicator of firm's valuation in the financial markets as continuous statistical parameter. Economically, the evolution of this indicator calculated as the difference between market value and book value of the audited company, which has decisive influence on situation of Romanian SMEs in terms of capitalization, implementing the program of investment, increasing competitiveness or economic efficiency, etc.

#### 4. Empirical results

Table 1 lists the results from the estimation of equation (3) and (4). As shown in the first column, Tobin's q is positively related to R&D expenditures, market share, firm growth rates, and advertising expenditures. The second column estimates several interaction terms to allow for differential returns to the intangible investments, sales growth and advertising.

Table 1. Determinants of Tobin's q

Dependent variable 2013	(q-1)	(q-1) (interaction terms included)
Constant	2,74 (0,002)*	3,64 (0,202)*
The long of replacement cost of tangible assets	-0,30 (0,024)*	-0,32 (0,202)*
Advertising expenditures as percentage of replacement value	0,007 (0,35)	0,03 (0,202)*
Advertising expenditures and growth in revenue		0,002 (1,14)
R&D expenditures as percentage of replacement value	6,35 (0,021)*	6,55 (0,24)
Market share	1,49 (0,022)*	1,25 (0,011)*
Growth in revenue	0,57 (0,050)*	0,16 (0,22)
Age of assets	-0,06 (1,37)	0,22 (0,44)
Capital expenditure / depreciation differential of the inventories	2,51 (0,01)	0,93 (2,65)
Number of observation	223	223
Adjusted R <sup>2</sup>	0,306	0,66

t-statistics are reported in parentheses. \*p<0,01

Next, instead of Tobin's q, we specify the dependent variable to be  $V_1$ , the intangible asset value of the firm, but the long of replacement cost of tangible assets variables still remain negative and statistically significant.

Analysis reflects the practical utility of Tobin's q model for achieving medium-term forecasts. We believe that the analysis highlights the usefulness of holistic and monetary method for capturing a high probability of overall economic development in different sectors and in each company. Widespread introduction of software makes it increasingly easier to use mathematics and statistics with economic applications from

more precise results. Continuous parameter Tobin's q model can be extended to other complementary analyses performed in key economic indicators belonging to other intangibles.

Summarizing, using firm market value as a measure of innovation returns are determined every day in the financial markets. The forecast of medium-term evolution of Romanian companies contours probable tendencies of future development and heads activity measurement of innovation and market value of firms as intangible asset so that it falls logically into thinking long perspective.

Crisis should not be seen as a catastrophe but as a broad movement of global change, affecting not only economically, but also social and politically. It seems increasingly clear that this is more than a mere economic crisis; it is a major change in the accounting system.

We certainly have many casualties Romanian companies will not recognize, evaluate and present market value of firms as intangible assets associated with innovation value of firms in their financial statements, as we have crisis and winners, and the winners will be those who will be able to make correct predictions in medium and long term of goodwill market value of firms.

Effective design and implementation techniques and instruments for the market value of firms as the key intangible asset is one of the current accounting secrets.

#### 5. Conclusions

The innovation and market value of firms are the concepts of modern economics. Despite its innovative character, the accounting of market value as intangible asset merely refers to costs due to investments in innovating technology, recruiting, training and managerial skills. Furthermore, the innovation is the ability of a country to create and absorb new technology, and implement such technology into economic production: a crisis can also be viewed as an opportunity to promote long-term economic success by innovation process.

The present case study shows that on the one hand, the economic environment reputation is an important factor influencing

the value of intangible assets, especially in the context of international accounting convergence, and on the other hand, that by the forecast of the process of transition of a number of 223 Romanian SMEs into other groups of intangible assets up to, one could highlight the implications of market value of firms calculated as the difference between market value and book value. By the means of Tobin's q model I highlighted the critical points by comparing the value of the company under conditions of optimization and no-optimization, quantifying the impact of the various alternative methods on the efficiency of evaluation and optimization of market value of firms.

Concluding, the market value of firms is more than value measurement indicators. Major SMEs voluntarily invest in environmental reputation capital. It takes management processes, operational efficiency, rewarding of management resources, a consistent management. Creating value is the result of a complex task to manage all aspects of the business. Value indicators go beyond accounting results because they are related to cash flow forecasts. The assessment of innovation and market value of firms and other intangible assets helps to discover hidden resources, which must be exploited and used.

Romanian managers must think in terms of international competition and strive to become more competitive to increase the market value in the companies they run. They must likely answer the follows key questions: Will the company I manage create innovative value? What are the major environmental forces affecting innovation in our business? How should I reallocate the intangible assets so as to achieve this goal? These important tasks are left for future research.

#### **Acknowledgment**

This paper has been financially supported within the project entitled „**SOCERT. Knowledge society, dynamism through research**”, contract number POSDRU/159/1.5/S/132406. This project is co-financed by European Social Fund through Sectorial Operational Programme for Human Resources Development 2007-2013. **Investing in people!**”

## **6. References**

- [1]. [http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search\\_database](http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database)
- [2]. National Council of SME's of Romania (2013) *White Paper of SME's 2013*, [Online], Available at: <http://www.postprivatizare.ro/romana/,rapoarte,2012,2013> [Accessed 10 September 2014].
- [3]. Webster E., *The Economics of Intangible Investments*, Edward Elgar Publishing Limited, United Kingdom, 1999, ebook ISBN 978-1-78254-377-0.
- [4]. Doppegieter, J., Zoller, M., *Adjusting economic value added for intangible assets*, Working paper / International University in Germany, School of Business Administration, 2008.
- [5]. Campisi, D., *The measurement of intangible assets : a method to assess knowledge productivity*, in: 2006 Business & Economics Society International Conference (2006), 288-299/2006 Business & Economics Society International Conference / ed.: Demetri Kantarelis, vol. 1, Business & Economics Society International Conference; (Florence); 2006.07.15-19, Worcester, Mass.
- [6]. Noye D., *Réussir vos réunions*, Insep Consulting Edition, Paris, 2009, p. 6.
- [7]. Cheng, M.Y., Hsiao, T.Y., Lin, J.Y., *Categorising intangible assets: Are the new accounting standards consistent with practice?* in *International journal of services and standards* 4(2), 2008, pp. 194-216, DOI: 10.1504/IJSS.2008.016633.
- [8]. Buigues P., Alexis J., Marchipont J.F., *Competitiveness and the Value of Intangible Assets*, Edward Elgar Publishing, USA, 2000, ISBN: 978-1840643916.
- [9]. Sullivan H.P., *Value-Driven Intellectual Capital. How to Convert Intangible Corporate Assets Into Market Value*, John Wiley & Sons, USA, 2000, pp. 167-169, ISBN: 978-0-471-35104-7.
- [10]. Tobin, J., "A general equilibrium approach to monetary theory," *Journal of Money Credit and Banking*, vol. 1, issue 1, pp. 15-29, 1969, [http://econpapers.repec.org/article/mcbjmoncb/v\\_3a1\\_3ay\\_3a1969\\_3ai\\_3a1\\_3ap\\_3a15-29.htm](http://econpapers.repec.org/article/mcbjmoncb/v_3a1_3ay_3a1969_3ai_3a1_3ap_3a15-29.htm).
- [11]. Stewart T.A., *Intellectual Capital: The New Wealth of Organizations* – Doubleday / Currency, New York, 1997.
- [12]. Cravera A, Maglione M, Ruggieri R, *The Valuation of Intellectual Capital* [The valuation of Intellectual Capital], Il Sole 24 Ore, Milan, 2001.

# The Transport of Goods and People. Aspects of Civil Liability Insurance

Pandele Adina Laura  
Ovidius University of Constanta  
The Faculty of Law and Administrative Sciences  
[adinapandele@yahoo.com](mailto:adinapandele@yahoo.com)

## Abstract

*From an economic perspective, the civil liability insurance expresses all the relationships established in the process of formation and effective allocation of the amounts necessary to cover the risks that, obviously, any human activity can generate. From a legal perspective, the civil liability insurance is characterized by a specific contractual form, governed by incident laws.*

**Keywords:** transport, insurance, civil liability, risk

**J.E.L classification:** K 10

## 1. Introduction

The civil liability insurance falls into the category of general insurance. As a form of insurance, the civil liability insurance covers the damages arising from the loss caused to third parties or to their goods by the activities of the insured party.

Sometimes, the civil liability insurance is directly related to the exercise of a profession. The insurance of the person exercising a profession falls into the category of professional indemnity insurance. The professional indemnity insurance gives the insured party the opportunity to recover the amounts paid in compensation to third parties with whom the insured party has established professional relationships.

In other cases, the civil liability insurance covers the damages resulting from the possession and use of property by the insured party. This is typical of the civil liability insurance in transportation, designed to cover the moral and material damage caused to third parties by the act or work of the insured party.

## 2. Legal framework

The general legal framework for the civil liability insurance is based on the provisions of articles 2223-2226 of the Civil Code [1].

In accordance with the ways in which contractual relations are established, the rule is that the civil liability insurance is optional, being voluntarily concluded by the parties. There are exceptions to this rule, in the sense that, for some occupations or, sometimes, for the use of property, these insurances have a binding nature.

The general provisions of the Civil Code govern the optional civil liability insurance and supplements the provisions of the special laws governing the mandatory civil liability insurance.

## 3. Defining features

In accordance with the general provisions of the Civil Code, the civil liability insurance covers the damage caused to third parties and the expenses incurred by the insured party within the lawsuit (article 2223, paragraph 1 of the Civil Code).

Like any type of insurance, a legal relationship is established between the insured party and the insurer. The insurer can be any legal entity authorized to carry out insurance activities, as provided by law (article 2, section 5 of Law no. 32/2000) [2].

Regarding the optional civil liability insurance, any natural or legal person whose interests justify the conclusion of such an insurance can be an insured party. Regarding the mandatory civil liability insurance, the status of insured party belongs, under the special legal provisions, to the person carrying out an activity or using certain goods.

The civil liability insurance can be concluded directly by the insured party, or



another person (article 2199, paragraph 2 of the Civil Code) can conclude it on its behalf. Such form of insurance aims to protect the insured party against the risk of paying damage to the third parties harmed by its illegal actions in some circumstances. The civil liability insurance is extremely important to the insured person in the sense that his/her assets will not be affected where his/her unlawful act or omission would cause damage to a third party [3].

The occurrence of the insured risk triggers the appearance of another party in the relationship of obligations, which is specific to civil liability insurances. The third party is not a contracting party, being an unidentified person upon the conclusion of the insurance. The third party is a determined person only when the insured risk occurs or when the insured party causes a prejudice, by his/her act. The injured third party is identified during the execution of the insurance contract and becomes the beneficiary of the insurance. The existence of such an insurance offers the injured third party the opportunity to cover the damage directly, from the insurance company.

The civil liability insurance covers only those damages caused to third parties by the insured party. However, by the agreement between the parties, the insurance may cover not only the civil liability of the insured party, but also the civil liability of a person other than the policyholders (article 2223 of the Civil Code).

The civil liability insurance cannot cover the damage incurred to the insured party or the damage paid by the beneficiary of the insurance. Such damage may be covered by the insurance only if these persons have additional insurance policies on goods or persons [4].

The compensation granted to the injured third party by civil liability insurance policies can achieve the maximum insured amount and there may be situations where the insurer pays greater compensation than the amount of the sum insured. This may be compared with the property insurance where the amount of compensation may not exceed the amount insured.

#### **4. The risks covered by civil insurance policies in transports**

The civil liability insurance in transports can cover different risks. In general, these policies cover the liability of the transport company for the damage caused to passengers or to the owners of goods.

In accordance with the general provisions governing the transport of persons in public interest, the content of the obligation to transport the person to the destination includes the carrier's obligation to conclude a civil liability insurance (article 2002, paragraph 4 of the Civil Code). Through this form of insurance, the insurance company agrees to cover the liability of the company engaged in the transport of persons. Therefore, the status of insured party belongs to those legal persons who hold passenger transportation means [5].

The liability of the company transporting passengers covers both the damage that passengers may suffer and the damage caused by loss or damage to the property belonging to them.

Regarding the passenger, the mandatory civil liability insurance covers the damage that the transport company is liable for, consisting in the passenger's death or bodily or health injury. In addition, the same policy or another policy should cover the direct and immediate damage brought to the passenger by the carrier's failure to perform, or by the improper performance of its assumed obligations (article 2002, paragraph 4 in conjunction with article 2004, paragraphs 1-3 of the Civil Code).

As to luggage or other property belonging to passengers, this insurance covers the carrier's liability for the damage caused by the loss or damage to passengers' luggage (article 2005, paragraph 4 in conjunction with article 2002, paragraphs 1-2 of the Civil Code).

Compared with the general provisions in the matter of transporting persons, the provisions of the Civil Code governing the carriage of goods (articles 1961-2001) do not provide for the general obligation of the transportation company to conclude civil liability insurance. However, within the category of civil liability insurances there may fall the civil liability insurance of the company performing the carriage of goods.

Under the provisions of article 1984 of the Civil Code on the transportation of goods, the carrier's liability may incur due to the damage caused by the total or partial loss of goods, by damaging them or by delaying their carriage.

Thus, the carrier is able to conclude insurance in order to cover the damage caused to third parties during carriage. The third party, which is prejudiced by the carrier's actions, is, in this case, either its co-contractor (the shipper) or the consignee of the goods, to the extent that the rights under the contract of carriage had been conveyed to him/her.

Such an insurance is not covered under the category of mandatory insurances. The transport company may also conclude such an insurance for the amounts that, under the special laws governing the carriage of goods, it would be liable to pay as damage to the injured third party.

In the transport of goods, the carrier optionally concludes this form of insurance and it should not be confused with the insurance that would be concluded by the owner of the goods forming the subject of carriage.

The insurance concluded by the carrier is a civil liability insurance covering any damage that he/she would be forced to pay to third parties for the loss or damage to the goods or for delay. The limits within which such an insurance may be concluded are those set by the agreement between the parties and in connection with the special law governing transportation. Therefore, regardless of the mode of transport, it is possible for the carrier to conclude an insurance to cover the damage caused to the party who disposes of the goods that were the object of the transport. Moreover, some provisions of special legislation require the carrier to conclude an insurance that covers its liability (e.g., article 50 of the Convention for the Unification of Certain Rules relating to International Carriage by Air, Montreal, 1999[6]; hereinafter referred to as the Montreal Convention).

Instead, the insurance concluded by the owner of the goods is acting as a property insurance, which covers the damage caused within the insured party's patrimony (the owner of the transported goods). In the latter case, the insurance company pays damage in

relation to the extent of the risk agreed by the chosen insurance condition. In general, in order to ensure his/her goods, the owner has the opportunity to choose one of three conditions applied, namely A, B and C. The criterion is represented by the area of the risks that, once incurred, can cause loss or damage to the goods carried.

In the field of transportation, civil liability insurances can also cover the liability for the damage caused to third parties, in accidents.

In road transportation, the civil liability insurance for the damage to third parties caused by motor vehicle accidents (motor vehicle insurance against civil liability) is regulated by the provisions of Law no.136, articles 48-58/1995 [7] and by the Norms on the compulsory insurance of civil liability for the damages caused by car accidents (hereinafter referred to as the Rules) [8]. At European level, the provisions of the Directive 2009/103 /EC [9] establish the legal framework.

In accordance with the above mentioned legal provisions, the requirement to conclude a civil liability insurance falls on the legal or natural persons who own vehicles subject to registration or trams. In addition, this obligation also falls on those persons who use vehicles registered outside Romania, if they have no valid insurance documents in Romania. There are exceptions from these rules, i.e. the use of the vehicle for certain purposes (rally, training, competition) removes the binding nature of the insurance (article 48 of Law no.136/1995).

The territorial limits of the motor vehicle insurance against civil liability are represented by the Romanian territory, the territory of the Member States of the European Union and of the European Economic Area and the territory of the States directly connecting two Member States of the European Union, where there is no national office (Article 1<sup>1</sup>, point 7 of Law no.136/1995).

"National office" means the professional organization established in accordance with Recommendation no. 5/25.01.1949, adopted by the Road Transport Sub-committee of the Inland Transport Committee of the United Nations Economic Commission for Europe and which groups together insurance undertakings which, in a

State, are authorized to conduct the business of motor vehicle insurance against civil liability (article 1<sup>1</sup>, point 5 of Law no.136/1995).

Under the motor vehicle insurance against civil liability, regardless of where the car accident took place, the insurer pays for the damage incurred by injury or death, property damage and trial expenses incurred to the injured party (article 26 of the Rules).

In the transportation of passengers by air, the civil liability insurance covers the liability of the aircraft operator for the damage caused to third parties by aviation accidents. In this form of insurance, third parties can be specified or unspecified persons upon the conclusion of the insurance.

The third parties specified in the civil liability insurance in air transport are the passengers. The civil liability insurance covers thus the damage caused by such air carriers for passenger injury or death due to accidents that may occur on the aircraft. In addition, this insurance can cover the damage caused by loss or damage to the passengers' luggage and to other property belonging to them. The binding character of this form of insurance results from the interpretation of the special legal provisions governing international aviation. The States that have ratified the uniform regulations are obliged to ask carriers to conclude and maintain contracts in terms of life insurance, in order to cover their liability under the law (article 50 of the Montreal Convention). In accordance with article 17 of the Montreal Convention, the carrier is liable for the damages arising from the passengers' death or injury and for damage to their luggage, if the event that caused the damage had taken place during the carriage by air. The civil liability insurance for such damage should be concluded within the liability limits established by the applicable legal provisions (article 21-22 of the Montreal Convention).

Aviation activities can cause damage to other people than passengers, i.e. to undetermined third parties. Regarding the liability for other persons than passengers, the insurance must cover the air carrier's liability for death, injury and damage due to aviation accidents (see the Regulation (EC) no.785/2004) [10].

In shipping, the ship owner's liability to third parties is usually covered by P&I Clubs.

Initially, these organizations of ship owners were established in order to cover the liability of the ship-owner, a member of the Club, against the damage resulting from the collisions with other vessels or fixed objects, damage that was not covered by insurance policies. Later, the scope of the insured risks also expanded in respect of death, injury or other damage suffered by the crew. These early categories of risks, at that time called "Protection", in order to designate the mutual insurance against<sup>1/4</sup> of the ship owners' liability for collision, and "Indemnity" in order to designate the insurance in case of death and injury, have been incorporated into the name of the respective club [11]. The need to establish these clubs was triggered by the marine insurance market, which provided insurance only for  $\frac{3}{4}$  of the total damage caused to a third party, by the owner. Currently, the membership of such a club provides protection to the ship owner, on the one hand, for the damage it may cause to third parties related to shipping, and, on the other hand, for the prejudice suffered by the crew.

Regarding the third parties, such insurance covers the ship owners' liability for the damage caused by a collision with the vessels or the floating objects owned by them. They can cover the damages caused by the accidents during the visit to the vessel.

Regarding the crew, the ship owner's liability insurance usually covers the salary expenses, repatriation, loss or destruction of personal property. In addition, they can cover the damages caused by accidents or personal injury or death [12].

## 5. The compensation procedure

According to the law, in order to recover the damage, the injured third party may turn to two actions.

First, the injured third party is entitled to an action against the party responsible for the damage (article 2224, paragraph 1 of the Civil Code). Since this form of insurance is based on tort liability, the admission of the action and, consequently, the award of damage, is conditioned by the cumulative fulfillment of the general conditions of tort. Therefore, if the injured third party uses the tort action, he/she must prove the commission of an illegal act, the existence of

damage, the causal link between the wrongful act and the injury, and the guilt of the party that caused the injury (article 1357 of the Civil Code).

Secondly, the injured third party can direct its action directly against the insurer, within the obligations assumed by the insurance contract (article 2224, paragraph 2 of the Civil Code). In this situation, besides the conditions of tort liability, the injured third party will have to prove that the event that caused the damage falls within the risks covered by the policy.

The compensation shall be established under the agreement concluded between the insured party, the injured third party and the insurer. If an agreement cannot be reached, the compensation is up to the court (article 2225 of the Civil Code).

The payment of the compensation due by the insurer is done directly to the injured third party. If the insured party proves that he/she covered the damage, the payment shall be made directly to him/her (article 2226 of the Civil Code).

## 6. Conclusions

In transports, civil liability insurances confer the carrier, as insured party, the possibility to cover the eventual damages caused to third parties.

At the same time, the existence of such an insurance provides security to third parties that may be affected by the carrier's activities. Thus, in the carriage of goods, the civil liability insurance covers the carrier's liability against loss, damage or delay in release. In addition, these forms of insurance may also cover the carrier's liability for the damage caused by accidents. In passenger transportation, the civil liability insurance guarantees to the prejudiced third party the possibility to recover the damages suffered by death, injury or destruction of his/her property.

## 7. References

[1] The Civil Code adopted by Law no. 287/2009 on the Civil Code, published in the Official Gazette no. 409/2011, with subsequent amendments

- [2] Law no. 32/2000 on insurance activities and supervision, published in the Official Gazette no. 148/ 2000, with subsequent amendments
- [3] Negru T., *Asigurări. Ghid practic*, Editura C.H.BECK, București, 2006;
- [4] Nemeș V., *Dreptul asigurărilor*, Editura Hamangiu, București, 2012;
- [5] Draghici M., *Asigurătorul-garant al plății*, Editura C.H.BECK, București, 2009;
- [6] The Convention for the Unification of Certain Rules relating to International Carriage by Air, Montreal, 1999, ratified by Romania through G.O. no.107/2000, published in the Official Gazette no.437 / 2000, approved by Law no. 14/2001, published in the Official Gazette no. 97/2001;
- [7] Law no.136, articles 48-58/1995 on insurance and reinsurance in Romania, published in Official Gazette no. 303/1995, with subsequent amendments
- [8] Order no. 23 of 12th November 2014 for the adoption of the Norm on the compulsory insurance of civil liability for the damages caused by car accidents, published in the Official Gazette no. 826/ 2014
- [9] The Directive 2009/103/EC on the civil insurance for the liability arising from the use of motor vehicles and the control of the obligation to insure against such liability, published in the Official Journal no.263/2009
- [10] The Regulation (EC) no.785/2004 on insurance requirements for air carriers and aircraft operators, published in the Official Journal L138/1
- [11] Mancaș G., *Asigurările P&I încotro?* In Revista română de Drept Maritim nr.3/2000, Editura Ex Ponto, Constanța, 2000, p. 58;
- [12] Cristea A., *Drept maritim*, Editura ALL BECK, București, 2001.

## Financing the Romanian Decentralized Educational System: International Projects Contribution

Ristea Bianca

*Bucharest University of Economic Studies*

[bianca.ristea@yahoo.com](mailto:bianca.ristea@yahoo.com)

Maşcu (Uda) Mihaela

*Bucharest University of Economic Studies*

[mihaelauda@yahoo.com](mailto:mihaelauda@yahoo.com)

Dudan Anghelina

*Constanta Carol Ist Commercial College*

[angi\\_dudan@yahoo.com](mailto:angi_dudan@yahoo.com)

### Abstract

*In Europe, for some countries, the decentralization of the educational system is an ongoing process and for other ones a current functional setup. The reform goals are oriented towards accelerate economic development, distribution of power, increase management efficiency but also on redistribution on financial responsibilities.*

*The financing of the educational system remains an important issue on government's agenda and the problems arising from underfinanced educational system are complex and affects long-term development. The global crisis affected the implementation of all ongoing reforms and measures to diminish its consequences must be taken. This paper aim is to analyze the impact of international projects on the financing of the educational system.*

**Keywords:** education, management, funding, project, decentralization

**J.E.L. Classification:** I21, I22, I28.

### 1. Introduction

The local administration and the local community are important stakeholders for the accountability and the school functioning improvement. This is the main reason way the most important institution like the World Bank, OECD, UNICEF and all European institutions encouraged for decades the implementation of decentralization actions in national educational systems. These

measures included the curriculum, school's construction and maintenance, teacher's compensation and recruitment.

In Romania, the decentralization of the educational system, started nationwide in 2011 and helped to locate the decision making process as close as possible to the point of implementation. The decentralization measures allowed the governance of each school as a partnership between school staff, the community and the local council.

Is expected as argued by Radó that the decentralization process lead to a greater level of professional, organizational and financial autonomy. Nowadays, for every school is important to be empowered to react to external expectations that may vary from school to school, from settlement to settlement [1].

Currently, the educational system is financed by the local authorities, and the limited resources are the constant and major concern of the unions. The international experience, in funding the educational system, has shown that public financing should mix two funding components: the core funding granted by the State representatives in order to ensure the free access to education and determine quality and consistency of teaching, but also an additional funding obtained by the institution's own efforts and resources, other than the state budget.

The pre-accession measures and afterwards the European integration contributed to school involvement in complex projects. These international

programmes helped school's infrastructure development and the connection with the international community. Currently, projects complete the national needs and outcomes for education by improving teacher's qualifications and skills, encouraging the private sector to participate in education, increase mobility both for students and teachers, foster cooperation and dialogue of young people and engage in intercultural exchange.

International projects can become an important tool for schools managers in their interest to increase training, improve skills of young people and staff, but also accelerate the process of educational reform and decentralization [2].

## 2. Literature review

According to the Law of National Education (LNE) no. 1/2011, the financing of the pre-academic education is ensured from public funds, within the limit of at least 6 percent of the GDP or from other sources. The financing includes three components: the basic financing, the complementary financing and the supplementary financing.

The basic financing is supposed to ensure the education process constant and normal development according to national standards. The basic financing is provided from the State budget and covers educational costs like: wage costs and other bonuses or contributions, material, service and maintenance costs. School's basic financing is established by multiplying the standard cost per student by the number of students. The standard cost per student is determined every year, according to the methodological norms developed by the Ministry of Education, for each educational level, channel, profile and area. In 2013, the standard cost for a pupil in a secondary school, urban area was of 2.420 lei, in 2014 it increased with 72 lei, reaching 2.492 lei.

The complementary financing ensures capital, social expenditures and other costs associated to the public pre-university education process. In this category are included costs related to investments, repairs, consolidations, scholarships, periodic evaluations, student's transportation, expenses for extra-curricular activities, etc. and are ensured from the local budgets of the

administrative and territorial units to which the pre-university educational units are attached.

As argued by the LNE, the basic and complementary financing take place based on the performance contract concluded between the pre-university educational unit principal and the mayor of the settlement/sector where the education facility is located at.

The supplementary financing is based on the performance contract concluded between the pre-university educational unit and the sponsor. The supplementary financing is granted as a global fixed amount from the budget of the Ministry of Education in order to reward the education facilities with special results in the field of inclusion or performance.

Formally, as presented in the LNE, the funding of the educational system is decentralized and allows the local administration to involve in school activities. However, the lack of material and financial resources characterize the entire educational system in the past decade. The insufficient financial support is a constantly objection of the trade unions. Furthermore, in the past 5 years, the global crises increased the gap between school needs and the available resources. Every school is constantly fighting to obtain the resources necessary for its development and for a superior integration in the international environment.

School managers do not have many opportunities to increase budget, they may attract sponsorship from the local businesses or rent spaces from the facilities e.g. sports hall, cafeteria, but without affect school daily activities. International projects allowed school staff and students to increase training, foster cooperation and dialogue of young people and engage in intercultural exchange. The financial component of an international project is important because it allows the project team to use it directly in activities that contribute to project outcomes. Since the projects are internationally sustained, the Romanian school can benefit of a fourth type of financing, an international one, oriented towards cooperation between school staff and students. However, this task is not an easy one for schools project teams because it requires some new approaches and techniques that are not available for every school.

A project is not a new concept in the educational system, school staff was always involved in all types of activities, with specific objective to attain, using limited resources in a certain timeframe [3]. However, in the decentralized educational system, school managers need to implement modern tools and techniques specific to project management, need to improve their abilities in order to increase the school financing and development. The project management literature has almost studiously ignored the contribution of project manager, and his or her competence to the success of the project [4].

The European Commission, an institution highly oriented in projects development describe the project as a series of activities aimed at bringing about clearly specified objectives within a defined time-period and with a defined budget [5].

### 3. Projects contribution in funding educational activities

The European Commission through its programmes in the educational field encouraged acquiring skills and competencies necessary for current and future employment, for active citizenship, the improvement of pedagogical approaches and school management. The European support for education and training in the pre-university school system increased every year after the European integration. Grater support is expected in the future, so the school administration must be prepared to obtain a larger share of European resources. The competition is high but the efforts are rewarded. Table 1 shows the evolution of the budget allocation for the pre-university in the past 5 years. In 2014, the budget of 52 million euro is specific for the Erasmus Plus programme that replaced the Lifelong Learning Programme developed since 2007 until 2013.

Table 1. The evolution of Romania's budget allocation for education and training by the European Commission

Year	2010	2011	2012	2013	2014
Value (million euro)	25.9	27.4	30.7	39.3	52

(Source: Research on ANPCDEFP database: [www.anpcdefp.ro](http://www.anpcdefp.ro))

Analyzing the European budget allocation for 2014-2020, the biggest share of the money goes to the agriculture, representing 38% of budget allocation, the second biggest share goes to the cohesion policy instruments, meanwhile the European programme for education represents 1,5% of the budget. Erasmus plus, the current European programme for education has a budget of 14,7 billion euros for the period 2014-2020.

The European programmes impact on school budget is not easy to establish in general terms, using mathematic analysis, given the differences and particularities of each settlement and project. The awarded grant is strictly used to actions and activities that allow and promote international cooperation in education. The financial available resources are used for student's related activities, so it can be easier to determine the financial impact of the project for each student.

Analyzing the budget allocation for projects involving students, the results are that for the period 2007-2013, the awarded grants are in some cases 25.000 euro, up to 35.000 euro for multilateral projects. On the first sight, the amounts may seem insufficient and discouraging if are compared with other businesses or projects in the academic area. However, for a school with 500 students, a budget of 35.000 euros for two years, represents up to 10% of the standard cost for a pupil. The percentages are higher if we analyze the practical situation that in a project team are involved a limited number of pupils, considering their preferences, their current abilities, their age and the project conditions like limited time frame, budget, target group. In any international project is

hard to involve the entire staff, the entire school. For this reason is justified to analyze the financial impact of project budget only on students strictly involved in the project implementation. Directly and permanent involved in a project are 30 up to 40 pupils, they are requested to cooperate and solve project tasks, they are engaged in the international mobility and communicate with the international partners. From these considerations, the budget can be divided only among direct beneficiaries. Therefore, an international project may help the school to obtain resources that may reach the value of the standard cost per pupil in a certain period of time.

The project financial impact increases if we analyze the practical and concrete situation of multiple projects development within a school. Regular involvement in 3 or 4 international projects is a common practice for many institutions. There are project teams always ready to attain the much needed resources for the school development and high-schools with tradition in educational international cooperation. One practical example was analyzed by the Constanta School Inspectorate, a high-school in the technological branch was involved during 10 years in 31 European projects and obtained grants valued more than 650.000 euros.

The financial impact is important, considering the lack of resources in the educational system and the possibility to use these resources in areas unavailable through the state budget funding. The school managers should be more and more aware of these opportunities and use its abilities in service of staff implication in international project. Considering the ongoing decentralization process the schools have gained more power but also more responsibilities considering their students, staff and the community perception. Although the curriculum is not entirely decentralized, and the national core curriculum must be followed, school management and staff can easily involve in extracurricular programs and projects that can improve competencies, attract resources and internationalize activities.

#### 4. Conclusions

The effective and efficient financing of education is a complex issue that is even more accentuated by the global financial crises and its consequences. The Government and the local administration must find the best solution and provide the necessary resources. However, the school administration, including head-school, teachers, parents, students and local businesses representatives must contribute to the school efficient use of resources and try to obtain extra-funds attracting complementary provision and funding partners.

The project management discipline keeps conquering new sectors and proves to be an important tool for institutions development. The international projects, funded by the European institutions, but also other organizations can constitute a modern tool to react to the organizational changes.

Schools that will chose the development through projects may improve the decentralization of the management responsibility and may become goal oriented. The only barrier is limited resources and, therefore, a limit to the number of projects that can be initiated or implemented in a settlement.

International projects in education, beside the competencies improvement, internationalization of good practices and cooperation, can represent up to a certain point an important financial alternative for the school.

A project based school management can be an important alternative for the decentralized educational system able to improve team work and allow a quick adaptation to the changing environment and expectations. The project based school management may transform the school in a student-centered education and improve international cooperation.

The Project-based School Management a concept recently settled in the school administration vision after many years of European cooperation through projects. This new management approach uses project portfolio management within the schools in order to coordinate and successfully complete various complex projects. Since project-based management enables school



managers to achieve more effective resource, time, quality, and risk management in schools, all the persons involved in the school management should support the management by projects [6].

### **Acknowledgement**

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”

### **5. References**

- [1] Radó, P., “*Governing Decentralized Education Systems: Systemic Change in South Eastern Europe*”, Local Government and Public Service Reform Initiative, Open Society Foundations, Budapest, 2010.
- [2] Ristea, B., “Integrated Project Management Approach in Secondary Education”, *Administration and Public Management Review*, (21), 2013, 43-57.
- [3] Mihaescu, C. & Tapardel, A.C., „A Public Administration Based on Project Management”, *Administration and Public Management Review*, (20), 2013, 97-107.
- [4] Müller, R., and Turner, J. R., “Matching the project manager’s leadership style to project type”, *International Journal of Project Management*, 25(1), 2007, 21-32.
- [5] European Commission, “Lifelong Learning Programme”, <http://eacea.ec.europa.eu/llp/>, accessed on 28 October, 2014.
- [6] Lifelong Learning Programme, Comenius, “PRO-SCHOOL project”, available at <http://www.pro-school.eu/>, (accessed on November 2, 2014).

# Evaluation and Determining Risks in an Entity through Methods Adapted to Economic Vulnerability

Sintea (Anghel) Lucica  
University of Craiova  
[lucicasintea@yahoo.com](mailto:lucicasintea@yahoo.com)

## Abstract

*The present economic situation in which we stand, attracts more and more the attention of specialists, researchers, managers of economic entities and governments, in order to take steps to protect primarily the economy and the survival of the business and secondly, in order to optimize the harnessing of the resources available and the discovery of new technologies for replacement of exhaustible and non-renewable raw materials. The entire company is concerned by the numerous analysis and research conducted in the idea of improving the effects of the economic crisis, the discovery in due time of the risks economic entities are exposed to and mitigation of uncertainties on the evolution of a business activity.*

**Key words:** evaluation, risk, accounting, analysis, mathematic methods

**J.E.L Classification.:** A14, A20, B16, B20, C61, M41, M42.

## 1. Introduction

Evaluating economic activity and risks represents a very important problem with fundamental implications regarding managerial decisions to be taken.

The present paper is founded on research based on specialized documentation, work experience in this field and transposition of mathematical knowledge in the economic evaluation of the situation of an entity and discovering the risks faced by firms in overcoming and defeating disturbances that acts on business

## 2. Contents

### 2.1 Accounting evaluation. A new perspective.

From an accounting point of view, evaluation values express patrimonial elements of an entity at a time.

"Modern accounting is not only a tool to ensure the realization of the function of information and assist decision-making process because, in the current context, given the products that it provides and the form it has, it should be regarded as a factor that influences the economic and social environment "[1]

The accounting evaluation is the starting point of a business activity analysis. In this context, the accounting assessment of property items is normalized and approached depending on the nature of the assets, liabilities, capital and revenues and expenses reflected in profit and loss. During this evaluation all means, resources, processes and results of the economic entity are discovered.

For a better analysis is recommended to perform periodic checks of current assets, both in terms of stocks and receivables and debtors, debt, cash assets etc. Thus we detect early causes that can lead to distortion of business, we can detect the risks that the company faces. The revaluation of fixed assets should not be neglected, operation to be performed with great care by specialists pursuing those assets both in terms of diminishing the value depreciation due to use and especially to obsolescence.

Value differences denominated by specialists, must be presented to the board of the entity for timely decision making, taking into account the trend of technological development, market evolution, the possibilities of the company to adapt to any changes.

## 2.2 Business control

Increased productivity is the premise of managers. This is carried through by the analysis of the management control of the entity through a tool to give more specific information to managers, concerning management accounting.

Managers are interested in the effectiveness of the organized activity, the pertinent information provided to internal and external users. With the passing of time managers have realized that using management control is a method of checking the activities of the entity. Powerful changes in the economic environment, supply and demand, environmental restrictions and economic opportunities lead managers to redefine objectives in productive logic, by changing large quantities in small and more diversified batches, improving quality, but also by reducing production costs, sales and corresponding customer needs. Managers need to prove adaptability, flexibility and organizational orientated personality towards activity assessment and economic risks. Management control is designed to detect the causes that cause high costs, and mainly aim to indirect costs, their composition, their distribution phases, the processes, the product. Through a good knowledge of overall product costs, the system could help increase company performance.

## 2.3 Value of products and services

Another approach that managers have to take into consideration in making decisions is the value of the products in front of customers which differs from the product cost. Today managers need not address the market with products whose costs are as minimized as possible, but products with a bigger value. Moral issues, staff skills, various intangible activities that accompany the products to the market that includes research activities, innovation, art of negotiation, are values for the client. A cost that can not be predicted in management accounting situations is the opportunity cost. In the decision making process is recommended to consider such costs or payments that do not require actual consumption or real payments. This is determined by opportunity or sacrifice in

making decisions that will change the activity or part of the business entity. From these presentations it is clear that the value of a good is equal to the cost of the asset, but for the evaluation of the enterprise financial indicators such as return on invested capital are not sufficient. I Traditional indicators give us conclusive and sufficient information in a stable, rigid market, without fluctuations, the information that those provide reffers to a past environment. Currently, to assess an activity we must take into account the conditions of a competitive and segmented market economy. Systematic method of management, forecasting and ongoing analysis of factors acting on the external economic climate is costly, time consuming, statistical previzional knowledge flexible are to changes but also lead to the reduction of risks and causes of unsustainability. Managers must take into account when assessing the costs and cost-value of the product, according to various objectives. This method must not omit the rational imputation process of fixed costs by calculating the costs and allocation of judicious expenditures in seasonal activity periods.

An economic entity can be seen as a set of resources or as a set of activities.

If we look at it as a set of resources we concentrate on traditional accounting where resources are grouped according to the chart of accounts. Through this representation the entity is regarded as an automatic machine that consumes raw materials, labor, time, according to some standards, then specialists perform financial evaluation.

This process is applicable when there is stability, does not take into consideration infrastructure, the place where products are commercialized. [2]

If we look at it as a set of activities, the entity is no longer perceived as a set of resources grouped into administrative units whose effectiveness is enough to maximize independently from each other to be successful. [2]

The set of activities includes customers and suppliers. The economic entity is seen as a chain of activities to which networks of customers and supplier are attached. Efficiency is analyzed based on the global customer's opinion, and the value he gives to the product, consequently. If ineffectiveness is found, we can not just put it on lack of

productivity of the resources but rather on the activities and how these progress.

Even if we have a skilled manpower we can not always say that it is cost-effective, it is is performant in the value-cost ratio because the client is not interested in entity costs resources consumed with staff qualifications, distribution costs, etc. So the performance of the entity is no longer calculated based on the resources consumed but on the value of goods obtained in the eyes of clients. If after the evaluation, we find that the economic entity is not profitable, the reorganization of the company will follow, considering the resources consumed to build the business and focus less on workforce productivity through massive layoffs, as was done in the last 20 years. From the above we can say that with accounting by activity all expenses are and are variable and are reported on a variation given by the client. And some of the indirect costs of the traditional management accounting are distributed in direct costs. This point of view changes the evaluation for targeting and guidance to assessment of the economic climate in which traditional management accounting and cost allocation based on resource accounting is included in the activity, we can say that the value of the property includes accounting and marketing they are trapped and other issues and probably with the help of mathematical calculations which I will outline below, we can evaluate the determinants of a firm's profitability and risk detection in the design, forecasting what course of action will be taken.

Crisis period in business, has been favored by many factors, but the main which deepened this state is a lower demand. This is subject to a complex of circumstances including some of which I enumerate below:

- Financial blockages
- Exchange rate volatility
- Credit availability
- 
- Unrational closing of old companies
- Unemployment

These phenomena are the result of state policy to discourage consumption and restriction of activity of public companies as a measure of protection against the repercussions of the economic crisis.<sup>2]</sup>

Economic risks are generally quantifiable. In case of certainty it is easy to calculate the optimal level of risk prevention by the standard cost / benefit. But in a situation of uncertainty, lack of information likely cause difficulty in making decisions. As Knight said, when there is uncertainty, the art of leading an entity is not limited to cost and benefits analysis for a short period of time. Managers need to perform calculation forecasts for long periods of time and take into account uncertain or unknown phenomena. I do not think it is wrong if I say that when we evaluate risks in an economy, it is actually an act of precaution and prevention of unwanted events. As Knight said, the company is not found in a pure risk situation but rather in a situation of uncertainty, due to changes, transformation events, the appearances of new factors of influence, and anticipation of technological advances. This is one reason why we can not remain passive in front of potential dangers and decisions we make in the present to respect the precautionary principle and not be definitive in the future.

„The precautionary principle suggests favoring prevention, minimizing the risk of making incorrect decisions in the present. Interpreting the precautionary principle is: The stronger the initial scientific uncertainty is, there is a risk of change in perception, the more necessary the preventive attitude. [4].

### **3. Mathematical methods used in assessing economic risks in times of crisis.**

The set of systems in the economy have created multiple methods of analyzing and solving cases that cause changes and transformations in the economic life of an entity. This variety of factors that act on an entity determines researchers to discover information about events' causes and prevention measures that can be taken. Mathematical programming models and primarily linear programming methods have an important place in economic practice. Economic theory has enjoyed different in-depth approaches of analysis of business efficiency. "In complex systems, mathematical methods have contributed to the discovery of new concepts of economic optimum and improved research methods and knowledge, and economic practice has been

enriched with a very useful tool in economic analysis and the fundamental decisions." [3]

We illustrate the importance of using Cramer method through business efficiency and for decision that can be taken using these methods. We believe that we have a wine society, where we produce three types of wines. Given that we have a budget we need to know the optimal decision to the budget use in the production process. The company produces three types of wine, including: red wine, white wine and rosé wine. We know: for **white wine** I planned the amounts as following "

- 60 lei for harvesting
- 40 lei for processing
- 20 lei for distribution

for **rosé wine** I planned the sums as following:

- 40 lei for harvesting
- 18 lei for processing
- 7 lei for distribution

for **the white wine** I planned the sums as following:

- 70 lei for harvesting
- 45 lei for processing
- 22 lei pentru distributie

The budgetary capacity of the company is:

- \* for harvesting 1000 lei
- \* for processing 700 lei
- \* for distribution 500 lei

Knowing that there are no budget rectifications we have to calculate which variety is effective, for a decision regarding especially that variety.

$$\begin{pmatrix} 60 & 40 & 70 \\ 40 & 18 & 45 \\ 20 & 7 & 22 \end{pmatrix}$$

We bring down the first two lines of the matrix and calculate the determinant.

$$\begin{matrix} 60 & 40 & 70 \\ 40 & 18 & 45 \\ 20 & 7 & 22 \\ 60 & 40 & 70 \\ 40 & 18 & 45 \end{matrix}$$

Calculate diagonally from right to left and subtract diagonally from left to right we get:

$$\begin{aligned} & (70 \cdot 18 \cdot 20 + 45 \cdot 7 \cdot 60 + 22 \cdot 40 \cdot 40) - \\ & (60 \cdot 18 \cdot 22 + 40 \cdot 7 \cdot 70 + 20 \cdot 40 \cdot 45) = \\ & (25200 + 18900 + 35200) - \\ & (23760 + 19600 + 36000) = 79300 - 79360 \\ & = -60 \end{aligned}$$

Because of the fact that  $\Delta \neq 0$ , we can continue the calculations, since our problem has solutions.

According to Cramer's method we calculate the determinant for each variety separately and we will replace the column of the free terms.

$$\begin{matrix} 1000 & 40 & 70 \\ 700 & 18 & 45 \\ 500 & 7 & 22 \end{matrix}$$

$$1000 \quad 40 \quad 70$$

$$700 \quad 18 \quad 45$$

We will have x for red wine, y for rosé wine, and z for red wine, we calculate the determinant  $\Delta_x$  and we have:

$$\begin{aligned} \Delta_x &= (70 \cdot 18 \cdot 500 + 45 \cdot 7 \cdot 1000 + 22 \cdot 40 \cdot 700) - \\ & (1000 \cdot 18 \cdot 22 + 700 \cdot 7 \cdot 70 + 500 \cdot 40 \cdot 45) = \\ & (63000 + 315000 + 616000) - \\ & (396000 + 343000 + 900.000) = 1561000 - \\ & 1.639.000 = -78.000 \Rightarrow \underline{\Delta_x = -78000} \end{aligned}$$

We calculate  $\Delta_y$ .

$$\begin{matrix} 60 & 1000 & 70 \\ 40 & 500 & 45 \\ 20 & 700 & 22 \end{matrix}$$

$$60 \quad 1000 \quad 70$$

$$40 \quad 700 \quad 45$$

$$\begin{aligned} & (70 \cdot 500 \cdot 20 + 45 \cdot 700 \cdot 60 + 22 \cdot 1000 \cdot 40) - \\ & (60 \cdot 500 \cdot 20 + 40 \cdot 700 \cdot 70 + 20 \cdot 1000 \cdot 45) - \\ & (700.000 + 1.890.000 + 880.000) - \\ & (600.000 + 1.960.000 + 900.000) = 3470000 - \\ & 3.460.000 = 10.000 \Rightarrow \underline{\Delta_y = 10.000} \end{aligned}$$

We calculate  $\Delta_z$ .

$$\begin{matrix} 60 & 40 & 1000 \\ 40 & 18 & 700 \\ 20 & 7 & 500 \end{matrix}$$

$$60 \quad 40 \quad 1000$$

$$40 \quad 18 \quad 700$$

$$\begin{aligned} \Delta_z &= (1000 \cdot 18 \cdot 20 + 700 \cdot 7 \cdot 60 + 500 \cdot 40 \cdot 40) - \\ & (60 \cdot 18 \cdot 500 + 40 \cdot 7 \cdot 1000 + 20 \cdot 40 \cdot 700) = \\ & (360.000 + 294.000 + 800.000) - \\ & (540.000 + 280.000 + 560.000) = 1.454.000 - \\ & 1.380.000 = 74.000 \Rightarrow \underline{\Delta_z = 74.000} \end{aligned}$$

The system solution is given by Cramer's formulas and we have:

$$X = \frac{\Delta_x}{\Delta} = \frac{-78.000}{-60} = 1.300$$
$$y = \frac{\Delta_y}{\Delta} = \frac{10.000}{-60} = -166,66$$
$$y = \frac{\Delta_y}{\Delta} = \frac{74.000}{-60} = -1233,33$$

To use more efficiently the available budget, managers need to consider the optimal solution and use the budget as follows:

For white wine = 1300  
For rosé wine = -166,66  
For red wine = -1233,33

I mention that these data are taken randomly, figures are not taken from any accounts of any company.

Following this method we can use all the factors that influence the activity that lead to decision making.

### 3. Conclusions

With attention, systematic analysis and caution must give new solutions in finding responsible solutions in determining the factors that act upon economic entities. Remaining passive and acting for the crisis to pass is not a solution. But it is not enough to protect ourselves from the action of external factors, as we have just put the roof on the house, instead discoveries, traditional practices and implemented by scientific methods must be applied and combined.

### 4. References

- [1] Brabete Valeriu, Dragan Cristian, Mihai Magdalena, *Contabilitatea activitatilor de comert, turism si alimentative publica , abordare in context national si international*, pag 3, Editura Presa Universitara Clujeana, Cluj-Napoca, 20123
- [2] Guinea Flavius-Andrei, *Creativitate versus fraudă in controlul de gestiune*, pag.23, pag.35. Editura ASE, Bucuresti 2010
- [3]Cismaş Laura, Sîrghi Nicoleta si colaboratorii, *Microeconomie*, Editura Mirton, Timisoara, 2013 pag. 34

# The Formation of the Incomes and their Social Significance

Urziceanu Ramona-Mihaela  
Agora University of Oradea  
[ganearamona2002@yahoo.com](mailto:ganearamona2002@yahoo.com)

## Abstract

*In every society there must be an equitable distribution of the incomes in accordance to everyone's physical or intellectual capacities, to profession training, to the effort in the working process for the creation and innovation abilities.*

**Key words:** income, distribution, G.D.P., N.D.P.

**J.E.L. Classification:** E01

## 1. Introduction

Every economic and human activity implies the getting of an income which allows people to support all the necessities of life. Every individual wishes to satisfy all the needs, physiologic needs (proper food, clothing, shelter, security etc.), social superior needs (education, spiritual life, creative activities, as well as a grade of comfort – cars, houses, exclusive use areas etc.), but unfortunately, about a quarter of the global population cannot satisfy not even the basic life needs, because they are deprived of income, or the incomes are not enough for the life necessities, subsisting under the limit of poverty.

## 2. The incomes - formation and distribution

The distribution of the incomes is made by two processes that interfere mutually: functional distribution (primary distribution) and the second distribution (redistribution). [1]

The primary distribution presumes the sharing of the income between the possessors of the production factors for their contribution to the economic activity.

During the process appear the following incomes: the salary for the working man, the

profit for the capital factor possessors, the interest for the loaned capital possessors and the rent for the land possessors brought in business. The main part of primary incomes is represented by salaries and the properties' profits or other wage incomes (profit, rent, interest). The obtaining of the primary incomes it's not only an economic phenomenon but also a social one. People are conscious about the importance of work from the angle of satisfying the own needs and then from the angle of the development of society. Nobody works for the sake of work or for the sake of economic growth, but every individual's motivation is to obtain better incomes in order to satisfy all their necessities, to obtain a higher social position, to participate to the social life, to reduce aspirations-possibilities relation.

The second process of income distribution is the redistribution of the incomes.

Redistribution casuists of:

- extractions - are sums absorbed out of the primary incomes, by public authorities as taxes, in order necessarily, and their redistribution towards the existing needs in different areas of public interest. These amounts are then redistributed through transfer;

- transfers-represent any pay of an income that is not a counter offer of productive services from the recipient and they can be in money or in kind. They are determined by the needs of the disadvantaged categories of the society like: familial allowances, grants for children, state grants to mothers of many children, grants for disabled people, students' grants, sick benefits etc. [2]

The value of the incomes it's not only an economic subject, but also one of the social preoccupations because the income is one of the main that influences the standard of living and the incomes' distribution determines the differences in satisfying the needs. Within the functional distribution we

can work for the growth of salary incomes while for redistribution it is used the social security system, being known that the individuals or the families that are under the incidence of poverty obtain income from social benefits (pensions, sick benefits, unemployment grant, social grants etc).

The distribution of the incomes it's an important poverty factor, as unequal it is, as higher the poverty degree is. The factors that influence the growth of inequalities are:

- a higher difference between salaries according to the individual capacity and performances;
- the increase of weight of the total incomes and of personal incomes and of the property;
- the transfers with the help of social protection mechanisms influence contrary: they have a progressive character and they aspire to a redistribution of the incomes from the rich to the poorer, from the families without children to the family with many children acting for the growth of equal incomes. The incomes carry through level and differentiation the impress an crisis in which the economy is, because they represent the resources of the households. [3]

### 3. Types of the income at the macroeconomic level

The national income is of many types and is it consists of distribution mechanisms and redistributions, that is the primary distribution and secondary distribution. The value of incomes that appear in a national economy or the net domestic product (NDP<sub>fp</sub>), in the factors' price, are obtained by taking out from the gross domestic product (GDP<sub>mp</sub>) sum, in the market's prices and in the subventions (S<sub>v</sub>), the amortization (A) and indirect taxes (IN.T).

$$NDP_{fp} = (GDP_{mp} + S_v) - (A + IN.T) \quad (1)$$

This process is carried out with the help of the income's count that into light of every field and for the whole economy the formation of the incomes that evidences for every field and for entire economy the formation of the incomes out of economic activity and patrimony inheritance under the net added value (NAV<sub>fp</sub>) or net domestic product (NDP<sub>fp</sub>) in the factors' prices.

$$NDP_{fp} = \sum NAV_{fp} \quad (2)$$

This is the production method or added value method. The net domestic product

evidences the net added value in the factors' prices (when there are net indirect taxes).

$$NDP_{fp} = \sum NAV_{fp} + IN.T. \quad (3)$$

Taking into consideration that every country has production affairs with foreign countries, and if to the factors' incomes sum we add the national production factors' incomes obtained abroad for its activity and we reduce the volume of the production factor paid abroad as a consequence of the activity developed within the country by the economic agents that belong to other countries, we obtain the national income or the national net product, expressed in the factors' prices. (NI<sub>fp</sub>)

The calculation method of the national income with the help of summing the incomes obtained by the possessors of production factors that realize the production it is called the distribution method or summing the incomes. From this point of view the national income will consist of salaries + rents + net interest + profits. All these incomes obtained by the national participants to create the production are under indirect taxes. If we take into consideration that every country effectuates some pays for other countries that have no connections with the production activity, is able to take these pays from other countries, than by correcting the national income realized with the help of collection balance and pays in relation with foreign countries called also the balance of current transfers in connection with foreign countries (BCTC), results the available national income (ANI).

$$ANI = NI \pm BCTC \quad (4)$$

If we take out of the national income the elements of the national income that are not for the population and add the population incomes that come out of the transfers (pensions, grants, scholarships) we obtain the population personal income. If we take out of personal incomes the taxes we obtain the available income of the households, indicator which expresses the population possibilities for consumption and saving. The available national income is a net income. If we add to it the amortization we obtain the available gross income.

In conclusion the national income represents the production factors incomes, that is the incomes obtained from working process, from the enterprising activity those of patrimony inheritance which represent the



sum of the net added values created by the national production factors in the country and abroad.

#### 4. Regional incomes determination

In the economy of a country some regions have more severe fluctuations as concerns the occupation and the incomes in connection with others reacting differently to the changes that occur in affairs at the national and international level. That's why there were many attempts in modeling the basic structure of the regions in order to obtain a better understanding of the essential variation in short, medium and long term in occupation and incomes.[4]

The regions differ considerably in size, the structure of the population, industrial structures and branches, levels of qualification, seniority factories and industrial equipment, comercial links with other regions, the consumption model and other fundamental characteristics.

It is possible the constuction of new general models that can be used in explaining the determining factors of ocupation and incomes in all types of regions beyond the differences between them. For this there were followed two ways:

A. The regional multiplier of incomes (expenses). Keynesian model

The Keynesian approach incomes-expenses of in the economy of a region is virtually identical to the easiest version of Keynesian model in an open economy, the only difference is that all the variables refer to the regional economy (or the local one) instead of the national one. [5] The model begins with:  $Y = C + I + G + X - M$  (5) where: Y = regional income; C = regional expenses for population consumption; I = regional expenses for investments; G= governmental expenses in the region; X= regional exportation; M=regional imports..

It is presumed that the investments, the governmental expenses and the exportations are autonomously determined:

$$I = \bar{I}; G = \bar{G}; X = \bar{X} \quad (6)$$

The expenditure and the import expenses are presumed to be partially autonomous, partially dependent on the available incomes:

$$C = C + cDY \quad (7)$$

$$M = M + mDY \quad (8)$$

where: DY represent the available incomes determined by the relation:

$$DY = Y - tY \quad (9)$$

where: t is the taxes rate;

Substituting relations (6)-(8) in (5) obtain:

$$Y = \bar{C} + c(1-t)Y + \bar{I} + \bar{G} + \bar{X} - \bar{M} - m(1-t)Y = \bar{C} + \bar{I} + \bar{G} + \bar{X} - \bar{M} + [c(1-t) - m(1-t)]Y \quad (10)$$

Hence the:

$$y = \frac{\bar{C} + \bar{I} + \bar{G} + \bar{X} - \bar{M}}{1 - (1-t)(c-m)} \text{ sau } Y = k(\bar{C} + \bar{I} + \bar{G} + \bar{X} - \bar{M}) \quad (11)$$

$$k = \frac{1}{1 - (1-t)(c-m)}$$

Where k , represents the regional multiplier of the expenses. For example, for the growth of the regional investments with  $\Delta I$  regional income, Y will grow with  $k\Delta I$ , that is  $\Delta Y = k\Delta I$ . The essential variable in Keynesian formula is the regional multiplier  $k = 1 / [1 - (1 - t)(c - m)]$  is the marginal propensitytoconsumption oflocally producedgoods (c-m).

As (c-m) has a major effect in the value of the regional multiplier, the study of the factors that affect the marginal propensitytoconsumption oflocally producedgoods is necessary. Firstly, (c-m) is affected by the value of the region, being obvious that small regions spend more on imports in comparison to large regions. Marginal propensitytoimport is higher in small regions, that reduces (c-m) and, also the value of the regional multiplier.

The second factor that may affect (c-m) is the grade of the concentration of the industrial regional structure. As a consequence, the regions with a high concentration degree of the industrial structure will depend massive by on imports. But even the largest regions that have a highly diversified industrial structure are strongly based on commercial links with external world because of the inter-industrial exchanges.

Another factor which can influence the marginal propensitytoconsumption oflocally producedgoods is its localization especially in relation with other local labor markets. If the commutation towards the inside of a region is a frecquent phenomenon as a consequence the approaching of the region to other labor markets (when a town is encircled

by other towns), this will lead to a smaller multiplier. The cause is evident: the commuters will spend their incomes in the places where they live rather than where they work. This will determine the growth of the marginal propensity to import and as a result the diminution of  $(c-m)$  and, further of  $k$ . The geographical localization of a region will affect as well but positively the residents for spending in the local plan, because the supposed absence of the commercial debts in the encircled regions will encourage shopping in the local plan, and as a result reducing the marginal propensity to imports and will grow  $(c-m)$  and  $k$ .

Analyzing the mentioned factors the result is that the value of the regional multiplier it is not a unique value that can be used in all regions and places, but on contrary it varies in accordance with every region/place characteristics for which is estimated.

Usually the regional multipliers are valued for certain projects connected with certain locations, representing not only the regions but also the projects that fallow to be realized in those regions; different projects for a specific region will have different consequences in the multiplication plan.

#### B. The limits of the regional multiplier

In spite the important role the regional multiplier occupies there are also some weak points such as: [6]

- The regional multiplier doesn't take into consideration the restrictions of the capacity. If a regional economy is confronted shortages in the capacity all expenses have a reduced effect or none on the regional income. In this situation the producers can respond to the growth of the demand not by increasing the production but by increasing the prices, or they can employ more people in other regions. There also can be narrow places in the goods' industries that supply good and services to the households and as result the supplementation of the expenses will grow the marginal propensity to imports and to the reduce of the regional multiplier. However on the long term, the existence of the narrow places will bring extra investments for the growth of the productive capacity of the region.

- The regional multiplier doesn't take into consideration all the feedback effects which may occur at the interregional level. As shown above in some cases the growth of the

regional income has as a result the intensification of the imports. As these imports represent other regions' exports, those exports will influence the incomes of the regions where there are from. These feedback effects aren't taken into consideration by the regional multiplier. However these are not a problem in the small regions where the feedback effects are also reduced. In regions where relatively large in relation to the entire system of regions, the feedback effects will be taken into consideration unproperly.

- The regional multiplier is based on the implicit hypothesis that time is a discrete variable, not a continuous one. As shown above the multiplier effects resulted as a injection given by the expenses will grow in time, and some year are necessary that the multiplier effects "to make themselves a place" in the local economy. The analysis of the regional multiplier doesn't pay attention on the time sequences of the growth of the incomes, which would help the local authorities to organize in time the realization of their investment objectives. However there are simple possibilities to estimate the time sequences of the multiple effects, to cover this shortfall.

- The regional multiplier supplies just an aggregated image of the impact of the expenses injections. But the local authorities have to know the effects of these injections not only on the production and employment but also on some specific branches. All these justify the necessity that the analyze based on the regional multiplier to be completed with supplementary regional analyses procedures so that to obtain detailed information about the mode the expenses injections can affect the economy of a region.

## 5. Conclusion

The formation and distribution of the income it's not only an economic preoccupation, but as well as a social one as long as the income is one of the most important factor which influences the living standard and the distribution of the incomes determines the differences in satisfying needs, and explaining the assurance level of the existence for different social categories of the population.

## 6. References

- [1]Tănase Adrian Costinel, "The implications of prices and incomes on consumer's behaviour", , *PhD Thesis*, Timișoara, 2007, p.86.
- [2]Constantin Daniela-Luminița - *Regional Economics. Theories, patterns, policy*, ASE Publishing House, București, 2010.
- [3]Cismaș Laura Mariana, "Consumption in Economics theory", *PhD Thesis*, Timișoara, 2004, p. 80.
- [4]Anghelache Constantin - *Macroeconomics analysis. Syntheses and case studies*, Economic Publishing House, București, 2007.
- [5]Silași Gr., Sîrghi Nicoleta, *Macroeconomics in files*, Mirton Publishing House, Timișoara, 2005.
- [6] Tănase Adrian Costinel, "The implications of prices and incomes on consumer's behaviour", *PhD Thesis* Timișoara, 2007, p.95.

**Section II**  
**Business Economy and Administration**

\*\*\*

**Subsection 2**  
**Marketing – Management**

## Management and Financial Crisis Effects in the Period 2005 - 2009 in Romania

Anastase (Bădulescu ) Ileana  
Tomis University of Constanta  
[anastaseileana@gmail.com](mailto:anastaseileana@gmail.com)  
Andrușca Carmen Maria  
Tomis University of Constanta  
[info@brancew.ro](mailto:info@brancew.ro)

### Abstract

*This paper aims to look objectively financial crisis, analyzing the situation in Romania, the Romanian economy being influenced unfortunately by government decisions that they take, leaving the market to recover through its mechanisms that can restore financial stability and finally a exit from a long and hard recession. [1,2] Therefore, the importance of the topic of this work involves analyzing the influences of the financial crisis on the economy and its impact on Romania. So it is important to know how this crisis did come and which its implications on the Romanian economy are. Based on the spacing and time of the beginning of the recession we, will try to see how this crisis expanded its harmful effects on the economy of Romania, while, through what channels, and how hard this had affected it, given that Romania is still in a transition period which postpones all its completion due to poor coordination of the process of economic growth. [3]*

**Keywords:** economy, financial, crisis impact, recession.

**JEL Classification :** G01

### 1. Introduction

Communication is even more important in times of crisis, being absolutely necessary to maintain that attachment between the company and its publics, of course, to sustain the image built during normality. I chose this topic because the economic crisis has become, unfortunately, a state of life in the past year, the term crisis being increasingly

more present in the debates of journalists, leaders of public and private institutions and even the general public. In addition, given that there are few specialists who have the skills and experience necessary to control effectively the crisis.

This article starts with clarifying conceptual aspects regarding crisis management and presents all details about the economic crisis, the communication during the economic crisis, as well as some strategies to prevent or counteract the economic crisis.[4] Almost in any field of human activity, there are concerns about malfunctions that may occur within it and, therefore, the causes are studied, mode of occurrence and their manifestations. Economists analyze economic crisis by specific criteria, assigning the characteristics of phenomena with unwanted consequences for organizations, institutions and social groups affected: inflation, unemployment, stagnation, recession. A genuine financial crisis has as feature the fact that an accident well located has the ability to spread to the entire financial system. The problems encountered in a country, if not resolved in time, affect the economy of other countries. And then, those financial crisis effects are more serious. Therefore proper management of financial crises requires not only policies and strategies for its prevention but also management methods appropriate to the type of crisis. [5,6,7]

#### 1.1. Principles of crisis management

Firstly, I want to mention that unfortunately there is no standard recipe for domination of a financial crisis, because every situation of each country is different.

Correct management of the crisis represents a collection of measures, prepared in advance, allowing the organization to coordinate and control any emergencies. Thus, effective management of the financial crisis has the following features: combat the crises, minimize damage and negative effects of crises, eliminate the risk and uncertainty due to negative events, allows the organization to have under control its evolution. It also includes effective management of the financial crisis, as an essential component, crisis communication. The latter involves many strategic activities designed to restore the image of the organization, to regain public trust. Crisis management can be divided according to the mode of action for financial crisis management: management reactive, proactive management and interactive management. Thus management of a financial crisis takes place in five stages, namely, signal detection, preparation and prevention, management, crisis, reduce or limit the effects, restoration or recovery.

Interactive Management is the only type of management that occurs in all five development phases of a crisis, having thus the possibility to improve their way of action and not repeat mistakes in the case of a new financial crisis.

A recommended policy for successfully solving the economic crisis has as the first step an attempt to avoid them as much as possible. At a careful analysis of several financial crises entered in the history of public relations was found that although the timing of it was unpredictable, the event itself was predictable. Therefore, during the normality of a company, a strategy is essential to highlight any weaknesses of its current and future, to eliminate all possible risks before the situation get worse.

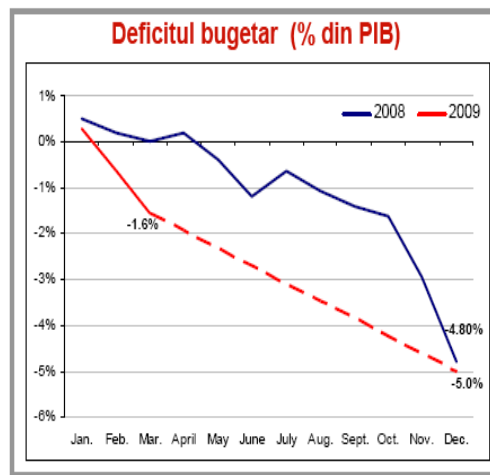
## 2. Chapter I. Evolution of the crisis in Romania

Romania's economic growth in the period 2005-2009 was not generated, as would have been cost-effective, by external demand, but by domestic demand, representing the household consumption, government consumption and investments mostly unproductive, so such accumulation of inadequate growth creates macroeconomic imbalances. If in 2004 was achieved an

economic growth of 8.5% to an inflation of 9.3%, with a fiscal deficit of 1.5% of GDP and a current account deficit of 8.4% of GDP in 2008 achieved a economic growth of 7.9% to an inflation of 6.3%, with a fiscal deficit of 4.8% of GDP, twice higher than programmed and a current account deficit of 13.5 % of GDP, while in 2007 recorded a deficit of 14% of GDP.

The budget deficit is widening in 2009, reaching 5% of GDP, as shown in the table below:

Figure .1. The budget deficit



(Source: BNR, UniCredit Research)

Simultaneously, another factor that makes to be felt increasingly more acute the international crisis in Romania, is the fact that Romanian exports are based on metallurgical products, petro-chemical, complex equipment, including automobiles, and externally, collapse of all the bank loans, the demand for such products decreased, while reducing domestic demand amid substantial contraction and thus producing drastically reduced GDP growth by around 3% in 2008.

## 3. Financial and economic crisis

From January to February 2009 are starting to feel the effects of the economic crisis in Romania at the population level, especially in the active population. [8,9,] These effects have resulted in loss of jobs, declines in labour income through depreciation, RON - euro, doubled by a rise in interest rates that led to the blocking of credit but also lower disposable income of the working population, the main consumers.

In March 2009 the Romanian Government decided accessing an external loan from the IMF, European Commission and EBRD. In April 2009 there is a negative budget adjustment in proportions rarely seen in the 20 years after the Revolution of 1989. From 1 May 2009 the Romanian Government decided to continue measures to increase taxation, started in February by increasing social contributions and by introducing the flat tax and eliminating the deductibility of the VAT on cars, fuel and automotive maintenance expenses.[10]

### **3.1. The economic crisis**

*Definition:* The economic crisis represents a situation in which a country's economy suddenly goes through a decrease in its strength, decrease usually brought a financial crisis. An economy that is going through an economic crisis almost certainly will experience a drop in GDP, an evaporation of liquidity and falling prices due to inflation. Economic crises can take the form of a recession or economic depression, and can sometimes lead to economic collapse.

### **3.2. The economic crisis**

*Definition:* The financial crisis is a situation where money demand is greater than the offer. This means that liquidity is quickly evaporated because available money is withdrawn from the banks, and thus forcing banks either to sell their assets and investments to cover their needs, or to collapse. Financial crisis can lead to an economic crisis.[11]

### **3.3. Liquidity crisis**

*Definition:* When an economic entity is in a position to not be able to pay their obligations on time, it is called as suffering from a liquidity crisis. The liquidity crisis is often the first step towards insolvency. At present many governments pump billions into their banking system to prevent its entry into liquidity crisis.[12]

## **4. How did Romania enter in crisis?**

The immediate consequence of breaking the reality of governors was virulent, but with this was attacked the Romanian economy, and not with the RON, with the crisis. The key month was in October 2008.

International crisis led to massive currency returns in several states, through which Romania. In Romania they have got a stubborn governor. He decided to withdraw liquidity from the market, forcing foreign banks to assume losses.. They could not believe that the central bank doesn't inject liquidity into the market when interest rates go up so much, explained a dealer the situation in the market. The result: BNR governor announcement that "the attack on the RON failed. Those who predicted wrong received their rations. Just that there were collateral victims, because interbank interest jumped 40%. Governor Isarescu claimed that she does not explain why the offending credit institutions did not come to the National Bank to access emergency loans at the lombard rate 14.25%, but they preferred to draw lei to 40% and place them at 60- 100%. Eventually, the NBR decided to freeze interest on deposits attracted ROBOR. The main effect at that time was a political one. During the electoral campaign, President Basescu's decision to promulgate the law on the increase teachers' salaries, inapplicable actually, that brought a gain electoral to PDL, has not been charged with a growth rate from 4 to 4.2 lei / euro, as would have happened if, the speculative attack would not have been rejected, but had the effect of an increase of the exchange rate from 3.57 to 3.72 lei / euro.

## **5. The consequences of the financial crisis in Romania**

As such, they started to open a new battlefield, one devoted to combating financial instability. Romania's experience as stated Mr. Mugur Isarescu showed that financial stability is of particular importance to price stability. Rightly, Romania has been criticized for delays in disinflation. They were due to insufficient structural reforms. Our country has achieved an average deflation of 5.8 percentage points per year in the period 2000-2007, while maintaining financial system stability. But if the NBR should have refilled this deficit reform through steep increases in interest rates, the financial situation of firms and households would be damaged. And so would have damaged the financial stability of the banking sector. Inability to maintain financial stability can only lead to inflation.

Governor of the National Bank of Romania, Mugur Isarescu emphasizes currency interventions.

Thus by adopting inflation, it was opted to make as much space in determining the exchange rate market. However, there were occasions when the RON fluctuations were far beyond the limits justified by the fundamentals of exchange rate. This was the case several times between 2004-2007, when there were capital inflows and the RON was greatly appreciated. This happened in certain periods after the current international financial crisis erupted, including in 2009. These were the reasons why has been adopted controlled floatation exchange rate. This does not mean that it intervenes in the foreign exchange market in a discretionary manner. The NBR interventions on the foreign exchange market policy have been guided by the philosophy that high volatility of the exchange is damaging both to the objective of inflation and the financial health of the real sector and the financial one. With this philosophy, the central bank passed a floating exchange rate, which allowed him to use both valences of the free market and discourage speculative behaviour and to avoid excessive appreciation. The current financial crisis introduced an abrupt reversal of the trend appreciation of the currency, with significant episodes of volatility. As in the past have overrated the RON currency inflows well above the level indicated by fundamentals of exchange rate today the reduction external financing and uncertainty tend to cause unjustified depreciation of the RON exchange rate fundamental factors.[13,14] The reserves purchased on the foreign exchange market in times of overvaluation they also serve today for interventions to calm depreciation of the RON.

During this period of turmoil, uncertainty, Mr. Isarescu recommended euro adoption program. [15,16] Romania must maintain the previously announced timetable for euro adoption, indicating that the entry to January 1, 2012 the exchange rate mechanism ERM-II and attending mandatory minimum period of two years within this mechanism is conditioned by the need for by 2012, in Romania, to be made many reforms, but reforms adequate and competent. Increased

vulnerability of Romania is also closely linked to international crisis.[17 ,18]

#### **5.1. As weaknesses we have:**

- Economic downturn
- Dependence on foreign capital
- Increased need for external financing
- Exposure to exchange rate volatility

#### **5.2. As stabilizers factors we have:**

- EU membership;
- Solvent banking system where capital big players have taken a long-term commitment in Romania
- Foreign exchange reserves at a high and stable level
- External debt under the critical level

#### **5.3. As support we have:**

- firm commitments made to structural reforms and public investment
- European structural funds
- Support provided by the international financial institutions: the IMF, EU, EBRD, WB, EIB.

#### **5.4. As hopes:**

- Fast correction of imbalances in deficit, current account, inflation, government spending and wage increases above productivity, already felt in 2009 and creating more solid foundation for sustainable growth from 2010 on the basis of real convergence
- in the longer term the return of potential GDP growth at 5%.

## **6. Conclusion**

In conclusion, transmission of external vulnerability from the internal one through the following mechanism:

When these effects are not accompanied by a corresponding strengthening of stabilization policies and increase the likelihood of a change in investor sentiment.

This change may lead to a decline in capital inflows and the rapid correction of the exchange rate depreciation. In these circumstances, economic growth would slow down, and inflation would rise. Debt repayment capacity would decrease, both in the household and at the company level. The banking sector is facing with a major increase in credit risk



If the answer does not come from other policies, such as the normal, then the central bank would be forced to increase interest rates.

[19,20,21] A policy of closer cooperation of international financial institutions like the governments of member states to resolve crisis situations efficiently and produce positive effects for economic and financial situation of those countries. **Therefore**, the best role that government can play in times of crisis, but in times of prosperity, is to play no role in the allocation of an economic resource but to let market, i.e. voluntary action, to conduct painful adjustments, but necessary to ensure economic recovery and future prosperity.

The economic crisis has brought more than 50,000 layoffs in the private sector and in October, November, which means a doubling of the number of unemployed for the last two months. This is what the representative of small and medium enterprises, SMEs, Ovidiu Nicolescu, told to The News that there was a situation of stagnation, blocking investments and a significant decrease in export orders. Thus, following layoffs in the private sector the number of unemployed has risen to 150,000 people and most affected areas are textile industries, chemical, mechanical and furniture. The counties hardest hit by the economic crisis according to data of the institution led by Nicolescu, those in Moldova, such as, Botosani and Suceava. During this period many organizations in the country, including SMEs were announced layoffs but also sending employees in technical unemployment due to the economic crisis. In addition, private sector companies have announced wage adjustment policies after they had announced for next year increases of over 10 percent. [22.]

## 7. References

- [1]<http://www.diploma.ro/licente/criza-economica-in-romania-3424>
- [2]<http://biblioteca.regielive.ro/licente/economie/criza-economica-in-romania-274964.html>
- [3]<http://biblioteca.regielive.ro/proiecte/economie/criza-economica-mondiala-si-efectele-asupra-romaniei-188251.html>
- [4]<http://biblioteca.regielive.ro/referate/management/managementul-crizelor-stiintele-comunicarii-122306.html>

- [5] [http://www.e-referate.ro/referate/Criza\\_economico-financiara\\_in\\_Rusia2012-04-30.html](http://www.e-referate.ro/referate/Criza_economico-financiara_in_Rusia2012-04-30.html)
- [6]<http://biblioteca.regielive.ro/licente/finante/piet-e-de-capital-305911.html>
- [7]<http://biblioteca.regielive.ro/proiecte/economie/criza-economico-financiara-actuala-si-implicatiile-acesteia-asupra-pietelor-emergente-117363.html>
- [8]<http://nastase.wordpress.com/2009/01/25/in-urma-discutiilor-de-la-brasov-ii>
- [9]<http://nastase.wordpress.com/2009/01/page/2>
- [10]<http://biblioteca.regielive.ro/proiecte/management/efecte-ale-crizei-economice-asupra-activitatii-si-resurselor-umane-din-administratia-publica-224869.html>
- [11] [http://www.e-referate.ro/referate/Criza\\_economico-financiara\\_in\\_Rusia2012-04-30.html](http://www.e-referate.ro/referate/Criza_economico-financiara_in_Rusia2012-04-30.html)
- [12]<http://kyronisme.blogspot.ro/2009/12/indicatori-de-lichiditate.html>
- [13]<http://www.greferat.com/referate/economie/Tintirea-inflatiei-si-criza-ec551.php>
- [14] [http://atestat.profesia.ro/ATESTAT\\_MODEL3.pdf](http://atestat.profesia.ro/ATESTAT_MODEL3.pdf)
- [15].][http://www.bnr.ro/files/d/Noutati/Prezentari\\_si\\_interviuri/R20090226Guv.pdf](http://www.bnr.ro/files/d/Noutati/Prezentari_si_interviuri/R20090226Guv.pdf)
- [16]<http://www.greferat.com/referate/economie/Tintirea-inflatiei-si-criza-ec551.php>
- [17][http://www.bnr.ro/files/d/Noutati/Prezentari\\_si\\_interviuri/R20090226Guv.pdf](http://www.bnr.ro/files/d/Noutati/Prezentari_si_interviuri/R20090226Guv.pdf)
- [18] [http://atestat.profesia.ro/ATESTAT\\_MODEL3.pdf](http://atestat.profesia.ro/ATESTAT_MODEL3.pdf)
- [19]<http://www.financiarul.ro/2007/11/15/isa-resu-insuficienta-politicilor-fiscale-se-vede-in-deficit>
- [20][http://www.bnr.ro/files/d/Noutati/Prezentari\\_si\\_interviuri/R20071112Guv.pdf](http://www.bnr.ro/files/d/Noutati/Prezentari_si_interviuri/R20071112Guv.pdf)
- [21][http://www.advocate.ro/BNR+sustine+ca+supraincalzirea+economiei+alunga+investitoriistire-1195077600\\_1](http://www.advocate.ro/BNR+sustine+ca+supraincalzirea+economiei+alunga+investitoriistire-1195077600_1)
- [22] <http://stiri.acasa.ro/cariera-189/noi-concluzii-si-previziuni-privind-criza-economica-in-romania-4927.html>

# A Way to Rise Competitiveness in Textile Industry According to Innovation-Research-Development

Asalos Nicoleta

Universitatea Ovidius Constanta

[nasalos20@gmail.com](mailto:nasalos20@gmail.com)

Dinu Laurentiu

ULIM Chisinau

Vasile Iulian

ULIM Chisinau

## Abstract

*The stimulation of the dynamism and internationalization of the entrepreneurial basis represents a key means of developing a prosperous economy and answering the challenges and opportunities of a globalized market. Romania has serious discrepancies regarding competitiveness in relation to the states of the West and Central Europe. The increase of competitiveness in textile industry must not be regarded as a process of exploiting the advantages on a short term but as a process of creating an economic structure based on capital investments and research-development –innovation processes. So, competitiveness poles (clusters) in textile industry might be a solution for a long term in increasing exports and attracting foreign investments. That's why, the paper proposes to present a brief image about the benefits of stimulating competitiveness clusters through a strategic policy at the national level for increasing competitiveness in textile industry.*

**Key words:** clusters, competitiveness, textile industry, research-development-innovation

**J.E.L. Classification:** M 21

## 1. Introduction

Clusters suggest that a good deal of competitive advantage lies outside companies and even outside their industries, residing instead in the locations at which their business units are based. This creates important new agendas for management that

rarely are recognized. Cluster thinking suggests that companies have a tangible and important stake in the business environments where they are located in ways that go far beyond taxes, electricity costs, and wage rates. The health of the cluster is important to the health of the company. Companies might actually benefit from having more local competitors. Trade associations can be competitive assets, not merely lobbying and social organizations[3].

Through clusters not only individual firms can be supported but groups of firms, which represents a more promising approach in terms of the efficiency and potential impact of individual public support actions. As a result, the commercialisation of R&D results can be better ensured and SMEs can be better engaged into larger scale projects through cluster organisations. Thus, the challenge today is not to create more clusters but rather to create better and more sustainable ones. Although this sounds logical, it is not quite so easy to achieve in practice. Clusters affect competition in three broadways that both reflect and amplify the parts of the diamond: (a) increasing the current (static) productivity of constituent firms or industries, (b) increasing the capacity of cluster participants for innovation and productivity growth, and (c) stimulating newbusiness formation that supports innovation and expands the cluster.

## 2. Actual stage of development of clusters and competitiveness clusters in textile industry in Romania

Competitiveness cluster represent a new concept for Romania but not for other

European Union member states (France, Belgium, etc.). These are advanced forms of clusters and the differences consist primarily in theoretical anchoring but also in the features that the 2 forms of regional organization of entities have. If the concept has its origins in Marshall's cluster theory and its characteristics in industrial agglomeration, setting the emphasis on the relationship between enterprises and has a structure in various stages of maturity, competitiveness cluster is based on Porter's diamond theory and has a triple helix or four clover complete structure, a strategy subsumed to the objective to act on one or more markets, export-orientated, focused on innovative projects, with national and international impact, concentrated on the production activity.

The economic reality in Romania required the presence of catalytic institutions (entities specialized in the innovation and technological transfer, consulting firms, chambers of commerce etc.) within the pattern called "the Four Clover". The clusters and the competitiveness clusters in Romania have no legal personality; they are established based on a protocol of cooperation signed and sealed by all the members but the management association of the joint structure has legal personality.

The competitiveness clusters and especially their policy are the attribute and the responsibility of the local, national and European political and decisional factors and the global crisis is a proof of that but can also be a catalyst and the motivation of collaboration in an innovative and entrepreneurial society.

Beginning from 2008, the Ministry of Economy Commerce and Business Environment (MECBE), the General Directorate of Industrial Policy has made a great effort destined to identify the existing and emergent clusters in Romania. This has mainly materialized into four great actions:

- The elaboration of the chapter related to clusters in the industrial policy document with the assistance of the Technical Cooperation German Company (GTZ)
- The "Inov Cluster" Project ( 2008-2010) within the Research-Development Sectorial Plan whose main aim was the dissemination of

the innovative cluster concept in Romania and the good international practice examples as well as the stimulation of the economic operators to create and develop innovative clusters by achieving specific instruments ( guide, portal, consulting services);

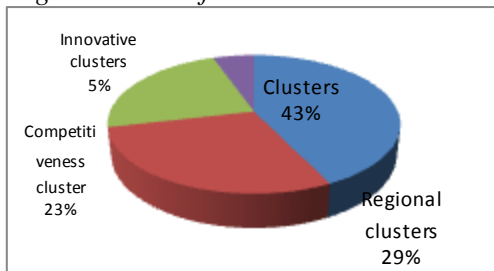
- The "cluster mapping" exercise (fig. 1)carried out by MECBE with the assistance of the Technical Cooperation German Company (GTZ)
- Generating the potential competitiveness poles: the General Directorate of Industrial Policy and Competitiveness has accelerated the potential competitiveness poles generating process by requesting a partnership agreement to be entered into which should demonstrate the cooperation inside the cluster. The used pattern was the "Pro Wood pattern", 21 clusters succeeding to produce a partnership document that represents a valid basis as starting point in evaluating the competitiveness poles at the national level because it identifies one of the most important vectors, the cooperation vector as well as the existence of mutual objectives integrated at the cluster level. 15 of them find themselves in the new Association of the Clusters in Romania whose official establishment meeting took place on 1<sup>st</sup> of July 2011.

An online survey conducted by Euroinnovation in the first quarter of 2012, which was answered by about 50 industrial Romanian companies, revealed that only 23% of managers have heard of competitiveness clusters and clusters, while only 16% knew the system of organization of such merger. From the specialized respondents, only 41% said that it would be two to three potential advantages for their company and the market in which they operate, if they were involved in a cluster or competitiveness cluster. Therefore, we believe we still are in its infancy phase, the identification of such merger and in this regard, the Ministry of Economy, Trade and Business Environment started a

comprehensive programme to create the Police clustering by developing industrial policies, conceptual clarification, supporting competitiveness poles through the Sectorial Operational Programme Increase of Economic Competitiveness - Competitiveness Clusters Operation.

Observe fig. 1 - from the total of cluster type/ competitiveness cluster economic concentrations, 63% are clusters (17), 18.5% are regional clusters (5), 15% are competitiveness poles (4) and 3.5% are innovative clusters.

Fig.1. Shares of economic concentrations



In table 1 I have compiled a list of clusters / competitiveness clusters according to their activity fields and location, clusters that are identified and that work on agreements between partners, based on the data provided by the Ministry of Economy, Trade and Business Environment.

Table 1

NO.	CLUSTER/COMPETITIVENESS POLE	FIELD OF ACTIVITIES	CITY
1.	AUTOMOTIVEST -Regional Cluster-	Automotive	Timisoara
2.	ICT -Regional Cluster-	ICT	Timisoara
3.	DACIA RENAULT Competitiveness Pole	Automotive	Pitesti
4.	PRO WOOD -Regional Cluster-	Forestry and Wood Industry	Sfantu Gheorghe
5.	GREEN ENERGY -Cluster-	Renewable energies	Sfantu Gheorghe
6.	TURRIN CLUSTER	Sustainable and innovative tourism	Drobeta turnu Severin
7.	ELECTROPRECIA -Cluster-	Automotive Mecatronics Electro-technical	Sacele-Brasov
8.	ASTRICO -Cluster-	Textiles	Savinesti
9.	FURNITURE -Cluster-	Furniture	Targu Mures
10.	AGRO FOOD -Regional Cluster-	Agrofood	Arad
11.	TRANSYLVANIA	Aviation	Brasov

	AEROSPACE -Cluster-		
12.	CARPATHIAN TOURISM CLUSTER -Cluster-	Tourism	Sarata Monteoru - Buzau
13.	ELINCLUS -Innovative cluster-	Electronics	Bucharest
14.	RENERG -Cluster-	Renewable energies	Alb Iulia
15.	ICT -Competitiveness Pole-	ICT	Craiova
16.	ROMANIAN WATER -Cluster-	Water energy	ClujNapoca
17.	CLUSTER TRADITIONS MANUFACTURE FUTURE TMV SUD EST -Cluster-	Textiles	Focsani
18.	REGIOFA -Cluster-	Wood Processing, Furniture	Odorheiu Secuiesc
19.	ROMANIAN TEXTILE CONCEPT -Cluster-	Textile Clothing, Footwear	Bucharest
20.	GEOTHERMAL -Cluster-	Renewable energies, services in tourism	Oradea
21.	CLUSTER MARITIM -Cluster-	Maritime, fluvial	Constanta
22.	ROSENC -Cluster-	Green energies	Timisoara
23.	AGRO FOOD -Regional cluster-	Agrofood	Sfantu Gheorghe
24.	IND-AGRO-POL -Competitiveness Pole-	Agrofood	Bucharest
25.	TURISM -Regional cluster-	Tourism	Suceava
26.	ROMANIAN AEROSPACE -Cluster-	Aerospace	Bucharest
27.	CREATIVE INDUSTRIES -Competitiveness Pole-	Creative Industries	Iasi
28.	ELECTRICAL ENGINEERING Competitiveness cluster	Electrical engineering	Bucuresti
29.	TURISM OLTENIA Cluster	Tourism	Craiova
30.	AUTOMOTIVE SUD VEST OLTENIA - Competitiveness cluster	Automotive	Craiova
31.	TREC TRANSNATIONAL RENEWABLE ENERGIES Cluster	Renewable energies	Cluj
32.	TRANSYLVANIA TEXTILE& FASHIO N Cluster	Textile Clothing	Sf. Gheorghe
33.	INNOVATIVE REGIONAL PACKAGING- PRINTING-DESIGN Cluster	Packaging- Printing-Design	Sf. Gheorghe

So, in textile industry, Romania has developed 4 clusters established in Savinesti, Focsani, Bucharest and Sf. Gheorghe, all those situated in South-East Region and North-East Region. Romania is not ready to implement the concept of competitiveness pole as long as more than half of the identified clusters are not functional and are currently funded exclusively from European funds so the question which arises is what will happen after their exhaustion as long as there is no funding from MECMA or from the local authorities [3]. We think that this process of development of clusters and competitiveness clusters must be continued because these economic agglomerations are a driving force in increasing exports and are magnets for attracting foreign investment. Clusters also represent an important forum in which new types of dialogue can and must take place among companies, government agencies, and institutions such as schools, universities, and public utilities [4].

### **3. The impact of creation clusters and company competitiveness**

Through clusters not only individual firms can be supported but groups of firms, which represents a more promising approach in terms of the efficiency and potential impact of individual public support actions. As a result, the commercialisation of R&D results can be better ensured and SMEs can be better engaged into larger scale projects through cluster organisations. Thus, the challenge today is not to create more clusters but rather to create better and more sustainable ones. Although this sounds logical, it is not quite so easy to achieve in practice. This represents a paradigm change for public authorities involved in cluster policies as well as for cluster practitioners, and it may have a significant impact for future cluster funding and development.

Clusters affect competition in three broadways that both reflect and amplify the parts of the diamond: (a) increasing the current (static) productivity of constituent firms or industries, (b) increasing the capacity of cluster participants for innovation and productivity growth, and (c) stimulating new business formation that supports

innovation and expands the cluster (Porter, 2000).

Thus, a cluster is a system of interconnected firms and institutions whose whole is more than the sum of its parts. That's why:

- ✓ Firms in dynamic clusters develop strategies and routines across the value chain, engendering new capabilities in a process of prestigious backyard rivalry.
- ✓ Firms in clusters tend to share many activities through cooperation, e.g., swapping technology, components or products. Clusters facilitate both horizontal and vertical (buyer-supplier) cooperation within a setting of a "common language", trust and high social capital.
- ✓ Firms in rich clusters can operate more efficiently, drawing on specialized assets, suppliers, and buyers with short lead times. Critical resources and capabilities often do not exist within the firm but are accessible through networks inside the cluster.
- ✓ Firms in clusters can achieve higher levels of knowledge creation and innovation. Knowledge spillovers and close day-to-day interaction between buyers, suppliers and organizations lead to incremental improvements, which are in turn the foundation of both technical (product and process improvements) and non-technical (business model improvements) Innovations. Furthermore, both types of innovations tend to diffuse quickly within clusters.
- ✓ Clusters offer an environment where different resources (individuals, technologies, capital, etc.) can quickly be reshuffled and restructured (spin-offs, labor mobility transferring skills across organizations, etc.), allowing for new and better economic combinations of skills, capital and technology. The need for changing the strategy or "recipe" of the firm can quickly be accommodated within a cluster.
- ✓ The rate of new business formation tends to be higher in dynamic

clusters. Start-ups are reliant on close interaction with suppliers and buyers. The cost of failure is typically lower within a cluster where many alternative opportunities exist.

- ✓ Clusters in many cases offer lead markets where sophisticated buyers encourage and cultivate technology development and innovation in close interaction with suppliers [6].

#### 4. Conclusions

- ✓ The clusters policies are the attribute and the responsibility of the local, national and governmental authorities;
- ✓ Clusters and competitiveness clusters represent new concepts for Romania but not for other European Union member states;
- ✓ Cluster concept has its origins in Marshall's cluster theory and its characteristics in industrial agglomeration, setting the emphasis on the relationship between enterprises and has a structure in various stages of maturity but competitiveness cluster is based on Porter's diamond theory and has a triple helix or four clover complete structure;
- ✓ In textile industry, Romania has developed 4 clusters established in Savinesti, Focsani, Bucharest and Sf. Gheorghe, all those situated in South-East Region and North-East Region. We think that this process of development of clusters and competitiveness clusters must be continued because these economic agglomerations are a driving force in increasing exports and are magnets for attracting foreign investments.

#### 5. References

- [1] Porter, Michael E. *Clusters and Competition*, NewYork: HBS Press
- [2] Porter, M. E. *The Competitive Advantage of Nations*, NewYork: The Free Press, 1999.
- [3] Asalos, N., Trandafir, R.A. *The Evolution of Clusters and Competitiveness Poles in Romania and the Chances of Success of This Process*, "Ovidius" University Annals, Economic Sciences Series Volume XIII, Issue 1/ 2013, pp.405-409

[4] Porter, M. E. *Regional Foundations of Competitiveness*, Issues for Wales, 2002.

[5] Ricardo, David. *On the Principles of Political Economy and Taxation(1817)*. Piero Sraffa (Ed.) Works and Correspondence of David Ricardo, Volume I, Indianapolis: Liberty Fund, Cambridge University Press, 2005.

[6] Sölvell, Ö. *Clusters, Balancing Evolutionary and Constructive Forces*, Stockholm: Ivory Tower Publishing, 2008.

<http://www.minind.ro>

<http://competitivite.gouv.fr/>

## Remarking as a Tool in Online Advertising

Blagorazumnaia Olga  
Department of Economic Sciences, ULIM  
[blagorazumnaya@yandex.ru](mailto:blagorazumnaya@yandex.ru)  
Muntean Vlad  
AUBG  
[Vnm110@aubg.edu](mailto:Vnm110@aubg.edu)

### Abstract

*At the present stage of development of the society, of particular significance are the issues associated with development of organizations in accordance with the requirements of the market. Marketing activities as a strategic tool to ensure sustainable, competitive position of industry-specific organizations and the state of the internal and external environment, and the management of a single organization should be based on the needs of the media demand.*

**Keywords:** remarketing, online advertising, marketing, promotion.

**JEL Classification:** M31

### 1. Introduction

Remarketing is an action taken on by companies to reintroduce a product or service to the market in response to declining sales. The company remarkets the product as something that has been improved to reignite interest and hopefully improve sales. The success of remarketing depends on what aspects actually led to the shift in demand and how the company addresses it.

Depending on the nature of demand, marketing can be: conversion, stimulating, remarketing, developed, synchromarketing, supporting, demarketing, and opposite.

Reasons for the decline in the demand for a particular product or service can be both temporary and seasonal trends, fashion, and permanent — completion of the life cycle of products, etc. This will happen sooner or later, depending on the intrinsic qualities of the goods, as well as those it promotes.

### 2. The meaning of the remarketing

Remarketing - this type of marketing, used to promote sales. It is used for reducing the demand for some products in the market.

The prefix "re" in the word "remarketing" - means the rerun or update of an action or process.

The scope of remarketing is the revitalization of this demand, seeking new opportunities to restore it.

Marketers and advertisers in the attempt to increase demand and promote sales have taken a variety of measures:

- Giving the product new qualities. To the existing product they add new useful qualities that should motivate the target audience. For example, for sales of washing powders they created economical packaging.

- Access to new target audience. Presentation of goods on the other hand, describing its features and benefits, which may be of interest to different target audiences. For example, Johnson's Baby Shampoo initially was used just as a safe shampoo for children, but, for some families it was expensive to buy separate baby shampoo. Was held a remarketing, and now it is positioned as "a shampoo that makes your hair soft as a child».

- New market outlets. If one market already became saturated leading to a specific product, it developed a strategy focusing on new markets. For example, from the capital to the regions.

With the appearance of the Internet, to enterprises appeared the opportunities to promote and advertise its product. In this regard appeared a new definition of remarketing.

Remarketing is a form of advertising, which includes a set of approaches and

opportunities for working with users, once visiting your site.

Remarketing (also known as retargeting) is an Internet marketing tool that allows you to return to website visitors that it has already been gone.

Retargeting, behavioral retargeting, reply retargeting - is an ad mechanism by which online advertising is sent to those customers who have already viewed the advertised product by visiting the advertiser's website, but had not made a purchase.

The idea is to show the user on other sites, which he attends, reminders or special offers that may interest him, thereby keeping the audience and returning it to you.

Remarketing feature refers to interest-based advertising. You can use it to extend the advertising message to relevant audience.

The term remarketing and retargeting differs in setting up these functions in Yandex Direct and Google Adwords. Remarketing is a functionality of Google Adwords, and retargeting is the same functionality, but in Yandex Direct [1].

The company Google created the ability to display special advertisements in its search for those people who have previously visited the site. The principle of this instrument is simple: when a user in your remarketing list makes a request, you know that he had previously visited your website. You can show your ad in a higher position, either with a unique market offer. This significantly highlights you among competitors.

Under the technology of dynamic remarketing, Google realized also the mechanism of recommendations (guidance system). The mechanism analyses the browsing history of goods by all users, and allows you to show them not only those goods which they have seen, but also the products they may be interested in.

In the advertising system Yandex Direct, this tool is called retargeting. To configure it is used the counter Yandex Metrics. The advertiser sets a certain goal, and when users visit the landing page (or target), it falls into the Group of users to which the ad will be shown. User groups may be combined, or connect.

### **3. Tools remarketing**

Remarketing in the Internet (retargeting) implies a second marketing that is activities that will remind users about themselves, already visiting a particular site. The objective of these activities is to return users to your Site.

This type of advertising allows them to display ads with those goods that they viewed previously on the site, and the products in which they may be interested. In addition to this, the system automatically optimizes banner ads, showing the user the template that is most likely to lead to a conversion.

There are other tools of remarketing such as address e-mail messages and to send reminders, prompts and suggestions.

Remarketing is interesting to those companies that are experiencing a decline in orders and sales, which intermittently happens to all. Using remarketing will also be useful for small and medium-sized businesses on the Internet, that is, those who have the budget of PPC advertising not as high. In general, at some stage, remarketing can be any organization to revive demand, increase conversions and profitability.

### **4. Strategies, goals and objectives of the remarketing**

Remarketing allows you to meet multiple goals, which uses multiple strategies.

The first - is the increase in the number of conversions. It is suitable for those companies who own the visited pages, but do not receive orders. Use remarketing can help stimulate the purchasing activity of audience.

The second strategy - is to promote special offers. Even if the traffic successfully converted into the customer is still not a reason to "let them go". With remarketing can inform them about new offers, promotions and discounts.

The third strategy - is to sell additional products and services. Even if visitors are familiar with your offer, they may still be interested in your products or services.

Remarketing can be used for all types of sites:

- E-commerce site;
- Visit-card website;
- Information portal;



- Blog.

Remarketing for the e-commerce site aims to bring the buyers, for blog is to inform readers about new articles, for small website-promote the company or brand.

Remarketing opportunities can be used differently depending on the type of site and campaigns, as well as the business objectives of the company:

- Remarketing in the context of display network-showing advertisements to users who previously visited your website, and now is looking at other web resources on other display network.

- Use of remarketing lists for search ads-show of ads to users from a remarketing list when they search on Google search products or services relevant to you. In such cases, you can attract the attention of potential buyers with the help of additional keywords and set special adjustments of the rates for those who have already visited your site. For these users, you can offer special discounts or information that will interest them more likely.

- Dynamic remarketing (only for advertisers with Google Merchant Center account)-showing visiting your site users a dynamic ads created using information from the Google Merchant Center. These ads are generated based on the data on specific Web pages or views about the behavior of visitors to your website, and users of a remarketing list that see this advertisement on other sites on the Internet. In dynamic ads present detailed information about the product, for example, product image, description and price.

For the novice advertiser it is important to develop a strategy for remarketing. For this purpose it is necessary to:

1. Determine what audience we must configure the remarketing: this would be all visitors of the site or customers of specific pages, or the customers who made a purchase.

2. Consider what interested the audience, which proposal does attract its attention.

3. Choose the method of interaction with the audience is the banner or text ads. To determine the frequency and the intensity of the effect of advertising.

4. Configure the correct advertising campaign.

A very important point - select the audience for advertising, it all depends on the next steps and the success of the campaign. Segmentation of audiences possible for [2]:

- Pages viewed;
- Time of last visit;
- Specific actions (taken or not);
- The sequence of actions;
- Traffic source;
- Time on site;
- Number of pages viewed;
- Achieving conversion;
- Amount of purchases;
- User data (region, language, browser etc.).

Remarketing tasks [3]:

- Increasing conversions. Using remarketing to increase conversion by returning the lost users.

- Brand promotion on the Internet. Advertising is broadcasted even on YouTube, which creates a certain respect for the advertiser.

- Increase ROI-return on advertising investments index. There is evidence that the rate of conversion remarketing (CPO) to 25-30% less than the cost of the conversion context. For example, if your campaign has keywords that bring traffic to your site, you can use remarketing to increase conversions. You can also experiment with keywords that do not lead to conversions, but combined with remarketing that can increase your ROI.

Remarketing has a number of advantages:

- High-quality audience. Advertisements see an audience that is already interested in your offer and was looking for it. Among this audience conversion rates above.

- Depth and coverage. You can access the target audience almost as often as you wish.

- Brand awareness. Constantly appearing on ads to the user's eyes becomes more habitual for him, and he remembers them better.

- Effective prices. You don't pay for ad impressions, or views a potential buyer, payment is only for clicks.

- High converting users. Unlike the widely used contextual advertising, remarketing is aimed at an audience that has already shown its interest in your site and its products. In the end, the conversion is growing, and the cost of attracting buyers' decreases.

- **Branding.** The effect of the permanent presence of ads suggests that you spend a lot of money on advertising, which in turn lends solidity and prestige brand in the eyes of the buyer.

- **Competitive advantage.** Due to the fact that the remarketing is not yet as popular as contextual advertising, and few know about it first, you get a huge advantage over their competitors.

- **Induces to action.** Frequent exposure to the user encourages him to commit the necessary action and other.

## 5. Conclusions

Remarketing is a very flexible tool for online marketing, and this allows conduct the most effective campaigns. Technology remarketing allows you to get more information about the visitors, group users based on various grounds, reduce bounce rates and increase brand awareness. It is important before remarketing campaign to study and thoroughly understand the individual user groups, carefully consider the form and content of messages for each of them. To get the maximum number of responses and increase the profitability of advertising investment in many cases it is recommended to combine remarketing with other technologies-such as with contextual advertising and targeting other systems.

The emergence of new instruments of remarketing, certainly, should please advertisers, as Google is constantly improving its own services to sites that could receive more traffic, and advertisers-increase your return on investment and increase sales.

In the issue, this did not remain without attention and users. Google offers them easy and convenient tools to select the area of advertising and non-advertising that does not fully conform to their interests. Tools will be available when you click on icons "Why this ad is shown to me?", "Reject this ad", "Manager of ads preferences ».

Google is constantly developing and improving tools to make advertising more qualitative and effective.

## 6. References:

- [1] Suhova, S., "Internet marketing at 100%", Peter, Saint Petersburg, 2009.
- [2] Kasper Systems, "Remarketing – Effective strategy for increasing conversions", 2013. <http://www.kasper.by/help/remarketing--novaya-strategiya-po-uvlicheniyu-konversii/>
- [3] Bahmut, I., "Remarketing for various projects", 2013. <http://turboseo.net.ua/blogue/retargeting.htm>

# New Approaches of Supplier Relationship Management

Cârstea Gheorghe

*The Bucharest University of Economic Studies*  
[gheorghe.carstea@man.ase.ro](mailto:gheorghe.carstea@man.ase.ro)

Păun Oana

*The Bucharest University of Economic Studies*  
[oana\\_paun\\_constanta@yahoo.com](mailto:oana_paun_constanta@yahoo.com)

Păun Sorin

*The Bucharest University of Economic Studies*  
[paunsorindaniel@yahoo.com](mailto:paunsorindaniel@yahoo.com)

## Abstract

*In a strong competitive environment, based on an increased degree of risk and uncertainty, supplier relationship management is considered to be a strategic value-adding process, able to contribute to the success of the organization.*

*Supplier relationship management must also the development of a collaborative environment, based on trust between partners, so that both parties can achieve mutually beneficial objectives through joint effort and time investment.*

**Key words:** supplier relationship management, mutually beneficial relationships

**J.E.L. Classification:** M10

## 1. Introduction

Due to the strong economic instability of recent years and changes in market requirements, managers have been faced with multiple problems, thus becoming very difficult for them to find an effective and efficient manner of organizing and conducting their business.

According to analysts, the year 2009, the start of the economic crisis, marked the transition from the "sellers market" to "buyers market" and, in the "fight" between supplier and buyer, the power ratio shifted towards the latter. In this context, when markets are becoming more and more inaccessible, most companies have turned toward the customer and have realized that

meeting customers' demands and still remaining profitable becomes a condition of existence.

Thus, to meet customer expectations, companies have set targets aimed at achieving the best quality, the best suppliers, developing new products in the shortest time, maintaining competitive prices, eliminating waste, reducing costs, etc. Achieving this goal is possible if managers' efforts and competence are oriented equally towards both customers and suppliers, because the organization cannot function neither without customers, nor without suppliers.

Even if by choosing efficient sources of supply and substantiating its strategies, an organization ensures reliable sources to increase the efficiency and effectiveness of the process of procurement and material resources, its results can be greatly diminished if it lacks a strategy in relations with its suppliers, which must be based on an essential premise, namely: "in a business there are partners who are looking to get some satisfaction, otherwise they give up the business" [1].

In this article we will analyze how, through a careful reflection on segmentation of their supply chain and by adapting their management methods to the suppliers' specific, companies create and develop trust between partners, so that it allows them to establish effective and efficient cooperation.

## 2. Supplier relationship management

Today, supply costs represent between 50% and 80% of the turnover of the manufacturing companies, which translates

in a significant contribution of the procurement process to the increase or decrease of the profit. In recent years, when reducing costs of supply has been very difficult to achieve, many companies have been moving towards conventional methods such as rationalization, outsourcing or relocation to low-cost countries

At the same time, in order to face the economic conditions, leading companies focused on supply chain segmentation and adapted their management methods function of the resulting segments. Therefore, the development of the customer – supplier relationship must be considered a mandatory requirement.

In this context, we can say that supplier relationship management is a process of defining and implementing the relationships that the company wants to develop with its suppliers. By creating a collaborative environment with suppliers, supplier relationship management aims to increase the flexibility of the procurement process, improve product quality, while reducing costs.

Implementation of an efficient supplier relationship management must take into consideration the following steps:

1. supplier portfolio segmentation;
2. choosing the type of relationship and tailoring the management methods function of each segment
3. improving joint processes
4. assessing the evolution of the suppliers and the quality of the relationship

### 2.1. Supplier portfolio segmentation

To make sound decisions regarding its relations with suppliers, the client organization must know its main suppliers very well, must take into account the specific nature of the products they buy, the complexity of the technological process by which the latter are obtained, the financial risks, the possibilities it has to influence the supplier's way of thinking and acting.

A useful tool for supply chain segmentation that helps determine the type of relations the organization has with its suppliers is the "Kraljic Matrix" [2], with the following direction for analysis: risks associated with the procurement of material

resources and the potential impact of purchasing on profit (figure 1).

Figure 1. "Kraljic Matrix"

<b>Risky resources</b>	<b>Strategic resources</b>
Blocking suppliers Supplying from new sources Standardization "Make or buy"	Strategic suppliers Partnership Co-development Co-production
<b>Non-critical resources</b>	<b>"Leverage" suppliers</b>
Non-critical suppliers Classical relationships	"Leverage" suppliers Cost analysis Relationship controlled by the buyer

↑ Risk  
↓ Potential impact on profit

Source: adapted from Doriol, D., Sauvage, T., 2012

The matrix analysis reveals that there is no fool proof method to approach supplier relationships.

### 2.2. Choosing the type of relationship for each supplier and tailoring the management methods

Starting from figure 1, there are 3 types of relations:

- a. transactional relations
- b. cooperation relations
- c. partnership relations

a. In **transactional relationships**, the buyer seeks above all to get the best price since there are many competing suppliers. Transactional relationships are based on the idea that the interaction between buyer and supplier is grounded on opposing, hostile principles. In this case, the supplied products have a relatively low value and do not present technological constraints.

Even if it is not considered appropriate for the majority of supplied material resources, the transactional approach is not yet obsolete. Currently, despite trends towards strategic sourcing, and towards providers' partnership and cooperation in multifunctional teams, many buyers still continue to consume a lot of time bargaining with suppliers on price [3].

b. **Cooperation relations** are based on commitments established between the client

and the supplier in relation to price, quality, quantity, delivery time.

In this case, products entails a moderate level of technological sophistication and customer's strategy is to make providers compete on a regular basis. In this respect, the customer will carry out comparative analyzes and will seek to find potential supply sources. Equally, however, the client may involve the supplier in operational performance improvement programs or certification programs that will help reduce or even suppress inspection for certified providers.

### c. Partnership relations

The increasing success that products manufactured in Japan have in global markets has led to increased interest in Japanese management principles, one of the distinctive principles being that of working closely with suppliers, based on the elimination of conflicts and tensions. The purpose of these relationships was cost reduction, continuous improvement through introduction of Kaizen-type projects and promoting innovation. These ideas have been transposed in other languages through an equivalent expression "industrial partnership" [4].

Partnership relations take the form of relations of reciprocity and are characterized by the sharing of benefits and risks between customer and supplier, with both parties investing trust and effort in their strive to obtain added value, a process that is impossible for transactional relationships. Supplier - client relationship is described by terms like synergy, symbiosis, trust, with emphasis on joint actions. However, for such a relationship to be possible, one of the first things the client must do is to discover what a supplier seeks in a customer and try to meet these requirements.

The main directions of partnership relations take into consideration the following aspects:

- the decisive role the supply cost, and not the price, has in procurement
- cooperation in the development of new products and technologies
- joint participation and investments in research – development
- mandatory transparency of information regarding processes and products, including strategic

information

- sharing risks and rewards,
- joint management and quality assurance, which marks the transition from supply quality to assisting quality at suppliers

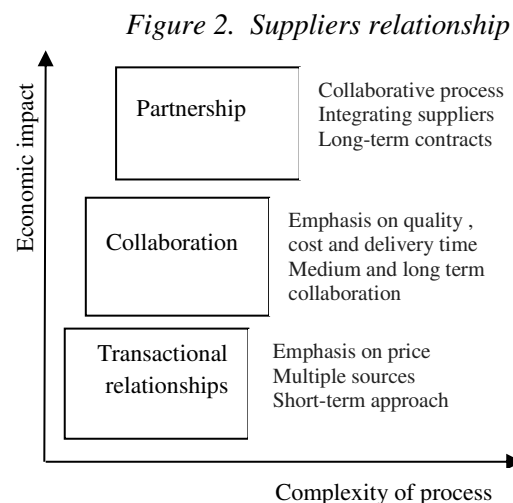
From the analysis of the main features of the partnership it becomes evident that partnership relations are not possible nor effective for all resources. It is estimated that resources for which this type of relationship is adopted fall into a strategically important sector characterized by:

- high level of technological complexity
- significant economic importance
- high risk in terms of market provision.

In the early 1990s, car manufacturers in the USA were managing exclusively transactional relations with their suppliers, while those in South Korea were applying especially partnership relations. Japanese car manufacturers were the first to implement different relations tailored to the characteristics of each supplier [5].

The economic literature identifies several ways in which one can define the target profile of the supplier and the type of relations to be put into practice.

Figure 2 presents the relationship with suppliers based on product complexity and their economic impact.



*Source: adapted from Le Moigne, R., 2013*

It is not infrequently that large international companies are really striving to size and develop their relationships with

suppliers. Examples in this respect are participation with high-performance equipment that the customer makes available to the supplier, evaluation and selection of efficient sub-suppliers by client's trained personnel, participation in joint development of sub-suppliers, organized jointly by the supplier and customer, support of supplier's development programs with advantageous financial loans, etc. [6].

Reflections on supplier relationship management are a current topic, depending of course on the type of relationship. Numerous research studies generally propose three approaches to supplier relationship management [7]:

- implementing systematic competition
- formal control according to performance criteria
- trust (trust in the partner's benevolence and competence, shared norms of cooperation such as joint actions and transparent communication)

### 2.3. Improving joint processes

Improving the processes that the organization has in common with its suppliers might consider the following:

- a. training and development of suppliers
- b. development of new products or technologies
- c. joint management of stocks, transportation

a. Training and development of suppliers  
Supplier development management defines the activities that the client company carries out to improve the performance of certain suppliers, in the context of an increasing client - supplier interdependence, deriving from the supply integration process and market concentration.

A development plan is a five-step structured approach, a challenge for the provider, which aims to improve the performance of a specific indicator. Schematically, the development plan progresses as follows:

1. selection of suppliers
2. diagnosis in order to determine the opportunities for improvement
3. establishment of joint teams of specialists, employees of the client and the supplier
4. definition and implementation of the

action for improvement

5. follow up on achieving the set goals.

Managing a progress plan monopolizes numerous resources, therefore, it is recommended to involve a reduced number of suppliers, selected based on the following:

- issues:
  - major strategic contribution
  - high productivity potential
  - innovative solutions that represent a strong competitive advantage
  - significant risks
- quality of current relations:
  - long term prospects based on the sharing of risks and rewards
  - joint effort and involvement in solving problems (technical, conflicts, etc.)
  - open exchange of information (technical, economic)

Worldwide there are international organizations such as Europe Aid, International Finance Corporation (IFC), United Nations Industrial Development Organization (UNIDO) that help international companies in developing countries to develop local suppliers.

b. Joint development of new products or technologies

Co-development, specific for high technology sectors, was first applied in the automotive and aeronautics industries. It requires the involvement of suppliers from the earliest stages of the development programs. The aim of this strategy is the very balanced sharing of risks between client and supplier.

An example is the automobile manufacturer Mercedes-Benz that launched in July 2014 in the US market the new Mercedes B-Class. The car that runs on electricity was developed in partnership with Tesla Motors and was Mercedes' first foray into electric cars segment. Based on a five-year old partnership, the two companies have collaborated to develop Mercedes B-Class engine. Basically, Tesla, the manufacturer of components for electric motors, helped Mercedes develop the electrical system and battery pack, which resulted in avoiding high costs if Mercedes would have developed their own technology. In October 2014 Mercedes announced their desire for an extended partnership with Tesla due to the latest

technology developed by the US manufacturer [8].

Even if the joint development of new products entails various advantages such as lower costs, increase quality, shorter development time for a new product, the management of such a complex process is often difficult.

#### c. Joint management of stocks

Strong competition and globalization force companies to improve their internal processes to reduce costs. Thus, an efficient use of stocks, accompanied by improved forecasting of material resources flow from suppliers and reducing mismatches between supply chain participants, will reduce unnecessary costs.

By establishing effective cooperative relationships with suppliers, new methods of joint management of stocks may be introduced (Vendor Management Inventory, JIT II, Collaborative Planning, Forecasting and Replenishment).

## 2.4 Evaluation of Suppliers' Evolution and of the Quality of Relations

Regardless of the type of client-provider relationship adopted constant monitoring of the evolution of suppliers and quality relationship with them shall be required. Performance improvement can only be achieved by applying an effective and efficient performance management of providers.

In the first stage, the performance evaluation must define, measure and analyze performance indicators, and in the second stage corrective action must be carried out where non-compliances were found.

In the context in which the quality of the relationship with strategic suppliers is crucial in creating value for the customer and supplier, providing mutually beneficial relationships based on trust, in which both partners are satisfied is very important.

One of the methods for assessing the customer-supplier relationship is the model RAP (Relationship Assessment Process) discovered and improved by Thomas E. Johnsen, Rhona E. Johnsen and Richard C. Lamming [9].

The method covers eight dimensions of the client-provider relationship: reciprocal specificity, cooperation, conflict, intensity,

interpersonal differences, power / dependence, trust. To investigate the eight dimensions the organisation may design questionnaires with maximum 20 questions relating to:

- level of relationship reciprocity: research of individual interests, convergence of objectives and priorities, convergence of strategies
- specific and particular nature of the relationship: specific organization, tailoring the relationship
- the quality of cooperation: joint work, transparency
- handling conflicts: resolving problems together in a cordial and professional environment
- intensity of relations: management involvement, number of people involved
- lack of interpersonal divergence: conflicts, discordant views
- the client-provider level of interdependence
- level of confidence

Joint analysis of the questionnaire is already a good collaborative exercise that causes the client and the supplier to be open and objective, the scope of this analysis being to identify the differences between their views and their harmonization.

## 3. Conclusions

More than any other disruptive factor, the economic and financial crisis that affected all companies has caused a brutal break of the everyday routine in management approach, with analysts interpreting it as becoming more and more a management crisis, whose overcoming requires major changes in the management process, with implications for all management functions [10].

Thus, to meet these challenges, companies must be able to generate ideas and practices in the interface with customers and suppliers.

New forms of supplier relationship management must lead, systematically, to generate trust between partners to enable the development of mutually advantageous relations, a mandatory requirement in today's context. Only through cooperation based on trust, partners will be able to cope with unforeseen events, will be able to seize opportunities and develop new products and processes.

#### 4. References

- [1] Cârstea, G., *Procurement and Management of Material Resources*, Economica Publishing House, Bucharest, 2000
- [2] Doriol, D., Sauvage, T., *Management des achats et de la supply chain*, Magnard-Vuibert, Paris, 2012
- [3] Kotler, Ph., Keller, K., *Marketing Management*, Teora Publishing House, Bucharest, 2008
- [4] Baily, P., Farmer, D., Jessop, D., Jones, D., *Purchasing Principles and Management*, Arc Publishing House, Bucharest, 2004
- [5] Le Moigne, R., *Supply chain management*, Dunod, Paris, 2013
- [6] Oprean, C., Kifor, C.V., Suci, O., Alexe, C., *Quality Integrated Management*, Romanian Academy Publishing House, Bucharest, 2012
- [7] Nogatchewsky, S., Nogatchewsky, G., *Les nouvelles formes de management des relations client-fournisseur, ou comment produire de la confiance. L'état des entreprises en management*, La Decouverte, pp.18-27, 2009.
- [8] <http://www.zf.ro/zf-24/mercedes-se-aliaza-cu-tesla-pentru-a-se-bate-cu-bmw-pe-piata-masinilor-electrice-13487585> accessed on 15.11.2014
- [9] Canonne, S., Petit, Ph., *La boîte à outils de l'acheteur*, Dunod, Paris, 2014
- [10] Deac, V., "Substantiation of the price decisions", *Quality - Access to success*, Vol. 13, S3 - 2012, pp. 729-737.



# Identifying Strategies to Market Police Image in the Media

Ciabuca Alina

*Al.I.Cuza University, Psychology and Educational Sciences Faculty*  
[alinaciabuca@yahoo.com](mailto:alinaciabuca@yahoo.com)

## Abstract

*One of the main ways to capture the image of an institution is represented by the manner in which it is promoted by the media. Considering the newspapers articles referring to the police forces published in the written media, we conducted a syntactic analysis, followed by a content one, in the form of thematic analysis. Results showed insufficient attention paid by the media to the institution and its activities. It also reflected a rather limited view, focused on covering specific crime incidents and ignoring some aspects like successful activities, public cooperation and support, processes involved, etc. The study revealed the need for the police to pay more attention, to be more actively in promoting its image and to develop a more adequate strategy for marketing its image.*

**Key words:** public image, police, image marketing, content analysis.

**J.E.L.:** M370

## 1. Introduction

The central element in assessing the image of an institution is the image analysis, around which pivot all other operations and activities carried out by an analyst in order to evaluate the targeted image.

In the contemporary world the social reality is predominantly constructed by the media, which represents an influential and even imposing social norms factor [1].

In a democratic society police provides assistance and support for the citizens, which is one of the most important criteria in assessing the police performance. Both parties, police and community are considered partners in achieving a common goal - a secure and safe society – and so, their cooperation is essential. The involvement and

support of the population is a key factor in improving police work [2], [3], but citizens will share information and cooperate with the police officers only when they trust them and view them as legitimate [4], [5].

A very important role in this equation rests with the media, which shapes the relationship between police and citizens [6]. The public perception of the institution is strongly influenced by the media: for most citizens - not familiar with the particularities or specific activities of the police or criminal justice system - the media is the main or sole source of information and the one shaping opinions and attitudes [7], [8], either positive or negative. So, in case of negative events promotion, in which police officers have a leading role, gaining confidence and community support are more difficult [9].

## 2. Methodological aspects

Starting with the analysis of the public image of Police reflected by the media, we focused on identifying strategies to market the institution's image.

The study was based on the assessment of the articles published online in some selected newspapers, referring to the police and police officers. The main criteria for the inclusion in the study sample were the following: the article had to be published during the selected period of time (one month) in a national high circulation newspaper and with references to the subject. Namely, we opted for the interval of one month, because of its benefits: is an ideal time to highlight all the aspects covered by the analysis; the data are quantitatively sufficient to be relevant; it offers a more nuanced and complex image and a dynamic of that image, also; etc., [10].

Consequently, according to these criteria we analyzed 459 online media reports from the following sources: *Adevărul*, *Evenimentul Zilei*, *Jurnalul Național* and *România Liberă* – generalist daily

newspapers with national and widest distribution - and *Click* and *Libertatea* - two dailies in tabloid format, also with national and very high circulation. In order to ensure diversity, both generalist and tabloids were chosen for analysis.

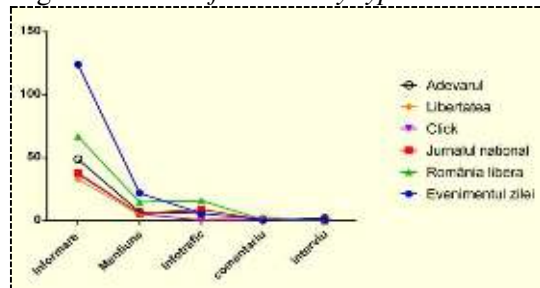
The semantic corpus derived from here was initially assessed in the syntactic manner – offering a quantitative perspective, followed by the qualitative one, in the form of thematic analysis. The last one aims to capture the outlined themes, as it " serves as a useful tool to illuminate the process of social construction"[11].

### 3. Results and interpretation

#### 3.1. The syntactic analysis

The criteria used for the syntactic analysis were: article distribution by sources, format (simple information on the issue, opinion or comment or a deeper approach, such an interview or reportage); volume or number of words per article, as the indicator of the prominence of the subject, etc.

Fig. 1. *Number of articles by type and source*



The results of the syntactic analysis emphasize that the Police image is rather shaped by generalist publications than by tabloids. Although we expected tabloids to contain more references to the subject, due to their appetite for crime or violent news [12], [13], the reality contradicted us: Evenimentul

Zilei and *România Liberă* included most of the data (55% from total).

Also, the approach appears rather superficial, with a predominance of the informative articles: over 97% of the materials fall within this category, simply being limited to presenting the facts. As Reiner pointed out in reference to the promotion in media of the criminal conduct, the press focuses on the event itself rather than commenting the situation [14].

Simultaneously, the articles have relatively low dimensions – most of them having below 200 words.

These data may indicate the journalists' lower cognitive and investigative propensity towards effort for producing news: their option for fewer interactions with the sources or the fact that is easier to write crime news than to analyze or evaluate results or programs [15].

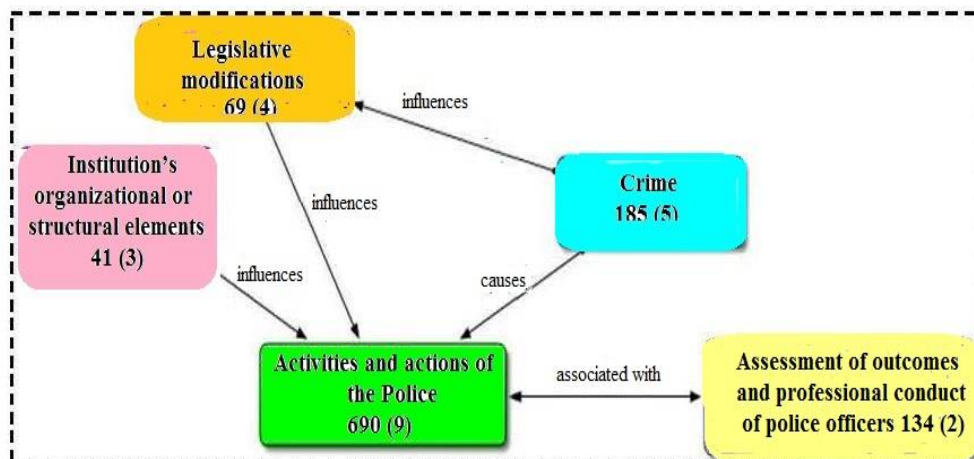
#### 3.2. The thematic analysis

The thematic analysis (TA) - that allows us the identification, analysis, interpretation and reporting of patterns (themes) in a data set [11] - was performed according to the TA method in six steps proposed by Braun & Clarke [16]: (1) Familiarization with the semantic corpus (2) Generation of initial codes, (3) Identification of themes, (4) Data review, (5) Defining and labeling the themes, and (6) Elaboration of the report.

Data analysis was conducted using ATLAS.ti 7.0 software package that allows researchers to examine the patterning of themes across the range of data, by facilitating the encoding, organization and associations, and the graphical data visualization also.

The thematic analysis, conducted after this six-step model revealed the existence of five main themes (fig. 2).

Fig. 2. The thematic map of Police image reflected by the Media



Among them, the most salient one consists of 690 citations grouped in 9 categories and refers to the *activities and actions of the Police* in various areas of competence. This theme appears in relation to crime, resulted by grouping 185 citations in 5 categories.

Given the fact that any activity leads to some kind of results, either positive or negative, which in turn will generate reactions, it is almost impossible not to encounter media references on the subject. Consequently, the third theme identified in this context is represented by the *assessment of outcomes and professional conduct of police officers*.

The fourth theme, also directly related to police activity is represented by *legislative changes* (69 quotations, and 4 categories).

The *institution's organizational or structural elements*, the fifth and last one, also influences the activity itself, either facilitating or conversely, tightening it. Thus, there is no doubt that human, material or logistic resources or institutional reform (establishment or dissolution of organizational structures) will put their mark on the actual fulfillment of police duties.

a. **First theme:** *activities and actions of the Police*. At this level, most media references regard the formal relationship between police and the media, in form of press releases or official statements made by specialized personnel (spokespersons). This version of communication (N references = 112) is more frequently referred to than the one based on „sources" (N references = 23) printing the

idea of equidistance and impartiality of the institution in relation to the media.

According to Sigal [17] this manner of interaction places itself on the contemporary conceptualization of police-media relations. Both police and media realize and agree they need mutual support and cooperation and depend on each other. Based on the fact police forces want to inform citizens about crime and positive outcomes and need the population's support in order to receive relevant information that would help them solve cases - public approval, support and cooperation being crucial for police activity [17], the police forces are undoubtedly interested in developing and maintaining good relations with the press.

But it is not always the case: there is often a „mutual distrust" and a lack of appreciation about each other activity, developing a vicious circle: a distrustful and suspicious police cannot have a good communication with the media; the media, in the absence of basic information, speculates or augments the facts. So, the police consider the media to be interested only in sensational and not disposed for investigative effort on its own, while the media criticize police for being secretive and uncooperative [17].

Other categories included in this theme, inferior represented, contain references to: traffic activities, investigations on missing children, crime fighting and prevention, recommendations or decided measures.

b. **Second theme:** *crime area*. Very often associated with this actions is the *crime area*, which is the second most important theme

identified in this context. At this level, the two dominant categories include references on crimes against property and crimes against person, with the primacy of the first one. Our findings contradict previous results that claim otherwise [e.g. 18]. A possible explanation may stem from the absence of extreme violent cases in the analyzed period, in which case our data would probably have tipped the balance in the sense stipulated above.

In our opinion, the crime zone is a theme with a central role, being closely related to the other two themes identified in the corpus semantic. It can be considered a precursor of the specific activity of police, since criminality determines and directs the action taken by police forces. That is, the prevalence of a certain type of criminal acts will be associated with specific activities, both in preventing and crime fighting.

c. **Third theme** as importance: *assessment of outcomes and professional conduct of police officers*. As any activity offers some results, positive or negative ones, which generate reactions, it is almost impossible for the police activity not to do the same. Consequently, the media references to the subject couldn't lack. The third important theme is represented by the *assessment of outcomes and professional conduct of police officers* and has resulted by the connection of two sub-themes: *evaluation of activity* and *complaints* either about organizational efficiency or staff conduct. At this level, the positive evaluations dominate the negative ones. Although these findings cannot be generalized, we emphasize the fact that in this interval the press gave more attention and better promoted the positive side of the police activity than the negative one. Most info refer to *catching delinquents, recovery of the prejudice* or *finding missing children*.

Concerning the complaints, some of them aim the professional efficiency, while others are oriented towards the police misconduct. If the first category is contoured rather vague, the second one includes explicit references to acts of corruption, aggressive or violent conduct in in-group contexts, involvement of police officers in some criminal acts, or attitudinal or conduct deficiencies during work time. Given the type of news performing journalistic coverage [10], it is not surprising that the deviant behavior of

police officers had a high media coverage and captured the press interest [19].

What it should be emphasized in this context is the negative influence of this media coverage on shaping the public image and attitude toward the police. There are numerous studies which highlighted the negative influence of exposure to news about corruption or violent behavior of the police over the public attitude: citizens become more hostile, there is a decrease in recording crime, trust in the police erodes, etc. [20], [21].

d. **Fourth theme:** *legal changes*. Through its specificity and peculiarities, crime influences the legal field, being the one pointing the need to amend the legal rules from this area. For example, the changes generated by the entrance into force of the New Penal Code on the 1st of February 2014, bring along an increase of special limits of punishment for some crimes against property, justified by the particular seriousness of their consequences.

Also, the changes brought by the amendment of the Penal and Criminal Procedure Codes affect directly the activity of the institution and its personnel. For example, in the context of (perceived) loosening of the criminal policy one can expect an increase of the delinquency committed by ones released or placed under custody. This can have implications over the workload of both public order services (as a response to the requests made by the probation services for overseeing persons released, etc.) and criminal investigation sector also (responsible with the judicial procedures).

e. **Fifth theme:** *organizational-structural issues*. As stated earlier, organizational or structural elements and changes also influence the activity itself, either by facilitating or conversely, hindering the proper fulfillment of the attributions associated with the police uniform.

In this context, the media captures some aspects related to the area, such as: the augment of police duties and responsibilities and creation of corresponding structures, along with the lack of concordance between them and the police needs for funds allocation and establishment plan. Thus,

although quite limited, the press captures these difficulties and shortcomings and highlights the material deprivation, precarious endowment or lack of personnel.

In fact, Romanian police forces occupy the penultimate position between Eastern European countries on the number of police officers (244.2 per 100,000 inhabitants), with far fewer police officers than the European average (389.7) [22]. Also, the constant budget cuts since 2009 [23] have left their mark on the material endowment of the institution so that, for example, in 2013 the Romanian Police vehicle fleet could cover only about 50% of the total number needed to fulfill their duties.

Thus, although the references to the subject are somewhat sporadic and superficial, Romanian media recognizes the shortcomings the Police services are facing and emphasizes the potential repercussions on their efficiency and performance.

#### 4. Conclusions

The study revealed a rather limited and superficial media approach of police issues, most of them taking the form of news or facts reports, with the prevalence of crime news and lightly treating the references to the activity, outcomes, cooperation and public support, etc. Besides, nearly forty years ago, Hall et al. [24] emphasized that the public relation to crime is modeled by the media.

Simultaneously, we cannot ignore the fact that the actual results of police work is not a priority issue that arouses a particular media interest. Moreover, only recently, after 2002, the press began to pay attention to issues concerning police [25]. And the most used source for this kind of topics is the professionalized press service of the institution.

Despite the fact the police is the one offering the info, there are shortcomings in the way the forces exploit the opportunities offered by the direct access to the media for promoting their image in order to enhance public trust and confidence and to increase the support and cooperation of the citizens. For that matter, there are studies that suggest police are more competent in offering information about offenses or criminal act than to promote their own results and activities [26].

One of the reasons underlying this insufficient promotion is that most of the public relation officers' activity resumes to providing information about various crimes. So, they won't have much time to be extensively involved in promoting the institutional image. However, the biggest responsibility lies with the institution, which most often opts for summarizing the cases in a formal manner.

Consequently, despite the police awareness of the importance of a positive image, it often fails in promoting effectively their activities and outcomes and hence its image.

Although it's obvious that police and media have evolved separately, their relationship enrolling in a contemporary model of interaction [17], a change in attitude from both sides would be beneficial. The police should show greater transparency and clarity to the media and the public, as restrictive public information policies proved to be counterproductive [25].

On the other hand, the press should better support the promotion of different kind of materials, other than those relating to crime. That is because the media not only informs, but can also influence and generate attitudes, conduct, etc, such as negative attitudes towards institutional performance [14], fear of crime [28], perceived legitimacy [8], [29], media / public support [14] and so on.

Also, it's very important for both of them to understand and be aware of the limits of the influence on one another and that both require their own freedom of action. Moreover, the attitude of mutual suspicion is contraproductive and should be reduced as much as possible and instead corroborated with a better mutual knowledge and understanding of each other role, activities and working methods. They must do that in order to manifest themselves as partners with a common goal: to serve the community.

#### 5. References

- [1] Black, L., (2009). *The Representation of Female Offenders in Irish Newspapers*. Unpublished Masters Thesis. Department of Social Sciences, Dublin Institute of Technology.
- [2] Greene, J.R.& Matrofski, S.D (1988). *Community Policing. Rhetoric or Reality*. Praeger Publishers, New York

- [3] Mastrofski, S. D. (1993). Varieties of community policing. *American Journal of Police*, 12(3), 65-77.
- [4] Jackson, J. & Bradford, B. (2010). What is Trust and Confidence in the Police?. *Policing: A Journal of Policy and Practice*, 4(3), pp. 241-248
- [5] Jackson, J., Hough, M., Bradford, B., Hohl, K., & Kuha, J., (2012). *Policing by Consent: Understanding the Dynamics of Police Power and Legitimacy*. European Social Survey, ESS Country Specific Topline Results Series Issue 1 (UK).
- [6] Hohl, K.(2011). *The role of mass media and police communication in trust in the police: new approaches to the analysis of survey and media data*. PhD thesis, The London School of Economics and Political Science (LSE)
- [7] Chapman, B., Mirrlees-Black, C. & Brawn, C. (2002) *Improving public attitudes to the Criminal Justice System: The impact of information*, Home Office Research Study 245, London: HMSO
- [8] Shepherdson, D., (2014). Policing in Great Britain has always been as much a matter of image as much as of substance. *Internet Journal of Criminology*
- [9] Weitzer, R., (2002). Incidents of police misconduct and public opinion, in *Journal of Criminal Justice*, 30. pp. 397– 408
- [10] Halic , B-A., & Chiciudean, I. (2007). *Analiza imaginii organizațiilor*. Ed. Comunicare.ro, Bucuresti
- [11] Joffe, H. (2012). Thematic analysis. In D. Harper & A. R. Thompson (Eds.), *Qualitative methods in mental health and psychotherapy: A guide for students and practitioners* (pp. 209-223). Chichester: Wiley.
- [12] Dahlgren, P (1992) Introduction, in P. Dahlgren and C. Sparks (eds) *Journalism and Popular Culture*, London, Sage
- [13] Williams, P. & Dickinson, J. (1993). Fear of Crime: Read all about it? The Relationship between Newspaper Crime Reporting and Fear of Crime, in *British Journal of Criminology*, Vol. 33, No. 1, pp.33-56.
- [14] Reiner, R. (1997). Media Made Criminality: The Representation of Crime in the Mass Media, in M. Maguire, R. Morgan and R. Reiner (eds). *The Oxford Handbook of Criminology*. Oxford: Oxford University Press, 189-231.
- [15] McGarrell, E.F., Chermak, S. & Weiss, A. (2002). *Reducing gun violence: Evaluation of Indianapolis Police Department's Directed Patrol Project*. NCJRS #188740.
- [16] Braun, V. & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3 (2). pp. 77-101
- [17] Jiggins, S. (2004). *An examination of the nature and impact of print media news reporting on selected police organisation in Australia*. Unpublished Ph D thesis, The University of Canberra
- [18] Kumar, K.S., (1999). Crime and the news media. *Turkish Journal of Police Studies*. Vol. 1(3). pp.17-26
- [19] Payne, G.A. & Dozier, D. (2007). Police Behavior and Public Perceptions of Justice: A Study of Media Effects on Reality Construction, in *Journal of humanities and social sciences - Vol. 1 - Issue 2*
- [20] Jefferis, E., Kaminski, R., Holmes, S., & Hanley, D. (1997). The effect of a videotaped arrest on public perceptions of police use of force. *Journal of Criminal Justice*, 25, 381–395.
- [21] Sigelman, L., Welch, S., Bledsoe, T. & Combs, M. (1997). Police brutality and public perceptions of racial discrimination. *Political Research Quarterly*, 50, 777–791
- [22] United Nation Office of Drugs and Crime <https://www.unodc.org/unodc/en/data-and-analysis/statistics/crime/cts-data-collection.html>
- [23] <http://www.mai.gov.ro/documente/buget>
- [24] Hall, S., Critcher, C., Jefferson, T., Clarke, J., & Roberts, B. (1978). *Policing the Crisis: Mugging, the State, and Law and Order*. London: Macmillan.
- [25] Beunders, H., & Muller, E.R., (2012). *Police force and Media in the Netherlands*. English summary.
- [26] McGarrell, E.F., Chermak, S. & Weiss, A. (2002). *Reducing gun violence: Evaluation of Indianapolis Police Department's Directed Patrol Project*.
- [27] Beunders, H., & Muller, E.R., (2012). *Police force and Media in the Netherlands*. English summary.
- [28] Dowler, K. (2003). Media Consumption And Public Attitudes Toward Crime And Justice: The Relationship Between Fear Of Crime, Punitive Attitudes, And Perceived Police Effectiveness. *Journal of Criminal Justice and Popular Culture*, 10 (2), pp. 109-126.
- [29] Surette, R. (1998). *Media, Crime, and Criminal Justice: Images and Realities*. Wadsworth, Belmont, CA.

## From Place Marketing to Place Branding within the Nation Branding Process: a Literature Review

Cotîrlea Denisa Adriana

*Babeş Bolyai University of Cluj Napoca, Romania, Faculty of Economics and Business Administration*

[cotirlea.denisa@yahoo.com](mailto:cotirlea.denisa@yahoo.com)

### Abstract

*The present article was written in order to provide a framework that assures a better understanding regarding two different, but complementary terms: place marketing and place branding. In order to emphasize their particularities, in the present work-paper have been approached their main constituents, the similarities and differences existent between these two concepts, their origin and their main traits. The paper aims at facilitating to readers their understanding regarding place branding process - by emphasizing its evolution, by identifying and explaining its essential components and their role and by highlighting the transition from place marketing to place branding within the context of nation branding process.*

**Keywords:** place branding, place marketing, nation branding;

**J.E.L. Classification:** M31, M39, L83

### 1. Introduction

Places –generally speaking, including here villages, cities, counties, regions and nations- try to attract tourists, companies and investors and struggle to shape a policy for their inhabitants in order to build and provide them a viable community. It is widely accepted that the way a place is perceived may constitute the critical difference between failure and success in the business environment, with big influence on trade and tourism, on diplomatic and external cultural relations of a country etc. Given that the attitude towards a brand -seen as a place, a destination, a country or a nation- is given by the differences existent between brand image and brand identity, the necessity for an

accurate communication regarding the identity and image of a specific place arises - so that the place to be perceived and regarded through the light of its true values, traditions, customs and culture.

Commonalities tried to face the continuous and emerging problems by increasing the number of economic development agencies in order to improve their condition. In the battle held in order to occupy a leading position among the developed economies, communities found out that other places are equal –or even superior- in terms of effort, knowledge and benchmarking process developed in order to meet economic growth.

Kotler states that all these happen because of the plethora of place marketing agents that are addressing to a limited number of buyers [16]. Tourists benefit of an increased amount of information about various destinations and they are able to make comparisons between the existing touristic packages/offers in terms of price and quality, competitive advantages, cultural diversity, attractiveness etc.

In this context, positioning a place as a touristic brand needs to be done –locally- especially through information and nationwide - through persuasion and education. Taking into account that -at microeconomic level- each economic agent from the hospitality industry establishes individually its own promotion policies for the tourism supply, it is absolutely necessary to conceive a promotional strategy characterized by convergence and synergetic character in order to highlight the diversity and particularity of the local tourist products – emphasized by place's natural, cultural and historic attractions.

But which are the differences existent between place marketing and place branding? Which are the elements that differentiate these two concepts and which is the

importance of the each of them? Can there exist place branding without place marketing and vice versa? These represent just several simple questions to which the author will try to answer through the present article, in order to facilitate these concepts' understanding.

## **2. Place marketing: an approach through the literature review**

As Ashworth and Voogd (1990) mention in their paper, place marketing "[...] has been facilitated by theoretical developments within the marketing discipline that paved the way for an understanding of marketing implications for urban planning and management". Considering this, it is easy to see that place marketing has not been founded overnight, but is rooted in the already existing concepts, which were only adapted to the destination/zonal/ regional promotion – and not only. Also, having into account Ward's opinion, that "place marketing is something that many cities, regions and countries across the globe are now actively engaged in, and uses techniques normally associated with the creation of classical product brands" [23], is easy to understand that actually place marketing's principles are adapted to places' but have their origin in branding products.

Regarding Ashworth's presentation, place marketing is formed by three important components, representing the sum of the entire among of activities incurred by social marketing, non-profit marketing and image marketing [2]. Considering this, it can be said that place marketing principles' are specific and –generally speaking- the process itself takes place because it generates economic, social and sustainable development improving, in this conditions, the quality of life of the place's inhabitants and offering a pleasurable opportunity of spending spare time to others – taking into account tourist activities and tourist flows attracted by a good campaign in a particular place/destination/region etc. In this way, the attractiveness of a place is increased, tourism benefits from a sustainable development, and locals' quality of life is improved; all these generate investor's attraction which, together with the other benefits mentioned, leads to a general sustainable development for a long term.

The decisions taken in order to achieve these objectives are permanently influenced by the general context in which that specific place situates; for instance, the government of one country can decide to attract companies and investors, considering that this decision will lead to a future successful process of branding the nation, while others can consider that developing tourism programs can represent the path to success. Taking this into account, the strategy of place marketing has to be a coherent one, taking into account the general situation of the specific place; it depends on several variables and factors that are continuously changing. Some of these variables and factors belong to internal environment and are characterized by a relative degree of control, while the other ones belong to external environment and cannot be controlled.

The need for a collective understanding and appreciation of place marketing, the achievement of wide cooperation and clear role allocation, the implementation of marketing as a long-term process and the expansion of marketing understanding to fields other than tourism development [11]. Because of this, the established strategy has to be a long-term one, within and upon which decisions on medium and short term are taken; also, decisions need to be taken in an harmonized manner and local management must promote the actions and efforts that aim to strengthen place's capacity to adapt to market dynamics, to fructify opportunities and face threats, to capitalize strengths and to improve weaknesses, but also to maintain vitality. In this context, knowing the factors that act and determine change and identifying and separating their influence represent several essential actions that allow the management to take those decisions that make the attractiveness of the place to be as large as possible.

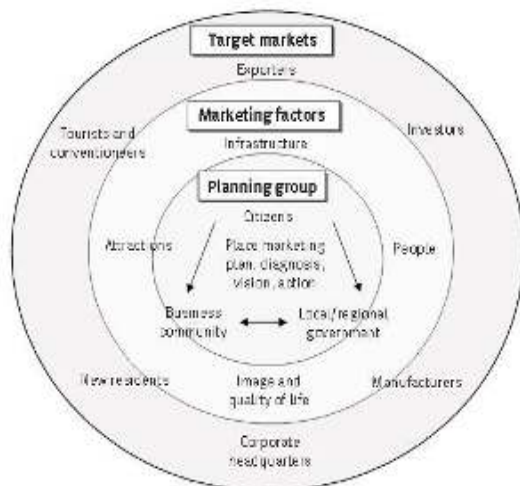
In Kavartzis' opinion, place marketing represents "a new type of marketing", while Kotler states that "place marketing process consists of analyzing marketing opportunities, developing marketing strategies, planning marketing programs, and managing the marketing effort" [12] and means "designing a place to satisfy the needs of its target markets; it succeeds when citizens and businesses are pleased with their



community and the expectations of visitors and investors are met” [14].

Kotler’ opinion sustains the idea that place marketing generates sustainable development and brings advantages, first, for the locals and for the community itself (because it improves the quality of life of the inhabitants due both to the investors and tourists attracted), second, for investors – because they contribute to the sustainable development of tourism and gain, at the same time, economic advantages and third, for visitors – who are pleased regarding the chosen destination and, if their requirements are accomplished, maybe they will choose to revisit the place whose marketing process targeted its objective and generated an important cycle (community – investors – tourists) whose activities lead to development. Also, he summarizes in a framework entitled “Levels of Place Marketing” various elements of place marketing, like target markets (the selected segments of the population to which a particular place intends to send marketing messages), marketing factors (like attractions and infrastructure, the people/inhabitants, the image and quality of life etc.) and planning group (the ones who are responsible for the planning and control process of place marketing).

Figure 1. Levels of Place Marketing



Source: Kotler, P. et. all (2002). Marketing Asian Places,. JohnWiley & Sons (Asia), Singapore, p. 46

Thereby, the strategy of place marketing has to draw a picture of the area as citizens, local management and investors desire to see

in five-ten years.

### 3. Achieving place branding by using place marketing and an appropriate strategy

The term “branding” has only recently been used in order to describe a process – more commonly were used the terms of “place selling” or “place promotion” [3]; on one hand, describing place branding as an unclear concept and suggesting that “almost nobody agrees on what, exactly, branding means” Simon Anholt sustains (in his book, “Place branding and Public Policy) the idea that there is a lack of consistency in defining which the constituents of the place branding are. He defines the process of branding as being “[...] the process of designing, planning and communicating the name and identity, in order to manage the reputation”. More than that, Hankinson (2007) sustains that “[...] place branding enhances the development of a region or a place not only in terms of leisure and tourism, but also in terms of attracting inward investments, enhancing the existing culture and heritage, developing facilities for local residents, and welcoming new residents, employees and skilled migrants”.

Even if branding subject was approached in the international literature since 1940s, articles concerning destination and place branding have been written only 50 years later. The most developed trend in theory – and the one which is the most often used- is branding in the marketing of tourism destinations, as Kavaratzis states. In 2003, Keller (2003) mentioned that the branding function was so important that the focus of all marketing communications should be to reinforce the brand identity.

The transition from place (city) marketing to place (city) branding is facilitated not only by the extensive use and success of product branding, but also by the recently but rapidly developed concept of corporate branding [10]. Taking into account the references of the present article is obvious that the main majority of the authors agree that place marketing has a functional character, while place branding requires an emotional, psychological and passionate “added value”. On Kawaratzis & Ashworth’s (2005) opinion, „place branding centers on people’s perceptions and images and puts them at the

heart of orchestrated activities, designed to shape the place and its future" and "[...] managing the place brand becomes an attempt to influence and treat those mental maps in a way that is deemed favorable to the present circumstances and future needs of the place".

As Kotler states, "branding means to build an offering from a known source; the intangible value proposition is made physical by an offering, which can be a combination of products, services, information and experiences [13]. In Maheshwari and Vandewalle's (2008) opinion, "place branding is one of the classical product brands that has emerged from place marketing strategies".

According to Kavaratzis (2005), the two generators of interest in place branding are the popularity and success of product branding and other corporate-level marketing concepts, which free marketing from dependence on the physical product. Also, "in response to the demands of competition for relocation, foreign investments, tourism, and a skilled workforce countries, cities, regions, towns are applying marketing practices to their own context" [9].

In Berthon, Hulbert and Pitt's opinion [6], place branding can be done only in connection to marketing activities that "(1) support the creation of a name, symbol, logo, word mark or other graphic that readily identifies and differentiates a destination; (2) consistently convey the expectation of a memorable travel experience that is uniquely associated with the destination; (3) serve to consolidate and reinforce the emotional connection between the visitor and the destination; (4) reduce consumer search costs and perceived risk. Collectively, these activities serve to create a destination image that positively influences consumer destination choice".

As Hospers states [8], the success of the place branding campaign depends on three essential factors in the field of place marketing: the importance of emphasizing the region's unique attraction elements and its distinctive and competitive advantages, the investment in the public domain (in order to visualize the region's brand) and an intensive process of internal marketing before the external one.

Ideally, place marketing closes the gap between what an area really is ("identity"), what outsiders think about it ("image") and how the location wants to be known in the outside world (its "brand" or desired reputation) [8].

In Kavaratzis' opinion, through the branding process is aimed to identify the connections existent between the image and the identity of the place, fact that leads to the union of the two images "in one marketing message" [9].

As specialists in the field stated [23], "place branding brings together a range of existing specialisms, in particular those of brand management and development policy, to create a new discipline with equal emphasis on visionary strategy and hands-on implementation. Successful place branding combines the responsible and intelligent application of disciplines and techniques from commercial branding, as well as new leadership and partnership development practices, with a creative approach to established methods of international relations, diplomacy, and policy making. This enables a place to build on all its strengths, and make sense out of the often chaotic and contradictory mosaic of its current and future identity. One of the things which distinguishes our place branding approach is that we use brand strategy to drive and inspire consistent and on-brand behaviour, not merely communications. If you simply tell the world about how great your country or city is, it is ordinary publicity at best, and spin at worst. In place branding, the role of communications is not primarily a method for telling the world about a place, but a method for making the world aware of the actions a place performs which best exemplify what kind of place it is. Place branding ensures that the place gets due credit for its real strengths and positive behaviour, and that the place brand gains appropriate equity from the recognition which that behaviour deserves" [21]

All these have been said, it is a sure fact that place branding means to bring added attraction to a place, but the central issue is built on the brand identity, while the destination –perceived as a unique product–represents the total amount of offering-mix of the place to the customers.

The process of branding a city can be done only through consistent efforts in each area - culture, arts, sports, industry, education, environment and foreign affairs. It is well-known that cities -in general- have to perform many objectives at the same time: attract new companies (both domestic and foreign), retain their industrial base and develop the tourist and business visitor industries.

#### 4. Conclusion

The process of branding helps a particular place to define its identity, to promote itself, to draw attention and to differentiate from other places. For a city to reach to have a strong brand, there are needed inhabitants who desire this thing; generally speaking, behind building place branding stay ambitious and visionary management bodies that perceive branding process as a strategic economic necessity.

A place can be promoted in several ways: as a tourist destination, as a trade or business center, as a quiet and safe place etc. It is thus necessary to identify the key attributes and strengths; other elements that can be taken into account target quality of life, unaltered nature, the open and tolerant spirit of the people etc.

What is important to remember is that places have to offer visitors a memorable experience that would impress in tourists' minds a positive image regarding that particular place; from here will result, because of the high degree of satisfaction, the people's trust in that particular brand – perceived as place or destination-. If the brand identity –expressed through culture, appearance, vision, personality etc.- and its image will coincide with (or exceed) tourists' expectations, then the process of place marketing meets the expectations of the management system. Taking into account Maheshwari and Vandewalle's (2008) opinion regarding the fact that “[...] place branding is one of the classical product brands that has emerged from place marketing strategies”, results –in the framework of the mentioned conditions- a good fructification of the resourced used for building the branding process.

All these and more (as outlined in Ashworth and Voogd, 1990) make places

distinctive products and thus place branding a distinctive form of product branding. As Kavaratzis and Ashworth (2005) agree, “[...] if these distinctions can be recognized and incorporated into the process then it becomes a valid and effective form of management: if not, it is an irrelevant distraction”.

#### 5. Acknowledgement

This work was co-financed from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

#### 6. References

- [1] Anholt S., *How the world views its cities*, Second edition, The Anholt City Brands Index, 2006, p. 3;
- [2] Anholt, S., *Place Branding and Public Policy* - editor's foreword to the first issue 1(1), 2004, pp. 4-11;
- [3] Ashworth, G.J. & H. Voogd, *Selling the City: Marketing Approaches in Public Sector Urban Planning*, ed. Belhaven Press, London, 1990;
- [4] Ashworth, G.J., *Place marketing: How did we get here? Where are we going?*, retrieved November 3, 2014 from <http://www.slideshare.net/MARUG2010/place-marketing-by-gj-ashworth-for-marug-international-marketing-experience-2010>;
- [5] Ashworth, G; Kavaratzis, M., *Towards effective Place Brand Management – Branding European cities and regions*, Edward Elgar Publishing, Massachusetts, USA, 2010;
- [6] Bajdor, P., *Marketing and Advertising in Sustainable Development conception*, W: Marketing i marketingowa komunikacja (wybrane aspekty, porady i trendy) Wydział Zarządzania Uniwersytetu w Presowie, Presov, 2011;
- [7] Cotîrlea D., “Theoretical approaches concerning place marketing and place branding: differences, interferences and similarities – a literature review” *Tourism Management*, Polish

- Association of Information Society, Gliwice, Poland, 2012, pp. 43-54;
- [8] Erdeli, G., Istrate L., *Potențialul turistic al României*, București University's Publishing House, 1996;
- [9] Hospers, Gert-Jan, *Place marketing in Europe – The branding of the Oresound Region*, 2004 - retrieved November 3, 2014 from [www.intereconomics.eu/downloads/getfile.php?id=375](http://www.intereconomics.eu/downloads/getfile.php?id=375);
- [10] Kavartzis M., *Branding the city through Culture and Entertainment*, 2005 -retrieved November 2, 2014 from <http://aesop2005.scix.net/data/papers/att/378.fullTextPrint.pdf>;
- [11] Kavartzis, M., "From city marketing to city branding: towards a theoretical framework for developing city brands", *Place branding*, vol. 1, no. 1, Henry Steward Publications, 2004;
- [12] Kavartzis, M.; Ashworth, G., "Place marketing: how did we get here and where are we going?", *Journal of Place Management and Development*, Vol. 1 Iss: 2, 2008, pp. 150 – 165;
- [13] Keller, K.L., *Strategic Brand Management*, Upper Saddle River, NJ, Prentice Hall, 2003;
- [14] Kotler, P., *Marketing management: analysis, planning, implementation and control*, 9th ed., Prentice Hall International, Inc., Upper Saddle River, New Jersey, 1997;
- [15] Kotler, P. & Hamlin, M. A. & Rein, I. & Haider D. H., *Marketing Asian Places*, JohnWiley & Sons (Asia), Singapore, 2002;
- [16] Kotler, P., *Marketing Management*, 11<sup>th</sup> edition, Pearson Education Upper Saddle River, New Jersey, 2003;
- [17] Kotler, P.; Asplund, C.; Rein, I.; Haider, D., *Marketing Places Europe*, Pearson Education Ltd, London, 1999;
- [18] Kotler, P.; Hamlin, M. A.; Rein, I.; Haider D. H., *Marketing Asian Places*, John Wiley & Sons (Asia), Singapore, 2002;
- [19] Kotler, Ph.; Haider, D.; Rein, I., *Maketingul locurilor*, Bucuresti, ed. Teora, 2001,pp. 331-332;
- [20] Maheshwari, V.; Vandewalle, I., *Importance of sustaining place brand identity: a study of Liverpool'08 brand campaign*, UNeCC Conference, UK, 2008 - retrieved November 4, 2014 from [http://ecoc-doc-athens.eu/attachments/666\\_Importance%20of%20Sustaining%20place%20brand%20identity.pdf](http://ecoc-doc-athens.eu/attachments/666_Importance%20of%20Sustaining%20place%20brand%20identity.pdf);
- [21] Serbulescu Luminița, Serbulescu Alexandra, *National brand*, retrieved November 5, 2014 from <http://csme.spiruharet.ro/simpozion2011/art/Paradigme/1a.pdf>;
- [22] <http://www.managementstudyguide.com>
- [23] <http://www.placebrands.net/placebranding/placebranding.html>

## The Perspective of Goods Distribution and Logistics

Dan Gheorghe  
"Ovidius" University of Constanta  
Faculty of Economics Science  
[traiansa\\_cta@yahoo.com](mailto:traiansa_cta@yahoo.com)

### Abstract

*Through this article I have tried to include trends and mutations of economic processes and operative activities, strategies and tactics imposed by the post-recession. There were also included the main innovations or the reshaping of the marketing channel in the logistics of goods, whereby economic entities participating in these channels have generated a process of change in order to remain on the market. Those who have risked through investment have managed even to develop competitive capacity and basic behaviors.*

**Keywords:** population demand, educated consumer, augmented reality, 3D planogram, holistic marketing, virtual commerce.

**J.E.L. Classification:** M310

### 1. Economic situation under the impact of the economic crisis

Currently, the national economy can hardly be delimited from the European one because more structural factors influence them, directly, permanently, remaining only local factors with minor impact.

European policies, especially the West European economy, induced the restructuring of the Eastern European countries economies, members of the European Union which Romania is part of. It is attempted a European division, especially on the use of national resources and local skills so at the EU level a structure to be achieved and to meet the objectives set wide.

The economic crisis induced by toxic financial products has imposed a better management of financial resources and a better capacity available so as to overcome the crisis and resume the economic recovery.

It was a period of stagnation or economic

decline, with considerable efforts in regaining confidence by regulating the financial markets and the elimination of toxic products, infusions of capital into the banking system and a process of creation and innovation to resume economic growth, which until today is not fully outlined.

Stimulating appetite among traders for assessment and business resumption after that period of irrational exuberance, supported by the resumption of consumption, by reducing the rate of unemployment, the support of states to create new jobs, to ensure a balanced relationship between the unemployment rate and the rate of inflation in order to avoid economic overheating.

Investments of traders in the crisis period is the most enlightening sign about the market approach, trends, perspective, which is generated by the security that the company has a culture and they know that it's the best time to invest during the crisis.

Thus were launched branches of production (exploitation of natural resources), agriculture, from increased food demand generated by the demographic factor, infrastructure and construction, but also the services, both in modern commerce, especially under the impact of information, technology and communication. This technology will influence in the coming years the purposes of the restructuring of the economic processes, operational activities, both in the sphere of production, which is the creator of the goods supply and services where the virtual environment will change the activities of creation and of their market.

During this period, companies that are opened to innovation, understanding that introducing new technologies and communication in the market is important, they had to overcome difficult situations arising from the crisis, but also to win market shares significantly higher. Also, some companies have flourished by understanding

the need of reinvention or adding new fields of business through which they can use their skills, potential, based on innovation.

## 2. Trends in market conjuncture

The market has experienced in this period a tendency to regress, regarding product offer which focused on products where price has kept up with the trends in the mutations in the manifestation of the increasingly cautious consumers demand.

In order to maintain market rates, income level, production was oriented, in addition to global brands with impact on demand, to the brands requested by major chains of stores or anonymous brands that satisfy basic needs as a priority, in the context of declining purchasing power in a large segment of buyers.

Innovation has become in recent years a sensitive chapter as brand competition or at the branch level, it is increasingly fierce, and the only chance of maintaining or increasing on the market of companies, is introducing new products.

The pressure is more obvious with how the percentage of successful products launched on the market, according to a study by GFK in Western Europe[1], approximately 70% of innovations fail in the market in short time, and more than 50% do not reach the figures of sales scheduled. However, a deep analysis, new products have considerable impact, since consumers have the tendency to try new products, in order to satisfy certain basic needs or especially higher-level ones.

A problem related to innovation is that the perception of this market as novelty did not differ from those relevant, being the only variations, extensions of the range, and what is worse, these new products lead to brand cannibalization on to existing ones, which do not ensure the increasing of range products.

In general, products, new brands, tested on the market must comply with the price-quality ratio, to differentiate them from other mass product-relevant, and which are identical or similar to simplify your life and help in saving.

It is noticed in the crisis period a strong growth of private brands (which means cheaper products), encouraged by an incorrect positioning of established brands

without providing clear added value, and the consumer no longer willing to move towards these expensive brands, which encouraged the expansion of private brands, which affects the market share of the products.

This phenomenon has led some manufacturers to become active, since to counter the threat of private brands, they began to be more creative, to give more attention to changes that may impact their product portfolio, to increase investments in innovation.

A second dimension of the market is the demand of population with mutations in purchasing behavior under crisis impact or technology information and communications, which has already become a factor accepted by all the actors of the market. Amid some mutations in the socio-demographic changes, polarization of population by age (overgrowth in age), by revenues, where a growing segment is aware of a kickback in buying power, the increasing number of households composed of one person, the appearance of large office buildings, migration of population to the suburbs or giving up the car as a means of public transport and so on.

Producers are looking for ways to connect with the consumer connoisseur, educated through investments in campaigns in social media applications in the virtual network to generate information regarding consumer behavior change, imposing such emotional significance, by adhering to the ideals of consumers.

In these conditions of market, in which many consumers revenue is affected by the crisis, they will adopt the behavior of living in recession. So they turned to cheaper products, browsing active the promotions, which became preferred by consumers. There were also adopted trends from developed markets, i.e. buying by credit card for the so-called lifestyle needs (aspirational).

More and more are making presence felt in the tendency of approach of more sustainable trademarks related to social life, reflecting the culture, art and that directs to durable products for the educated consumer.

Another trend that is manifested is to consume, use healthy products, which will lead to improved quality of life, prolong longevity, increasing comfort and the use of natural products.

Sedentary is no longer just a disease but also identified as a state of mind of the consumer, which currently focuses on home entertainment, as a result of time spent in the family at home. Another trend is the cohabitation of several generations in the same space, due to increased costs for raising children, care for the elderly, which will influence buying behavior, from commodities, to spend your holiday or other equipment needs.

Although there is a concern regarding the delimitation of professional activities and personal life, nowadays the informational technology and communication development offer the possibility of working away from home.

It is planned for the future as consumption of the population to be influenced by the expression of the personality and identity of the consumer, which will lead to a luxury product oriented consumer, but with low costs.

The use of software applications in the virtual environment especially in telecommunication will create opportunities for on-line shopping, especially by implementing of applications which will allow the consumer by clicking and scanning to buy a product viewed in a shop window.

### 3. Distribution and logistics of goods post-recession

Evolution of distribution of goods and post-recession is influenced by a number of factors such as apathy entities which are acting in the marketing channels that only by continued investments will be able to maintain market shares, implementation of innovations into economic processes and operational activities, a rational management of the financial and commercial potential in order to ensure competitive advantage, but all based on market demands with the corollary or defintory, for realization of the service expected by our clients.

These conditions have been profiled as the main directions of evolution of marketing channels in this phase, as follows:

- As a result of active behavior of the entities comprising the specific marketing channels, i.e. large modern retail chains of hyper and super stores, which at the end of 2013, owned a share of over 50% of the

distribution of goods in our country, compared to 1999 when they were 2-3%.

Table No. 1 Evolution of modern commerce between 2009-2013 [2]

Anul	2009	2010	2011	2012	2013
<b>Categories</b>					
<b>I Hyper stores</b>					
Auchan	7	7	9	11	31*
Carrefour	22	23	25	24	25
Cora	3	5	8	10	12
Kaufland	45	58	71	81	89
Real	24	25	25	24	4*
<b>II Super stores</b>					
Mega Image	48	72	96	132	168
Profi	67	82	108	149	191
Bila	43	55	61	71	80
Carrefour Market	25	32	45	65	78
<b>III Cash and carry</b>					
Metro	24	30	32	32	32
Selgross	18	18	19	19	19

\*the number of hyper stores Auchan includes Real hyper stores bought in 2013 from Metro

As can be seen from the table above, investment policy, either as a result of organic growth or through acquisition of other conventional networks, it was the performance of the share exceeding 50% of the activity of large distribution chains of stores.

- In order to meet the result of mutations of the periods of recession, especially in the affected population by reduced income, reduction of inflation index of prices, has accentuated the development of discount stores.

Retailer	2009	2010	2011	2012	2013
Lidl	96	105	129	155	169
Penny Market	99	116	129	142	156

Table No. 2 Discount network stores [3]

These specific marketing channels are promoting private brands, where the price-quality ratio is brought to the level of incomes of the population, taking into account the increasing low income population.

- Adaptation to adjacent shops by the consumer, who is no longer willing to make purchases at large chains of stores or from saving time, transport costs, the thrifty

purchase behavior and less impulse generated a reorientation of development shops proximity networks.

They allow buyers to rationalize shopping, lending based on current budgets, finding such a balance in decisions that reconfigures the decision-making mechanisms of purchase, by increasing the frequency of sightseeing stores in proximity.

From the network to sell consumer products, circa 121800 unit (VEKTOR MARKFORSCHUNG source), a total of 73,000 are proximity, in stores that are included from retailer's modern units, as follows:

Table No. 3 Proximity network stores

Type of network	2009	2010	2011	2012	2013
Express	-	-	3	19	56
Shop&Go	-	2	9	61	127
Profi City	-	-	-	-	16

*\*From the Express network, only 3 are operated by Carrefour, the others are operated by franchisors.*

This marketing channel increasingly acknowledged by consumers, is based on a modern technology of arranging these spaces of 100-300 square meters where the buyer has access to a wide range of goods tailored to this type of proximity, as well as the decrease of time for the process of buying, that makes that this restriction was taken prior to price-quality ratio.

Also, in this format is applied to relational marketing paradigm, because this template meets those criteria required by the client to bring satisfaction to the informational sector, creating friendly framework, able to answer any picky behavior and winning customer loyalty and becomes an element of achieving competitive advantage in terms of increased competition on the market.

Looks like those presented related to marketing channels through the expansion of modern retail chains, in addition to some issues that resulted in a multiplication of channels, which, however, had negative consequences for the affected traditional marketing channels.

Such city commercial did not take into account that the major commercial distribution structures will affect traditional trade activities of the old shopping centers in urban areas, with adverse repercussions on small and medium-sized companies working in retail distribution, affecting at the same

time the shoppers, consumer habits, even the disappearance of traditional goods.

Parallel with these marketing channels based on extension dedicated to traditional formats, though the head is headlining the new format launched with large projects, and marketing channels in the virtual environment (online), where both independent as well as channels and large chains of shops that forms the modern trade triggered a boom in this environment.

Introduction to the virtual distribution of consumer goods and technological innovations will revolutionize processes, activities within the marketing channels will bring competitive advantage, besides the fundamental change to purchase behavior.

As expected, some innovations are either at the stage of testing, while others are the subject of applied technologies such as: augmented reality; data service; digital portfolio; virtual shelves with products; facial recognition; queue management system at the cash register; planogram 3D.

I will refer only to the three of them, those that seem to be of special importance, namely the augmented reality, the virtual shelves, and 3D planogram.

1. **Augmented reality** does the reference to any object that is not present in the real world, but only appears to be present, as a result of the intervention reality via smart phone, tablet or PC that combines virtual reality with a script. The aim is to provide a dynamic experience, exciting and memorable to that it uses.

Through this augmented reality, clients can sample clothes, perfumes, or any other product they care about.

There is certainly a weak point of this technology, which is low in notoriety among consumers. Furthermore, there are many limitations of the instruments that should facilitate this reality; many of the video cams of mobile phones have not enough sensitivity to trigger promised technology experience.

2. **Virtual shelves** with products, which in the future is a replacement of the traditional shelves with a digital interface, meaning that a store reduces costs with the storage and inventory. This "digital wall" not only presents the product, but also offers a 3D image that can be rotated and enlarged, giving shoppers the ability to scan a code or/and to send groceries home.



This technology not only improves the experience of buying for retailers, but helps them solve problems with the reduced space in the stores, without reducing their product offer.

3. Another innovation is the **3D planogram**. There are already software solutions that enable retailers and manufacturers to build virtual displays for shops, making the process more flexible design, but mostly cheaper.

This technology offers a realist shelves, how light falls on products or how to see certain materials on the shelves. This technology offers not only a real image, but also data sales about the behavior of purchase etc.

Although in the current stage the share of these marketing channels does not own a significant share in the distribution of goods, about 1% in the next 3-5 years these marketing channels will reach a share of 5%. Some of the largest online retailers are now eMag alongside Interbrands Romania (Shopidoki.ro), but the coming years will create a much clearer picture of the potential of this new marketing channel, and linked to advantages to ease market entry companies, relational principle one-to-one in communication, time of access 24 hours a day, digital products, secured payment methods, data banks "big data" created that allow the application of relational marketing, but especially the possibility of applying new holistic marketing paradigm, which translates by the performance brought to the client, by managing collaboration chains, both the marketing channel, as well as in logistics channel.

#### **4. Whither goes the logistics of goods in the post-recession**

Some directions may be relevant:

□ Logistic cost Trend is growing both in the marketing channel, head upstream and downstream.

□ Producers will become the leading customers of logistics firms, which will require integrated logistic activities storage, inventory management and servicing their client's requirements. This segment of the logistics chain will have a great development potential in terms of the modern commerce is not willing to give up their own logistical

channels, which will lead to increasing outsourcing of suppliers to specialized logistics firms that currently hold a share of 40% and will reach 60%. This increase in outsourcing of logistics to the specialized companies will have a tendency of doubling in the next few years in the countries of South-Eastern Europe.

In terms of the evolution of logistical companies specializing in downstream, they will know the trends in the following directions:

□ a stronger pressure on the cost for the consumer.

□ Will require an adaptation of services, innovation and capabilities to implement, sophisticated models of logistic activities, up to exposure in the shelves (cross docking), which cover the entire logistics channel up to exposure in the shop.

□ There will be new opportunities in the development of the logistics activities of specialized logistics companies, the new opportunities offered by the proximity of shops being in the expansion, so after the model of traditional shops, as well as those created by the big chains of stores.

□ And in the field of virtual commerce where we assist at a rate that will exceed the modern trade and that will be an attractive market for the expansion of firms specializing in the logistics of goods both on base and activities on integrated vertical activities (transport, storage, inventory management, servicing, etc.).

Besides the logistics companies with basic activities specialized on transport or storage, management of loading and securing orders downstream or upstream, there will be courier companies or companies that will integrate all the basic activities, so as to ensure the delivery of goods from point of origin to the consumer, and on the basis of value chain management created will reduce the total cost, ensure performance, efficiency and a positive response from the client.

#### **5. Conclusions**

Post crisis period was marked by a revival of business investment from economic operators with the support of Governments. Only investment approach represents the security of the development and the creation process was able to maintain upward

trajectories firms; in the perspective of the goods and the marks, they have seen the need to differentiate between them, in order to avoid product cannibalism generated by discount policies.

This period was marked by essential mutations in consumer behavior, which became tight and educated towards buying bio products and luxury products with low costs.

Mutations in the primary factors, respective goods offer, but especially in the expression of demand for commodities has generated changes in the distribution of goods. Essential trend is the expansion of modern trade represented by hyper and super stores, which has exceeded the 50% share of this activity, but especially in the stores of proximity, with negative consequences, resulting in the restriction of independent operators, who do not have the necessary financial resources for this competition.

Cargo logistics will impose a rate of development and growth in both established companies, but also the emergence of new companies in the field, generated by the outsourcing of such activities by the manufacturer, but also the expansion of the virtual commerce, which reduces trade intermediaries in the marketing channel.

## 6. References

- [1] Rev. MagazinProgresiv – art. “Cum sa aduciinovatii relevante pentru cumparatori”, noiembrie 2013, pag. 62
- [2] [www.UniversuldeRetail.ro](http://www.UniversuldeRetail.ro) platforma revistei Magazin Progresiv din 16.09.2014
- [3] [www.UniversuldeRetail.ro](http://www.UniversuldeRetail.ro) platforma revistei Magazin Progresiv din 16.09.2014

### **Bibliography**

Philip Kotler – *Managementul marketingului*, Ed. Teora, 1999, pag. 905-912  
Philip Kotler - *Marketing în era digital*, Ed. Meteor Press, 2009, pag. 159, 172  
*RevistaMagazinProgresiv* – 2013-2014

# The Conceptual Framework of the Reward System in a Simulated Enterprise in the Hotel Industry

Daneci-Patrau Daniel

*Spiru Haret University, Faculty of Financial Management Accounting Constanta*  
[danusidenima2@yahoo.com](mailto:danusidenima2@yahoo.com)

Neacsu Gabriela

*Spiru Haret University, Faculty of Financial Management Accounting Constanta*  
[gabrielle\\_neacsu@yahoo.com](mailto:gabrielle_neacsu@yahoo.com)

## Abstract

*The great interest for an efficient salary related policy rises from the more and more obvious conviction of economists and other specialists in the human resources field, that wage is not only a consequence, but also a premise for an effective social-economic activity. To this end, the practical conclusion imposed at a global level is that the salary related policy, soundly developed and perfectly harmonized with the company's general policy, is able to stimulate the growth of the economic efficiency more than affect it.*

*The purpose of the present article consists in the review of the strategies and rewarding management policies in a simulated business in the hotel – restaurants field, hereby called ISE.*

**Keywords:** reward system, management, simulated enterprise

**JEL Classification:** M12

## 1. Introduction

The complexity of the environment and employees' personality requires the design of a rewarding system able to offer managers various possibilities to satisfy each employee because the things one individual cherishes can have no impact whatsoever on another employee. In addition, the rewarding system must be correlated with the personality of the organization. The current leaders need to prepare and reevaluate the rewarding systems in order to upgrade and adjust them according to the requirements and audacious objectives of present businesses.

The rewarding system represents a vital element for the motivation of the employees in the idea of achieving the company's objective under conditions of performance. At the same time, it is also true that, at least in relation with the financial rewarding elements, the company's ability to operationalize a coherent and incentive rewarding system on long-term is based on obtaining optimal results in the practical activity.

The rewarding management represents the process regarding the development and implementation of the rewarding strategies, policies and systems that allow businesses to fulfill their objectives by recruiting and keeping the necessary employees, as well as by properly motivating them. Business performance is influenced by how compensations are used, especially the monetary ones.

Therefore, an effective policy in the remuneration area is required. Firstly, it must fall under the company's general policy and on the one hand, it must meet the unbiased requirements of the efficiency increase for the activity developed, and on the other hand it has to ensure the focus on the employees' joint interest not only for the achievement of the individual performance, but mainly, for an enhanced input to the global performance of the business on medium or long term.

## 2. Components of the rewarding system used within the simulated business ISE

According to the outputs, the individual and organizational performances, incentives as compensations and sanctions are awarded within the simulated business. The correlation of compensations and sanctions,

mainly with the performances, but also with the attitudes, efforts, decisions, actions and demeanors of employees, is crucial. When this correlation is developed at a high level, an intense satisfaction for the employees' economical, cognitive and relational necessities is registered. As a result, a motivational effect, their strong motivation to further work more and better, are acquired.

Three factors influence the stimulation level of the desired demeanor:

- the nature of the reward;
- the time passed between the moment of the occurrence of the desired demeanor and the moment when rewards are granted.
- the extent to which the desired demeanor fulfills or surpasses the performance standard.

Frequently, hotel managers reckon about rewards and recognition as two separate activities. In reality, recognition is only an element of the rewarding system, required to stimulate patterns of the desired demeanor. Don Roux, marketing consultant, while referring to rewarding and recognition, stated that: "the stimulation programs motivate people to perform a task or reach an objective, by offering rewards. Desirable performances are compensated and the rewarded behavior has the tendency to be repeated" [1]. Individuals' rewarding is not enough in itself. In the context of modern leadership, team spirit and performances must be encouraged. If we award rewards only to individuals, there is the possibility to build a company filled with people considering themselves stars and only interested in fulfilling tasks that would put them in the spotlight. As a result, the rewarding system must include both individual and group compensations.

The rewarding system represents the assembly of material and non-material, financial and non-financial gains, of facilitations or advantages awarded to the individual according to the activity carried out and to the approved competency.

The rewarding management mainly consists of the design, implementation and preservation of the employees' rewarding systems, which must be adapted to the permanent improvement of the organizational performances.

The design and implementation of a suitable rewarding system is one of the most exhaustive HRM activities, because:

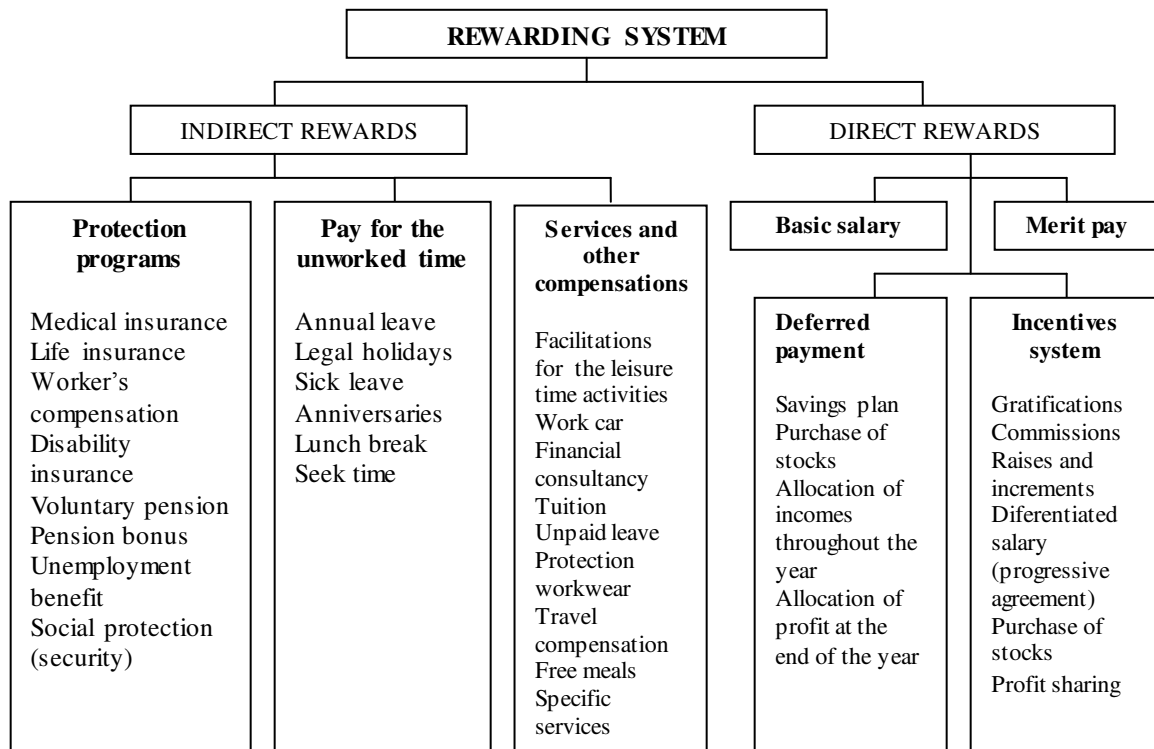
- while some activities in the human resources area are important only for some individuals, rewards are important for the entire organizational personnel;
- management practice emphasizes the fact that the rewarding system must meet an abundance of individual principles that change with time;
- most of the times it implies the design of some complementary rewarding packages that must be harmonized and dosed accordingly;
- the rewards are granted based on the provisions of laws or specific regulations;
- employees may participate in rewards assignation process, both directly and through collective negotiations;
- rewards must consider the different life cost in the different geographical areas.

Research undertaken by a group of specialists in government organizations in the United States, yielded an evaluation model system to motivate employees in six phases, which provided a set of new methods of human resource performance reward [2]. In vision, these methods are applicable to any type of organization, in the context of the new challenges of human resource management on the evolution of their strategic role within the organization. The novelty of the proposed assessment program was to determine a systematic methodology through which an appropriate metric of success in motivating human resources and determining how the program supports improvements or outsourcing to meet successfully the criteria for which it was designed. In most organizations reward system comprises in addition to paying the work and other elements that Fisher, Schoenfeld and Shaw have divided into [3]:

- direct rewards, represented by base salary, merit pay, incentive and deferred payment system;
- indirect rewards, represented by firewalls, payment time not worked, services and other rewards.

Components of the rewarding system used in the simulated business in the hotel – restaurants field are illustrated in figure 1.

Figure 1. Components of the rewarding system



Source: Deaconu, A., Podgoreanu S., Segal, T., *Factorul uman si performantele organizatiei*, Editura ASE, Bucuresti, 2004, p.148, [4]

### 3. Subsystem of direct rewards

Direct rewards cover most part of the incentives of financial nature and are based on the explicit correlation, supposed or envisaged between the payments and productivity. Salary is considered by the majority of experts in the field as the main stimulation means in case of employees in the direction of achieving the expected performances. Its concrete dimension is connected to the positioning of every job in the organizational hierarchy. Being a part of the system of rewards wage policy influence organizational performance by how it is developed and used by managers. A suitable wage policy becomes motivator of human resource when viewed as a reward, it is desired that improves employee assigned to work performance and also require an extra effort direct proportion between the employee and improve its performance [5].

The other elements that concur in the determination of a solid salary level are related to the legislative provisions in the field, to the labor market, company's financial strength and to the salary policy

applied within. Based on the assessment of jobs according to the difficulty factors in the hotels field, the salary system structures jobs in a limited number of levels, classes or stages, where numerous levels of remuneration operate.

The elements integrated in the remuneration system within the simulated business ISE are:

- *Basic salary* refers to the main element of the remuneration and is established for each of the employees in relation to the following factors: qualification, importance, duties complexity and professional competency [6].
- *Increments to the basic salary* – represent an accessory component to the salary, mentioned at art. 155 in the Romanian Labor Code. The following are considered to be the most important increments to the basic salary found in the legislation and collective agreements: seniority increment, hazardous and painful duty pay, nightshift differential pay, fidelity premium, increment for risk and neuropsychic overstress, confidentiality compensation. In the present conceptual

legal system, increments are not bonuses (rewards, gratifications). They mainly represent a compensation factor for different work conditions or for the fulfillment of the respective person of some special requirements (professional or seniority related).

- *Raises to the basic salary* – mentioned as well, at art. 155 in the Labor Code refer to the accessory element of the salary. It appears in the legislation and in the collective work agreements as the following: raise in case of work results based on the agreement; gratifications awarded from the rewarding fund, in a certain ratio from the monthly accomplished wage fund; other raises agreed upon collectively or individually with the employers.

Gratifications don't have a regularly predefined constant and compulsory regime (if not set as such, within collective and/ or individual work agreements). They share the bonus characteristic (gratification) and are optional, voluntary and variable. In accordance with the basic salary, increments and raises must represent, from the economic point of view, a rationally acceptable percentage quota.

Participation in the sharing of the company's results is one of the internationally renowned forms of employees' rewarding. Incentives at the

organizational level include all employees, being granted according to the financial outputs achieved by the company. Correctly used, rewarding by sharing results determines the substantial improvement of the employees' effort poured in for the achievement of performances – for a short term, in case of sharing profit, or for a long term when granting shares.

In Romania, due to the organizational and business culture, the method is rarely used – according to certain studies, under 80% of the companies offer this type of rewards.

#### 4. Subsystem of indirect rewards

The reasoning of diversifying the rewarding system, is firstly related to the thorough nature of the human factor, characterized by a myriad of categorized requirements. The costs to satisfy the different categories of individual needs, overcome, not only once, employees' momentarily possibilities, reason for which the adjustment of these costs in time implies the intervention of the company and even that of the state.

Table 1 includes the main causes that generate the evolution of the rewarding system and the appropriate adjustment measures.

*Table 1. Main causes that generate the evolution of the rewarding system*

Causes that generate the evolution of the rewarding system	Wage adjustment measures
Evolution of the external business environment; - inflation, price increase - evolution of salaries on labor market - evolution of the qualification level for a certain specialty	Evolution of salaries at national level: - increase of the national minimum wage - awarding indexing or compensations with fixed amounts for all categories of employees - Correlation of wages within the company with the evolution of national salaries, within the branch or social-professional category
Evolution of the internal business environment  Aging of the employees working in the company	- granting increments and raise according to seniority - adjusting the remuneration fund according to the evolution of the employees' seniority - awarding incentives to maintain performance - carriers management: promotions to not demobilize the employees
Evolution of the competition environment	Awarding indirect remuneration benefits in order to create a rename for the company on the labor market: - benefits awarded to all company's members; - facilitations regarding transportation - medical assistance in own units for the employee and his family - guaranteeing protection equipment and mobile phone - free food vouchers, mutual aid funds for employees

A first group of indirect rewards consists of the *protection programs* for employees. According to the manner in which they are regulated, they can be mandatory or optional. From the compulsory insurance range, the following are to be mentioned: health insurance, unemployment insurance and pension insurance. Company's contribution to these programs may, thus, overpass the minimum levels set by the law. According to the incentive policies specific to each company, but also to the tax deductions, companies can offer their employees life insurance, personal accident insurance, temporary or permanent disability insurance or they can implement gratification systems and other forms of incentives for their own pensioners.

*The pay for the unworked time* extends the employees' benefits for the periods when they are inactive, starting from the basic needs to recover in terms of work capacity and satisfaction of other needs range. The state usually regulates work duration (hours/day, days/week), the minimum duration of the annual leave, legal and religious holiday regime. The overtime performed is also regulated – in terms of duration and rewarding method (increment for the overtime). The system of indirect rewards awarded to the employees working in a simulated business also includes the third range of *services and other incentives* mainly consisting of: recreational establishments, offered or paid for by the company; work car; financial free consultancy, including the temporary support of certain individual, tuition with or without the obligation of repayment in case of voluntary parting from the company.

If the other components of the rewarding system cover the entire mass of employees, incentives of this kind are generally awarded through selection. The ones who benefit from them are the people who have key roles in the company, the so called fundamental employees or some categories of managers.

##### **5. Measures for the improvement of present rewarding and motivation methods applied to the human resources within the simulated business**

Bearing in mind that the majority of the employees receive bonuses for overtime and

are hence satisfied, it means that the rewarding system is efficient, but individuals who are not sufficiently rewarded must be insisted upon. For example, in case of waiters and cooks that work overtime: waiters get better pays because they also receive tips from customers, whereas the kitchen personnel has no access to the tips, therefore they must be paid more by the employer. In case of food vouchers, no improvements should occur, as employees are fully satisfied. Holiday premiums are not satisfying because they are not extremely consistent, but employees must understand that everyone receives an equal premium established according to the organization's financial possibilities. In what concerns the salary, due to the fact that most of the employees consider that the salary is not highly attractive, wage increases are recommended according to seniority, namely the increase of the seniority increment tranches. Thus, beside skills, fidelity towards the hotel is being rewarded.

Although, wages in the tourism field are generally low and the training level of employees is usually limited to high school or professional schools, which justifies the low amounts of money paid to the personnel. Unjustified wage increases cannot be granted because they generate expenses that are highly critical for the hotel. Promotions determine not only the expansion of responsibilities, but also salary increase and additional benefits. Other current motivational methods consist of a pleasant working environment and the good relationship with the manager. They do not need any financial effort, but what they do need is time and patience and greater focus on them. A close relationship with the employees, a holiday celebrated together with workmates, events organized for the entire staff, are favorable to create a relaxed atmosphere and an enjoyable climate for every employee (however, without interfering in the daily work).

##### **6. Conclusions**

Considering that most employees prefer financial incentives and trainings, a greater attention should be focused on the respective to guarantee employees' contentment. Wage increases are more rarely awarded and

according to the hotel's possibilities and the gains obtained. They cannot be abused of; on the contrary an efficient strategy must be implemented to apply this motivational method, firstly because it generates extremely high expenditure and secondly, because they would lose their trait of motivating element if too easily awarded. In what regards the trainings, they are very diverse, for numerous fields and are immensely appealing for employees. Introducing them in experience exchange programs, can be a positive aspect for both the improvement of their skills and the opportunity to leave the daily routine. By knowing the operation practices and methods applied by the other hotels, performances of the employees who participated in them, can be significantly improved.

While developing employees' performance growth programs, the relevance of each action, if necessary, the impact, the costs involved must be taken in consideration. Few employers' action directions to attain the target related to the employees' performance growth can include: access to training classes, holiday premiums and free excursions, special bonuses, profit sharing or share purchase, private health or life insurance, discounts and gratuitousness etc.

The purpose of the increase of the human resources value by ensuring access to training programs is to bring value in addition to the business, on the one hand and to respond to the development requirements for the employees' carriers, on the other hand. Procedure must be clearly stated in relation to the access to the training courses – who fulfills the conditions to attend, denomination and number of open spots, participation conditions, the way to cover the expenditure related to the attendance, graduation or non-graduation of classes.

## 7. References

- [1] Harrington, H. James, *Total Improvement Management*, Bucharest, Teora Publishing House, 2002.
- [2] Edwards, J., Scott, J., Raju, N., *Evaluating Human Resources Programs*, Pfeifer, San Francisco, 2007.
- [3] Fisher, C.D., Schoenfeld L.F., and Shaw J.B., *Human Resource Management. Fifth Edition*, Houghton Mifflin Company, Boston, MA,

USA, 2003.

- [4] Deaconu, A., Podgoreanu S., Segal, T., *Factorul uman și performanțele organizației*, Editura ASE, București, 2004.
- Edwards, J., Scott, J., Raju, N., *Evaluating Human Resources Programs*, Pfeifer, San Francisco, 2007.
- [5] Dăneci-Pătrău D., *Cerințe actuale și de perspectivă ale managementului resurselor umane în transportul feroviar*, Editura Sedcom Libris, Iasi, 2013.
- [6] Ștefănescu, I.T. and Beligrădeanu, S., *Labor Law Treaty*, Lumina Lex Publishing House, Bucharest, 2003.



## Post Crisis Economic Recovery Investment In Human Capital

Dimitrescu Mihaela  
Hyperion University Bucharest  
[mdimitrescu@yahoo.com](mailto:mdimitrescu@yahoo.com)

### Abstract

*The concept of human capital skills and knowledge corresponds to a person who facilitates change and growth in action (Coleman, 1988). Human capital can be developed through formal training and education, with the aim to update and renew the person's capabilities, investing in education in order to get performance in all domains of social and economic life. The economic crisis has affected most countries education budgets, which will reflect the future performance of each nation. For this human capital depend on our wealth of future generations. Therefore, human capital formation should receive the highest priority, since without being supported by an adequate knowledge and human experience connected to all economic production factors will not be able to produce very little or not at all. If we want to be the beneficiary of this capital, governments must have as priorities the budgets related to public expenditure in human capital formation, related to education, because it is the safest investment of an economy and a stable and efficient society.*

**Keywords:** Human capital, education system, organizational performance.

**JEL Classification:** J24, O15

Contemporary management is essential, especially during crises, when a crowd activities must be coordinated to achieve a specific purpose, for a return to economic market open and active, always in the context of changing conditions, it is difficult any planning accurate. At the moment, the Romanian economy has reached a point where decisive role has managerial behavior, attitude towards change managers, their new thinking, how each individual wants to develop their own career. In reality the crisis

of economic, social, political and moral restructuring that occurred Romania is a result of a crisis management, lack of practical training in leadership and change management, minimal or inefficient investment in human capital. The economic crisis has shown that competitiveness, so often cited, is a term that designates the ability of a state and its companies to face competition. The public debate focuses on labor costs, while the cost of capital is never remembered while net income distributed 10% of the added value of companies. The current economy requires a new type of management, based on specific value system of market economy, which the concept and method of application to determine remodeling and competitive functioning of institutions and organizations, and the use of resources in any organization that more important is the human resource.

Pointing to negative aspects of economic developments occurring during modern history, we can say that the first crisis that the world economy was marked between 1815 and 1818 and the second crisis, very hard, was in 1846-1847, which prefaced revolutions of 1848. It followed, in 1859, a period of capitalist economic boom, but in 1873 another crisis emerged stronger, leading eventually to the outbreak of the First World War. The deep crisis that has seen a capitalist economy was between 1929 and 1933. He debuted in the US with the New York stock market crash. But that was only the signal from the surface, as it is now. The real crisis is down in the basic structure of the economy, not only can supply recover based on involvement of specialists and experts both at decision-making level and at the practical level.

All financial crisis has reduced investment in human capital producing a large number of low-skilled workers, leading to permanent or long-term unemployment among young people with a secondary education and the

older workers who cannot retire yet. As a consequence of this mismatch of skills, income inequality is normal to worsen. It is expected that young workers, women and those over 55 years to be strong affected. [1] When addressing the issue of human capital should be mentioned that the term "human capital" is similar to the concept of "labor force" launched by Karl Marx. It said: between capitalist domination, workers must sell their labor to get some income as wages. Marx analyzed the close relationship between income and capital that man can give, referring to *work*.

The evolution of the relations of production and the fact that science has advanced, made to seek support technology transfer specialists increasingly better prepared, it was necessary that managers and engineers can use the new machines or production techniques. Therefore, the ability of a society to prepare professional managers and ability to provide financial matters relating to the need for continuous improvement, are part of the functions defining elements related to *human capital*. Based on the practical aspects specialists have shown that human capital can be prepared both by formal (classroom and school preparation) and through informal training on the job, in terms of training and lifelong learning. For the purposes of the permanent workforce training (theory developed by P. Drucker in 1950s) Karl Marx said[2]:

- *Workers must work using their body and mind in order to earn an income. (Marx distinguishing between work capacity, labor and human activity to work)*
- *A worker cannot freely sell their own human capital to money income. He sells his skills, but the contract includes these skills. Even a slave, whose human capital can be sold, not gaining anything; slave owner wins.*
- *In capitalism, to receive income, an employee must accept working conditions (including some humility and respect for human respect rules below) from an employer wishing to hire for a certain period of time.*

In the early twentieth century, in the economics, there was talk that the worker obtains from his work a certain rate of profit, producing added value. By creating human capital, workers acquire certain benefits, bonuses, which, although dependent on the willingness and ability of the employer to grant them ensures a state of good for both sides. [3] These values appeared in the article "Questions about emancipation" written by Marx and published in the New York Daily Tribune on 17 January 1859. The of the article was that Marx had new terms used to describe an individual who are potentially forming a capital used by those who held power production and not in the modern sense of the wealth of knowledge and information (Knowledge capital) acquired or improved individually. [4]

Speaking human capital definitions we can say that human capital has experienced successive improvements, enjoying new dimensions to the original definition content. One of the real definition of human capital belongs to Daniel Goleman, [5] his works relating to emotional intelligence (EI) presents the concept of "human capital" *as a specific feature corresponding to each of us an individual's skills and knowledge, supporting actions directed towards growth*. Goleman says, like its predecessors corporate representatives of the school management emerged from the 1950s, it is in the power of modern managers to train their people to invest in human capital formation necessary socio-economic life in the long term. [6] Karl Popper[7], one of the most representative philosophers of modern thought, points out that in order to achieve continuous growth and progress, there is a constant and growing need for knowledge. While we are still far from forming a creative class, I might consider intermediate stage of stabilization human capital based on knowledge (in the sense of "intellectual worker" created by Peter Drucker in 1959). Investing in human capital using formal training and education are designed to maintain their high intellectual abilities of a person that you update the information and expertise, to develop specialists who can compete in the labor market. The need for permanent adult education stemmed in large imbalances that occurred in the second half of the twentieth century, especially between man and the

world. Introducing the change as a means of adaptation, the man is forced to change too. Thus between what he thinks, says and make practical and results of these serious disorders is established and sometimes insurmountable conflicts. Overcoming the difficult moments can not only modifying their own knowledge, system assessment and evaluation of individual judgments and empowerment action. Analyzing focus on human resource management concept, we can say that this is a possible solution for achieving performance regardless of the activity. Without effective involvement of people who know what, when and how to do it would be impossible for organizations to achieve their goals.

If until recently the interest of managers to focus on "technical aspects" - getting new markets, achieve a higher profit, the introduction of new technologies, business restructuring, most often losing sight look "human" activity of organizations their present human resources activity has become extremely important to ensure that organizations with valuable employees to help achieve their objectives, with professionals that meet current competitive competition. From here you can easily draw the conclusion that human capital development is directly proportional to investment in education at all levels people develop their individual development.[8] It is obvious today that the essence of leadership is based on sound knowledge in different fields, on a good understanding of economic flows relative to market divided into regions of geopolitical influence. In these circumstances a responsible manager must have a great capacity for analysis and synthesis, flexibility and mobility in mind. The organizational plan should have a great capacity for negotiation, availability of dialogue, team spirit, but, above all, to know how to motivate employees in obtaining good results and realize that success can be achieved only when every employee feels that has a great value and he/she is important in the organization.

Analyzing human resource theories that underpinned this science, Babbage, Mayo Smith, Solow, Abramovitz[9] Romer,[10] Drucker, we understand that every business is doomed if operators do not pay due attention to this resource, which, amongst

other resources, is the only creator of value; is a key resource, a resource vital to ensure the survival and development of competitive success of all organizations. We must accept that the essence of any organization is human effort and the efficiency and effectiveness are influenced largely by people's behavior within the organization. Any businessman must constantly consider the following issues related to human resources:

- *People is one of the most important investments of the organization;*
- *Humans are the only inexhaustible creativity, solutions and new ideas, original and valuable to be used;*
- *People are only able to produce and reproduce all other available resources of an organization in order to achieve objectives;*
- *People is an important factor to be understood, motivated and trained to engage as full and profound organizational objectives;*
- *People are the most valuable asset of the organization pointed to investing a permanent capital;*
- *Over the competition contemporary people are unique in terms of their potential for growth and development to meet the new challenges and current and future requirements;*

Contemporary economists and human resources specialists year must be convinced that human resources are the main strategic resource of any organization, any leader must give utmost importance to activities such as: attracting and use of human resources, ensuring compatibility between job requirements and competence of staff, training and human resource development, career management personnel performance appraisal, motivating staff and not least, how to achieve the design of a system of organization to ensure satisfaction and the possibility of harmonizing personal goals with organizational issues. Human capital as a central factor of production in any economic theory is: *stock of knowledge and skills useful and valuable, embodied in the workforce, resulting from a process of education and training.* It is the human capacity to mobilize other factors of production, you combine the specific, predetermined to achieve a desired result. For this human capital and wealth depend on our wealth of future generations. [11]"Since

1960, John Kenneth Galbraith highlight the importance of human capital in relation to the technical:" If cars are decisive things when social arrangements through which we develop, infrastructure and equipment will be of prime importance. But if it is people who matter when our first concern must be to achieve those arrangements which preserve and develop personal talents "(Galbraith, 1960, p.34). Mere possession of capital gives no guarantee that the necessary talent in a company can be obtained and properly organized. The knowledge society - society is configured increasingly economically powerful countries - the world of ideas takes precedence in relation to the world of tangible objects and intellectual capital becomes pivotal in relation to other physical forms of capital. As stress and Marin Dinu, "In the knowledge society, the idea that information is not only crucial but also a priority, while manifesting both as ineffable and substantial, essential practical and functional too." [12]

In view of the statement made by Druker, we can say that human capital formation should receive the highest priority, since without being supported by an adequate knowledge and human experience other factors of production will not be able to produce only very little or not at all. The gain on the investment in human capital is not only the net amount of lifetime incomes from the sale of skilled labor as opposed to unskilled, but concerns intellectual subjective feeling of well-being, confidence, social recognition. [13] According to estimates, between 50% and 90% of the total capital stock of the US takes the form of human capital. Thus, human development requires education, health and a decent standard of living. In the strategy development, training, continuing education and human capital development are possible adequate investment in education and health funds properly sized."In the knowledge society and economy, investment in human capital manifests itself as a top priority. It equals and, in some cases, exceed the investment material. Compared to the great efforts invested expects financial and efficiency of education and training to match. Many factors contributed to it:

- Striking a balance between the various internal and external sources of

funding, by avoiding duplication or guidance diverging use of funds;

- ensuring accelerated processing speed of the stock of human capital to become competent and competitive labor market;

- Opening the free movement of labor in the EU labor market, taking into account the forms of employment, retirement, benefits systems and social transfers.

- Manifestation of conduct demanding training process of learning, with emphasis on the acquisition of new skills dictated by the information society; [14]

Many questions have been asked about the relationship between human capital investment and increasing year organizational performance. From these questions revealed that there are several courses of action, from financing education to how the finished product is used on investment, referring to the person skilled in his field. Increasing more educational opportunities has long been seen as a major factor in gaining greater social equality. Widening participation was generally regarded as a key factor in the progress in this regard; however, too little attention has been given specific effects or results of such participation. "These paradoxes make up a discussion on the potential contribution of human capital to build policies and their application in time. The investment is better directed at the employee's level of knowledge will increase, sometimes exponentially, and will reach rational allocation of relationships that lead to the formation of human capital potential for individual and community. [15] To meet the goal of this study propose for consideration the following questions:

□ *In what way human capital is helpful when it comes to analyzing or thinking of learning throughout life?*

□ *How can be applied practically?*

□ *Human capital draws attention to the power and potential of social connections (negative and positive). What role do social relations in lifelong learning policy and practice ("lifelong learning")?*

Human capital is defined by the OECD (1998, p.9, the OECD Organization for Economic Cooperation and Development - Organization for Economic Cooperation and Development) as "knowledge, skills and

competencies and other attributes represented/embodied ("embodied", incarnated) by various individuals that are relevant to economic activity. "This is a fairly restrictive definition. Even so, human capital is not easily measured. Duration of schooling and skill levels are standard measures used, but complains that they OECD are far from all traits include human capital. [16] For example - although it is an example used by OECD - child education develops many skills / qualities that are rarely recognized in conventional calculations of a nation's human capital. "At the same OECD study shows that investment in human capital contributes to increased productivity and manifests itself as an attractive option compared to other alternatives, both at micro and macro level. By entering in a field of concreteness more pronounced, Angel de la Fuente and Ciccone prove that adding an additional year at secondary education lead to higher productivity growth rate by approximately 5% in the short term and by 2.5% long. Further, it shows that improving human capital trained in the '90s of the last century compared to the previous decade in the 15 EU countries, a growth of 0.5 percentage points "[17]

Currently, the global economic crisis amplifies every day, and Romania increasingly start to feel the recession, where the great economists of the world fail to find them antidote, and the man will feel it crisis in the Romanian economy, although the last two years has managed to place on an upward trend. [18].

*The ManPower Professional research also highlights crisis of qualified personnel, particularly in the industrial sector is emerging. Because of this reason managers must make more effort to be able to attract and retain the companies. Lack of qualified personnel is a permanent risk in Asia-Pacific and the Americas. Employers in Peru (46%), Japan (45%), USA (45%) and Mexico (41%) are among those who encounter the greatest difficulties in recruiting qualified staff in finance, insurance, real estate and construction. The Americans have need of civil servants. The Chinese are affected by "human recession" in mining and construction. In New Zealand*

*there are looking for teachers, but whine and lack administrative operation. Taiwan needs additional strengths in services.*

In this context we must have the negative effects of the crisis on the departments and human resource policies:

- Reduce the number of staff - firms worked "below the required employees

- Reducing or blocking training programs and training itself
- Reduction of salaries and benefits
- Ending employment - which occurred despite an acute need for new employees and increased the loading of existing employees
- Internal communication poor - in most cases, anti-crisis measures were adopted and implemented without prior information and consultation of employee

The reality of our country shows that Romanian organizations disregard the needs of employers when they retraining programs and the result is zero. You need to provide optimized application and this requires an analysis and a correct diagnosis of the labor market in each area, because otherwise you do not know what treatment to apply. [19]

From this point of view, we can say that the investment in human capital is a current expense to acquire additional income potential as an investment expected remuneration conducted. Referring to contemporary theories, economists' human capital school, Denison (1964) and Becker (1997) tried to prove that to produce both individual and social benefits, should be considered investment in school. After Bonavot (cited in Young, p. 747) "The main contribution of education to economic growth was to increase the quality of cognitive labor and consequent improvement of its marginal productivity".[20] Given the current context of Romania as EU member country can not ignore a reality that has gained ground steadily in Europe and that, although criticized and debated at the moment, could prove to be valid by its ability to forecast growth. Of course, one might object that talk about creative human capital on the Romanian labor market may sound elitist and forced, in view when we were in the region. However, since the term must take into account the "development" to

achieve these standards, it is never too early to begin to understand the phenomenon as already defined. [21]

To cope with competition Romania should align the performance requirements of post-crisis periods. This must be taken into account that: "Human Capital Management aimed at creating a climate of high performance using operational research, decision theory, cybernetics contribution sciences of behavior, etc. At company level is called integrated management systems, forecasting and preparing management decisions under uncertainty and risk. In this way, managers are able to focus on major issues, the components of the strategy's progress, innovation and creativity. The human capital management plan psychosocial orientation towards performance requires overcoming psychological barriers and traditions that have been installed in DUI subjectivism and voluntarism. [22]. In this respect the result of investment in human capital is fully reflected a performance management applied in all areas of social and economic of a nation.

We are today before a training needs and training of personnel requirement imposed by the pace of economic and social development and the supply and demand of labor-specific geopolitical areas: daily have taken important decisions related to specific policies policies coming from the public, local or central administrative structures, specialized institutions, citizens and media. Appear crises that are based on previous measures and decisions taken at the institutional level, so the need for a higher level of flexibility to ensure continuity in the organization, the "transformation on the fly" is secured only by a human capital management based performance. Human capital management treats analytical links between costs, yields and risks of alternative measures proposed for the fulfillment of goals in the field. Analysis of human capital management is complemented by the establishment of several variants shootout admissible solutions. [23]. This process required a planning, budgeting and evaluation for results. We are today before a training needs and training of staff requirement imposed by the pace of economic and social development and the supply and demand of labor specific to each geopolitical zone. "In order to

favorably influence participation in the growth of human capital performance required a special effort in the firm knowledge of people throughout their business, from hiring to termination of employment or retirement, complete knowledge, individualized, differentiated for every man and every part of the collective work. [24]

Investing in staff training need to consider permanent competition in which the man, the purposes of training and individual ability. "The concept of human capital management is associated with the existence of distinctive services and special factors or conferring a certain status of human capital. Imposed standards that can only be achieved at a cost sometimes quite large and so may not be accessible to the majority of firms." [25].

For an effective investment in human capital analysis should be made through a series of steps. It should be added that in the following we present a series of steps with general aspect, which can accommodate several activities targeting high performance and thus human capital development within an organization, such as the management of the organization and/or planning, coordination and management of organizational development activities. [26]

*1. The general objectives are analyzed and reported the results at a time, according to the quantity, quality, cost and time-scales proposing corrective measures in case of adverse identifications. (This is a type of performance evaluation at a time - mid-term)*

*2. The same terms shall review the results of a particular area as a guide to the desired results in relation to other services or directions of the organization (products and services requested from the inside or the beneficiaries or partners)*

*3. Consideration should be certain that what you are analyzing performance and results that contribute to the overall results of the organization.*

*4. Where appropriate it prioritizes details the analysis and, where appropriate, those results to be improved.*

*5. Identify the units or primary assessment to see if and how well the desired results are measured or predicted.*

*6. Identify several specific elements that can assist in a first evaluation of the real.*

7. Go to identify standards that determine how well their results are achieved (eg what is in line with expectations or what is below or above expectations.)

8. Perform a 'performance' or quality includes the results analyzed, the desired measurement units or elements and assessment and working standards.

Investing education and training is the foundation of investment in human capital. [27] This is preferably done as soon as possible (early childhood education in the system) will help reduce long-term costs because we avoid exclusion and required qualifications will equip citizens with the labor market. Changing strategy so far focused on growth and jobs can we replace with the aim of increasing productivity of social inclusion, public health, education and qualifications expenses and investment in human capital. (OECD committees, Successor to current strategies Europe 2020). High labor productivity and rapid innovation are dependent on a workforce committed, skilled, and adaptable, with a decent health and safety at work and reasonable sense of working time. Sianesi, B., Van Reen, J., The returns to Education: A Review of Macro-Economic Literature, Centre for Economics and Education, LSE, 2000 Policies addressing qualifications should not only have regard to retired workers and reformed education system; need to improve the quality of jobs, creating a stimulating work environment and encourage continuing professional education throughout their working lives. Retraining should be encouraged and co-financing arrangements for learning cycles and public policy for the recognition of formal and informal education. [28]. This approach also requires additional funds to employment agencies and specialists who can deal with individual career path of the different categories of unemployed, more or less specialized.

Romania should take advantage of the opportunities that the economic crisis has brought in terms of efficient use of human resources referring to:

- Demand for labor in companies and the possibility of recruitment and selection in line with company objectives

- Facilities granted by the state to hire people from groups considered disadvantaged in the labor market
- Diversification of methods of engagement, which until now were considered "isolated cases: fixed term, project-based or part-time etc.
- A large number of new university graduates without work, willing to accept an internship program that would provide work experience (employing company and ensure minimum costs)

We must accept that human capital accumulation process in Romania is subject to divergent trends, is hard to say whether the outcome will be positive or contrary: it is, on the one hand, by reducing the budget for education and research, due to the economic circumstances we are experiencing and, on the other hand, talk about a reversal of the migration process, a significant part of those who left the country in previous years back due to unfavorable international conjuncture. *Romania needs in the coming period, to step up support for the education sector, given that the state wants to achieve convergence with the EU average. Although the crisis seems to be unfavorable when such speech should be noted that the future belongs to countries that create an environment conducive to innovation environment that appears only in the presence of a high stock of human capital.* What are the tools that Romania should use them in more efficient investment in human capital, as a general pattern? Regarding the tools you can use to increase human capital and organizational development, enumerate and briefly try to define some of the alternatives the following hours:

□ Informal education: human capital is formed not only in educational institutions or work environment. More obviously, human capital development depends on the people able to participate actively in relevant spheres of social life. Occupational skills are learned at work, both implicitly and volunteer. Social skills are acquired through action rather than from reading or institutionalized forms of education [29].

□ Joining and implementation of policies for human capital formation: Improved coordination is a general recommendation to the development, coordination and

implementation of specific policies. Sometimes this raises the question of who has the role of coordinator, with the kind of involvement from the top of the pyramid down. Perhaps this question brings up a realistic approach to policy implementation.

□ Work Patterns: refers to labor polarization phenomenon is one of the major threats to social cohesion. The contrast between rich families and those with employees-employees-poor has grown alarmingly over the past two decades. One of the first discoveries of Goleman's work was the way that families with high human capital and higher net gains can stay, however, the social chapter poorly due to limited time left for social interactions within the family and between the family and other social institutions; it is also one of the major findings of recent studies in the field [30].

□ Connect technology in social education: new information and communication technologies have created huge opportunities for access to knowledge and new ways of working and earning. A huge amount of network became possible. At the same time raises threats to the ways in which information is collected and distributed. As working hours, there are strong tendencies towards polarization; at each level there are groups at risk of social exclusion. There are a number of questions that need to be raised about the effect of ICT (Information and Communication Technologies - ICTs) on education society.

As a conclusion we must underline that all economic and social challenges that are facing, human capital management emphasizes that competitive advantage is achieved through strategic investments in those assets which once held, increase the efficiency of the organization. Human capital management act as a bridge between human capital and business strategies. For the mobilization and development of human potential necessary Romania as a member of the European Union is considering the following steps:

□ include the issue of human resources in all reform programs, regardless of the field;

*Romania has forgotten to invest in people. Romania must not be a prisoner of its own mistakes and to understand that intellectual investment can not be substituted or EU funds and no foreign investment, and to*

*record a sustainable economic growth, increase competitiveness and quality of living conditions need to invest in people. [31] It requires investment in technology and people to provide technical capital modernization and specialization of human capital so as to achieve a continuous increase competitiveness of the Romanian economy. Increasing competitiveness is essential because of the contribution or negative marginal productivity of factors of production (total factor productivity, TFP). since 2008, economic growth. This may represent a fundamental vector of growth and development of the Romanian economy can be achieved primarily through proper allocation of public and private funds, necessary for the development of human capital and R & D and innovation sector. This means that any program should consider training activities, management, innovation, community development, civic participation, awareness, social policy, lifelong learning, improving the quality of work and life; we must use of clusters and sectors to support efficient processing of all societies, we must increase the potential for innovation and multiplication direct influence social change and to use adaptive training skills in an uncertain and problematic context, in light of increasing capacity for competitiveness, employment and sustainable development, all these ensuring minimum standards of human resources training: basic education for all, the minimum initial training, social and professional integration, civic participation, social cohesion, innovation capacity, physical and mental health, ecological awareness, public morality etc.*

Contemporary management is essential, especially during crises, when a crowd activities must be coordinated to achieve a specific purpose, for a return to economic market open and active, always in the context of changing conditions, it is difficult any planning accurate. At the moment, the Romanian economy has reached a point where decisive role has managerial behavior, attitude towards change managers, their new thinking, how each individual wants to develop their own career. In reality the crisis of economic, social, political and moral restructuring that occurred Romania is a result of a crisis management, lack of



practical training in leadership and change management, minimal or inefficient investment in human capital. The economic crisis has shown that competitiveness, so often cited, is a term that designates the ability of a state and its companies to face competition. The public debate focuses on labor costs, while the cost of capital is never remembered while net income distributed 10% of the added value of companies. The current economy requires a new type of management, based on specific value system of market economy, which the concept and method of application to determine remodeling and competitive functioning of institutions and organizations, and the use of resources in any organization that more important is the human resource.

Pointing to negative aspects of economic developments occurring during modern history, we can say that the first crisis that the world economy was marked between 1815 and 1818 and the second crisis, very hard, was in 1846-1847, which prefaced revolutions of 1848. It followed, in 1859, a period of capitalist economic boom, but in 1873 another crisis emerged stronger, leading eventually to the outbreak of the First World War. The deep crisis that has seen a capitalist economy was between 1929 and 1933. He debuted in the US with the New York stock market crash. But that was only the signal from the surface, as it is now. The real crisis is down in the basic structure of the economy, not only can supply recover based on involvement of specialists and experts both at decision-making level and at the practical level.

All financial crisis has reduced investment in human capital producing a large number of low-skilled workers, leading to permanent or long-term unemployment among young people with a secondary education and the older workers who cannot retire yet. As a consequence of this mismatch of skills, income inequality is normal to worsen. It is expected that young workers, women and those over 55 years to be strong affected. [1] When addressing the issue of human capital should be mentioned that the term "human capital" is similar to the concept of "labor force" launched by Karl Marx. It said: between capitalist domination, workers must sell their labor to get some income as wages. Marx analyzed the close

relationship between income and capital that man can give, referring to *work*.

The evolution of the relations of production and the fact that science has advanced, made to seek support technology transfer specialists increasingly better prepared, it was necessary that managers and engineers can use the new machines or production techniques. Therefore, the ability of a society to prepare professional managers and ability to provide financial matters relating to the need for continuous improvement, are part of the functions defining elements related to *human capital*. Based on the practical aspects specialists have shown that human capital can be prepared both by formal (classroom and school preparation) and through informal training on the job, in terms of training and lifelong learning. For the purposes of the permanent workforce training (theory developed by P. Drucker in 1950s) Karl Marx said[2]:

- *Workers must work using their body and mind in order to earn an income. (Marx distinguishing between work capacity, labor and human activity to work)*
- *A worker cannot freely sell their own human capital to money income. He sells his skills, but the contract includes these skills. Even a slave, whose human capital can be sold, not gaining anything; slave owner wins.*
- *In capitalism, to receive income, an employee must accept working conditions (including some humility and respect for human respect rules below) from an employer wishing to hire for a certain period of time.*

In the early twentieth century, in the economics, there was talk that the worker obtains from his work a certain rate of profit, producing added value. By creating human capital, workers acquire certain benefits, bonuses, which, although dependent on the willingness and ability of the employer to grant them ensures a state of good for both sides. [3] These values appeared in the article "Questions about emancipation" written by Marx and published in the New York Daily Tribune on 17 January 1859. The of the article was that Marx had new terms used to

describe an individual who are potentially forming a capital used by those who held power production and not in the modern sense of the wealth of knowledge and information (Knowledge capital) acquired or improved individually. [4]

Speaking human capital definitions we can say that human capital has experienced successive improvements, enjoying new dimensions to the original definition content. One of the real definition of human capital belongs to Daniel Goleman, [5] his works relating to emotional intelligence (EI) presents the concept of "human capital" as a specific feature corresponding to each of us an individual's skills and knowledge, supporting actions directed towards growth. Goleman says, like its predecessors corporate representatives of the school management emerged from the 1950s, it is in the power of modern managers to train their people to invest in human capital formation necessary socio-economic life in the long term. [6] Karl Popper [7], one of the most representative philosophers of modern thought, points out that in order to achieve continuous growth and progress, there is a constant and growing need for knowledge. While we are still far from forming a creative class, I might consider intermediate stage of stabilization human capital based on knowledge (in the sense of "intellectual worker" created by Peter Drucker in 1959). Investing in human capital using formal training and education are designed to maintain their high intellectual abilities of a person that you update the information and expertise, to develop specialists who can compete in the labor market. The need for permanent adult education stemmed in large imbalances that occurred in the second half of the twentieth century, especially between man and the world. Introducing the change as a means of adaptation, the man is forced to change too. Thus between what he thinks, says and make practical and results of these serious disorders is established and sometimes insurmountable conflicts. Overcoming the difficult moments can not only modifying their own knowledge, system assessment and evaluation of individual judgments and empowerment action. Analyzing focus on human resource management concept, we can say that this is a possible solution for achieving performance regardless of the

activity. Without effective involvement of people who know what, when and how to do it would be impossible for organizations to achieve their goals.

If until recently the interest of managers to focus on "technical aspects" - getting new markets, achieve a higher profit, the introduction of new technologies, business restructuring, most often losing sight look "human" activity of organizations their present human resources activity has become extremely important to ensure that organizations with valuable employees to help achieve their objectives, with professionals that meet current competitive competition. From here you can easily draw the conclusion that human capital development is directly proportional to investment in education at all levels people develop their individual development. [8] It is obvious today that the essence of leadership is based on sound knowledge in different fields, on a good understanding of economic flows relative to market divided into regions of geopolitical influence. In these circumstances a responsible manager must have a great capacity for analysis and synthesis, flexibility and mobility in mind. The organizational plan should have a great capacity for negotiation, availability of dialogue, team spirit, but, above all, to know how to motivate employees in obtaining good results and realize that success can be achieved only when every employee feels that has a great value and he/she is important in the organization.

Analyzing human resource theories that underpinned this science, Babbage, Mayo Smith, Solow, Abramovitz [9] Romer, [10] Drucker, we understand that every business is doomed if operators do not pay due attention to this resource, which, amongst other resources, is the only creator of value; is a key resource, a resource vital to ensure the survival and development of competitive success of all organizations. We must accept that the essence of any organization is human effort and the efficiency and effectiveness are influenced largely by people's behavior within the organization. Any businessman must constantly consider the following issues related to human resources:

- *People is one of the most important investments of the organization;*

- *Humans are the only inexhaustible creativity, solutions and new ideas, original and valuable to be used;*
- *People are only able to produce and reproduce all other available resources of an organization in order to achieve objectives;*
- *People is an important factor to be understood, motivated and trained to engage as full and profound organizational objectives;*
- *People are the most valuable asset of the organization pointed to investing a permanent capital:*
- *Over the competition contemporary people are unique in terms of their potential for growth and development to meet the new challenges and current and future requirements;*

Contemporary economists and human resources specialists year must be convinced that human resources are the main strategic resource of any organization, any leader must give utmost importance to activities such as: attracting and use of human resources, ensuring compatibility between job requirements and competence of staff, training and human resource development, career management personnel performance appraisal, motivating staff and not least, how to achieve the design of a system of organization to ensure satisfaction and the possibility of harmonizing personal goals with organizational issues. Human capital as a central factor of production in any economic theory is: *stock of knowledge and skills useful and valuable, embodied in the workforce, resulting from a process of education and training.* It is the human capacity to mobilize other factors of production, you combine the specific, predetermined to achieve a desired result. For this human capital and wealth depend on our wealth of future generations. [11]"*Since 1960, John Kenneth Galbraith highlight the importance of human capital in relation to the technical:*" *If cars are decisive things when social arrangements through which we develop, infrastructure and equipment will be of prime importance. But if it is people who matter when our first concern must be to achieve those arrangements which preserve and develop personal talents*" (Galbraith, 1960, p.34). Mere possession of capital gives no guarantee that the necessary talent in a company can be obtained and properly

organized. The knowledge society - society is configured increasingly economically powerful countries - the world of ideas takes precedence in relation to the world of tangible objects and intellectual capital becomes pivotal in relation to other physical forms of capital. As stress and Marin Dinu, "*In the knowledge society, the idea that information is not only crucial but also a priority, while manifesting both as ineffable and substantial, essential practical and functional too.*" [12]

In view of the statement made by Druker, we can say that human capital formation should receive the highest priority, since without being supported by an adequate knowledge and human experience other factors of production will not be able to produce only very little or not at all. The gain on the investment in human capital is not only the net amount of lifetime incomes from the sale of skilled labor as opposed to unskilled, but concerns intellectual subjective feeling of well-being, confidence, social recognition. [13] According to estimates, between 50% and 90% of the total capital stock of the US takes the form of human capital. Thus, human development requires education, health and a decent standard of living. In the strategy development, training, continuing education and human capital development are possible adequate investment in education and health funds properly sized."In the knowledge society and economy, investment in human capital manifests itself as a top priority. It equals and, in some cases, exceed the investment material. Compared to the great efforts invested expects financial and efficiency of education and training to match. Many factors contributed to it:

- Striking a balance between the various internal and external sources of funding, by avoiding duplication or guidance diverging use of funds;
- ensuring accelerated processing speed of the stock of human capital to become competent and competitive labor market;
- Opening the free movement of labor in the EU labor market, taking into account the forms of employment, retirement, benefits systems and social transfers.

• Manifestation of conduct demanding training process of learning, with emphasis on the acquisition of new skills dictated by the information society; [14]

Many questions have been asked about the relationship between human capital investment and increasing year organizational performance. From these questions revealed that there are several courses of action, from financing education to how the finished product is used on investment, referring to the person skilled in his field. Increasing more educational opportunities has long been seen as a major factor in gaining greater social equality. Widening participation was generally regarded as a key factor in the progress in this regard; however, too little attention has been given specific effects or results of such participation. "These paradoxes make up a discussion on the potential contribution of human capital to build policies and their application in time. The investment is better directed at the employee's level of knowledge will increase, sometimes exponentially, and will reach rational allocation of relationships that lead to the formation of human capital potential for individual and community. [15] To meet the goal of this study propose for consideration the following questions:

□ *In what way human capital is helpful when it comes to analyzing or thinking of learning throughout life?*

□ *How can be applied practically?*

□ *Human capital draws attention to the power and potential of social connections (negative and positive). What role do social relations in lifelong learning policy and practice ("lifelong learning")?*

Human capital is defined by the OECD (1998, p.9, the OECD Organization for Economic Cooperation and Development - Organization for Economic Cooperation and Development) as "knowledge, skills and competencies and other attributes represented/embodyed ("embodyed", incarnated) by various individuals that are relevant to economic activity. "This is a fairly restrictive definition Even so, human capital is not easily measured. Duration of schooling and skill levels are standard measures used, but complains that they OECD are far from all traits include human capital. [16] For example - although it is an example used by

OECD - child education develops many skills / qualities that are rarely recognized in conventional calculations of a nation's human capital. "At the same OECD study shows that investment in human capital contributes to increased productivity and manifests itself as an attractive option compared to other alternatives, both at micro and macro level. By entering in a field of concreteness more pronounced, Angel de la Fuente and Ciccone prove that adding an additional year at secondary education lead to higher productivity growth rate by approximately 5% in the short term and by 2.5% long. Further, it shows that improving human capital trained in the '90s of the last century compared to the previous decade in the 15 EU countries, a growth of 0.5 percentage points "[17]

Currently, the global economic crisis amplifies every day, and Romania increasingly start to feel the recession, where the great economists of the world fail to find them antidote, and the man will feel it crisis in the Romanian economy, although the last two years has managed to place on an upward trend. [18]

*The ManPower Professional research also highlights crisis of qualified personnel, particularly in the industrial sector is emerging. Because of this reason managers must make more effort to be able to attract and retain the companies. Lack of qualified personnel is a permanent risk in Asia-Pacific and the Americas. Employers in Peru (46%), Japan (45%), USA (45%) and Mexico (41%) are among those who encounter the greatest difficulties in recruiting qualified staff in finance, insurance, real estate and construction. The Americans have need of civil servants. The Chinese are affected by "human recession" in mining and construction. In New Zealand there are looking for teachers, but whine and lack administrative operation. Taiwan needs additional strengths in services.*

In this context we must have the negative effects of the crisis on the departments and human resource policies:

- Reduce the number of staff - firms worked "below the required employees
- Reducing or blocking training programs and training itself
- Reduction of salaries and benefits

- Ending employment - which occurred despite an acute need for new employees and increased the loading of existing employees
- Internal communication poor - in most cases, anti-crisis measures were adopted and implemented without prior information and consultation of employee

The reality of our country shows that Romanian organizations disregard the needs of employers when they retraining programs and the result is zero. You need to provide optimized application and this requires an analysis and a correct diagnosis of the labor market in each area, because otherwise you do not know what treatment to apply. [19]

From this point of view, we can say that the investment in human capital is a current expense to acquire additional income potential as an investment expected remuneration conducted. Referring to contemporary theories, economists' human capital school, Denison (1964) and Becker (1997) tried to prove that to produce both individual and social benefits, should be considered investment in school. After Bonavot (cited in Young, p. 747) "The main contribution of education to economic growth was to increase the quality of cognitive labor and consequent improvement of its marginal productivity".[20] Given the current context of Romania as EU member country can not ignore a reality that has gained ground steadily in Europe and that, although criticized and debated at the moment, could prove to be valid by its ability to forecast growth. Of course, one might object that talk about creative human capital on the Romanian labor market may sound elitist and forced, in view when we were in the region. However, since the term must take into account the "development" to achieve these standards, it is never too early to begin to understand the phenomenon as already defined. [21]

To cope with competition Romania should align the performance requirements of post-crisis periods. This must be taken into account that: "Human Capital Management aimed at creating a climate of high performance using operational research, decision theory, cybernetics contribution sciences of behavior, etc. At company level is called integrated management systems, forecasting and preparing management

decisions under uncertainty and risk. In this way, managers are able to focus on major issues, the components of the strategy's progress, innovation and creativity. The human capital management plan psychosocial orientation towards performance requires overcoming psychological barriers and traditions that have been installed in DUI subjectivism and voluntarism. [22] In this respect the result of investment in human capital is fully reflected a performance management applied in all areas of social and economic of a nation.

We are today before a training needs and training of personnel requirement imposed by the pace of economic and social development and the supply and demand of labor-specific geopolitical areas: daily have taken important decisions related to specific policies policies coming from the public, local or central administrative structures, specialized institutions, citizens and media. Appear crises that are based on previous measures and decisions taken at the institutional level, so the need for a higher level of flexibility to ensure continuity in the organization, the "transformation on the fly" is secured only by a human capital management based performance. Human capital management treats analytical links between costs, yields and risks of alternative measures proposed for the fulfillment of goals in the field. Analysis of human capital management is complemented by the establishment of several variants shootout admissible solutions. [23] This process required a planning, budgeting and evaluation for results. We are today before a training needs and training of staff requirement imposed by the pace of economic and social development and the supply and demand of labor specific to each geopolitical zone. "In order to favorably influence participation in the growth of human capital performance required a special effort in the firm knowledge of people throughout their business, from hiring to termination of employment or retirement, complete knowledge, individualized, differentiated for every man and every part of the collective work. [24]

Investing in staff training need to consider permanent competition in which the man, the purposes of training and individual ability. "The concept of human capital management

is associated with the existence of distinctive services and special factors or conferring a certain status of human capital. Imposed standards that can only be achieved at a cost sometimes quite large and so may not be accessible to the majority of firms." [25].

For an effective investment in human capital analysis should be made through a series of steps. It should be added that in the following we present a series of steps with general aspect, which can accommodate several activities targeting high performance and thus human capital development within an organization, such as the management of the organization and / or planning, coordination and management of organizational development activities. [26]

*1. The general objectives are analyzed and reported the results at a time, according to the quantity, quality, cost and time-scales proposing corrective measures in case of adverse identifications. (This is a type of performance evaluation at a time - mid-term)*

*2. The same terms shall review the results of a particular area as a guide to the desired results in relation to other services or directions of the organization (products and services requested from the inside or the beneficiaries or partners)*

*3. Consideration should be certain that what you are analyzing performance and results that contribute to the overall results of the organization.*

*4. Where appropriate it prioritizes details the analysis and, where appropriate, those results to be improved.*

*5. Identify the units or primary assessment to see if and how well the desired results are measured or predicted.*

*6. Identify several specific elements that can assist in a first evaluation of the real.*

*7. Go to identify standards that determine how well their results are achieved (eg what is in line with expectations or what is below or above expectations.)*

*8. Perform a 'performance' or quality includes the results analyzed, the desired measurement units or elements and assessment and working standards.*

Investing education and training is the foundation of investment in human capital. [27] This is preferably done as soon as possible (early childhood education in the system) will help reduce long-term costs

because we avoid exclusion and required qualifications will equip citizens with the labor market. Changing strategy so far focused on growth and jobs can we replace with the aim of increasing productivity of social inclusion, public health, education and qualifications expenses and investment in human capital. (OECD committees, Successor to current strategies Europe 2020). High labor productivity and rapid innovation are dependent on a workforce committed, skilled, and adaptable, with a decent health and safety at work and reasonable sense of working time. Sianesi, B., Van Reen, J., The returns to Education: A Review of Macro-Economic Literature, Centre for Economics and Education, LSE, 2000 Policies addressing qualifications should not only have regard to retired workers and reformed education system; need to improve the quality of jobs, creating a stimulating work environment and encourage continuing professional education throughout their working lives. Retraining should be encouraged and co-financing arrangements for learning cycles and public policy for the recognition of formal and informal education. [28] This approach also requires additional funds to employment agencies and specialists who can deal with individual career path of the different categories of unemployed, more or less specialized.

Romania should take advantage of the opportunities that the economic crisis has brought in terms of efficient use of human resources referring to:

- Demand for labor in companies and the possibility of recruitment and selection in line with company objectives
- Facilities granted by the state to hire people from groups considered disadvantaged in the labor market
- Diversification of methods of engagement, which until now were considered "isolated cases: fixed term, project-based or part-time etc.
- A large number of new university graduates without work, willing to accept an internship program that would provide work experience (employing company and ensure minimum costs)

We must accept that human capital accumulation process in Romania is subject

to divergent trends, is hard to say whether the outcome will be positive or contrary: it is, on the one hand, by reducing the budget for education and research, due to the economic circumstances we are experiencing and, on the other hand, talk about a reversal of the migration process, a significant part of those who left the country in previous years back due to unfavorable international conjuncture. *Romania needs in the coming period, to step up support for the education sector, given that the state wants to achieve convergence with the EU average. Although the crisis seems to be unfavorable when such speech should be noted that the future belongs to countries that create an environment conducive to innovation environment that appears only in the presence of a high stock of human capital.* What are the tools that Romania should use them in more efficient investment in human capital, as a general pattern? Regarding the tools you can use to increase human capital and organizational development, enumerate and briefly try to define some of the alternatives the following hours:

□ Informal education: human capital is formed not only in educational institutions or work environment. More obviously, human capital development depends on the people able to participate actively in relevant spheres of social life. Occupational skills are learned at work, both implicitly and volunteer. Social skills are acquired through action rather than from reading or institutionalized forms of education [29].

□ Joining and implementation of policies for human capital formation: Improved coordination is a general recommendation to the development, coordination and implementation of specific policies. Sometimes this raises the question of who has the role of coordinator, with the kind of involvement from the top of the pyramid down. Perhaps this question brings up a realistic approach to policy implementation.

□ Work Patterns: refers to labor polarization phenomenon is one of the major threats to social cohesion. The contrast between rich families and those with employees-employees-poor has grown alarmingly over the past two decades. One of the first discoveries of Goleman's work was the way that families with high human capital and higher net gains can stay, however, the social

chapter poorly due to limited time left for social interactions within the family and between the family and other social institutions; it is also one of the major findings of recent studies in the field [30].

□ Connect technology in social education: new information and communication technologies have created huge opportunities for access to knowledge and new ways of working and earning. A huge amount of network became possible. At the same time raises threats to the ways in which information is collected and distributed. As working hours, there are strong tendencies towards polarization; at each level there are groups at risk of social exclusion. There are a number of questions that need to be raised about the effect of ICT (Information and Communication Technologies - ICTs) on education society.

As a conclusion we must underline that all economic and social challenges that are facing, human capital management emphasizes that competitive advantage is achieved through strategic investments in those assets which once held, increase the efficiency of the organization. Human capital management act as a bridge between human capital and business strategies. For the mobilization and development of human potential necessary Romania as a member of the European Union is considering the following steps:

□ include the issue of human resources in all reform programs, regardless of the field;

*Romania has forgotten to invest in people. Romania must not be a prisoner of its own mistakes and to understand that intellectual investment can not be substituted or EU funds and no foreign investment, and to record a sustainable economic growth, increase competitiveness and quality of living conditions need to invest in people. [31] It requires investment in technology and people to provide technical capital modernization and specialization of human capital so as to achieve a continuous increase competitiveness of the Romanian economy. Increasing competitiveness is essential because of the contribution or negative marginal productivity of factors of production (total factor productivity, TFP). since 2008, economic growth. This may represent a fundamental vector of growth*

and development of the Romanian economy can be achieved primarily through proper necessary for the development of human capital and R & D and innovation sector. This means that any program should consider training activities, management, innovation, community development, civic participation, awareness, social policy, lifelong learning, improving the quality of work and life; we must use of clusters and sectors to support efficient processing of all societies, we must increase the potential for innovation and multiplication direct influence social change and to use adaptive training skills in an uncertain and problematic context, in light of increasing capacity for competitiveness, employment and sustainable development, all these ensuring minimum standards of human resources training: basic education for all, the minimum initial training, social and professional integration, civic participation, social cohesion, innovation capacity, physical and mental health, ecological awareness, public morality etc.

## References:

- [1] Immigrants and their children are also disproportionately represented among those affected. Young people between 24 and 29 years in Europe 20% have become so-called Neets group (ie not in education, employment, or training).
- [2] Pigou, Arthur Cecil, *Un studiu asupra societății franceze*, Ed. Macmillan, London, 1928, p. 29
- [13] Marx, Karl. *Capital*, volume III, International Publishers Edition, p. 465-6
- [4] Across all economic theories highlights the main idea, that all assets have some value if it is able to produce a use or has a utility service or benefit future. If human capital have the same relevance as people are able to provide future services.
- [5] Daniel Goleman, American psychologist and journalist who wrote works related to emotional intelligence and its role in leadership and organizational management. The Doctor of Sciences of Harvard University and Rutgers University, associate professor. Successful work: "Working with Emotional Intelligence" in 1995, "Emotional Intelligence in Leadership" in 2002. It is considered one of the best trainers in the field of modern management.
- [6] Goleman, D. *Emotional Intelligence*, Ed. Curtea Veche, București 2005, p. 102
- [7] Sir Karl Raimund Popper CH FBA FRS (28 July 1902 – 17 September 1994) was an Austrian-British philosopher and professor at the London School of Economics. He is generally regarded as one of the greatest philosophers of science of the 20th century
- [8] Dimitrescu, M., *Human resources management*, Editura Victor, București, 2008
- [9] Moses Abramovitz (January 1, 1912 – December 1, 2000) was an 20th-century American economist and a professor.
- [10] Paul Michael Romer (born November 7, 1955) is an American economist, entrepreneur. Romer's most important work is in the field of economic growth. Economists studied long-run growth extensively during the 1950s and 1960s. He started his career at Harvard University. Where he was a lecturer during the mid 1930s. After he finished his doctorate at Columbia University, he joined the National Bureau of Economic Research in New York, where he began his investigation of inventory investment cycles
- [11] Druker, P, *Despre profesia de manager* Ed. Meteor Press, București, 2007, p. 154
- [12] Marin, D. *Economia României, o viziune asupra tranziției postcomuniste*, București, 2006, p. 11
- [13] Idem, p. 155
- [14] Petrescu, I., *Managementul Capitalului Uman*, Ed. Expert, București, 2006, p. 227
- [15] Curaj, A., *Formarea capitalului uman-prioritate în strategiile dezvoltării*, Academia de Studii Economice din București, 2006
- [16] Denison, E., *Measuring the Contribution of Education to Economic Growth*, Paris, 1964, OECD
- [17] Petrescu I., *Managementul Capitalului Uman*, Ed. Expert, București, 2006, p. 234
- [18] After an analysis of the beginning of 2014, private companies are in mass layoffs because over 5,300 people remained unemployed in the first three months of this year. At least 17,000 employees would be laid off in the coming months. Among the companies that have announced staff reductions include Gold Corporation, which, after losing the Rosia Montana project related decided to give up one third of the total of 325 employees, Agricola Bacau, which makes available a quarter of the 2,357 employees, and UPC, who gave up over 600 employees.
- [19] The study by Manpower Professional on the labor market in 26 countries of the world reveals an increasing number of employers have to pay higher wages because of the crisis specialists, 25% from a year earlier.



- Lack accountants, engineers, computer scientists (programmers and IT solution providers), nurses, sales and marketing managers, sales representatives with experience, threatening development strategies of firms. Number of employers said they would hire more qualified people in the past half year, if they had found available labor market has increased this year by 29% worldwide.
- [20] Curaj, A., Human capital formation-priority development strategy, Academy of Economic Studies of Bucharest, 2006
- [21] Based on a survey of experts from the Academy of Economic Studies in Bucharest, Professor Dan Armeanu, it shows that in Romania the companies in the South East (48.9%) and West (48%) have created a greater extent in November jobs than firms in the North-West (36%) and Central (40.1%). Construction firms (55.4%), transport, storage and communications (53.8%) are in the process of expansion and have a much higher capacity to generate new jobs. These are also areas where staff shortages. The demand for qualified personnel is not covered and there are many opportunities to work abroad for those with such qualifications. Rate very low generation of jobs are recorded in companies in the fields of electricity, gas and water (27.3%), mining (33.3%) and agriculture, forestry and fishing (35.5 %).
- [22] Petrescu, I., Op. cit., p. 527
- [23] Manolescu, A., *Managementul resurselor umane. Strategii și politici în domeniul resurselor umane*, București, Ed. RAI, 1998, p. 45-52
- [24] Robert D. Herman and David O. Renz, *Teorii ale eficienței în domeniul organizațiilor nonprofit*, Ed. SagemPublication, Missouri, 1999, p.104-198
- [25] Petrescu I, Op. cit., p. 443
- [26] Robert D. Herman, op.cit
- [27] Although in recent years in Romania, human capital has been affected by austerity measures, and the effects are difficult to quantify, there is great potential for recovery of these losses. Were affected areas of national importance -high and health - and human capital is difficult to regenerate, requires long cycles and high costs
- [28] Lucas, R., „On the Mechanics of Economic Development”, Journal of Monetary Economics, Elsevier B.V., Amsterdam, 22, p. 3-42, 1988
- [29] Milton Friedman in his studies identify "professional and specialized education" as a form of investment in human capital 'similar investment in the form of equipment, buildings or other non-human capital ", the main effect being increased productivity and economic development
- [30] Acemoglu, D., Angrist, J., “How large are the social returns to education? Evidence from compulsory schooling laws”, NBER Macroannual, 2000
- [31] Dan Armeanu, professor at the Faculty of Finance, Insurance, Banking and Stock Exchange, ASE, Bucharest
- [32] Acemoglu, D., Angrist, J., “How large are the social returns to education? Evidence from compulsory schooling laws”, NBER Macroannual, 2000
- [33] Becker, G.S., „Investment in Human Capital: A Theoretical Analysis”. The Journal of Political Economy, Vol. 70, No. 5, Part 2: Investment in Human Beings (Oct., 1962)
- [34] Coleman, J. S., „The Economic Approach to Sociology”, World and I, 1/1/2005
- [35] **Curaj, A.,** *Formarea capitalului uman-prioritate în strategiile dezvoltării*, Academia de Studii Economice din București, 2006
- [36] Denison, E., *Measuring the Contribution of Education to Economic Growth*, Paris, 1964, OECD
- [37] Dimitrescu, M., *Human resources management*, Editura Victor, București, 2008
- [38] Druker, P, *Despre profesia de manager* Ed. Meteor Press, București, 2007
- [39] Goleman, D. *Emotional Intelligence* , Ed. Curtea Veche, București 2005
- [40] Lucas, R., „On the Mechanics of Economic Development”, Journal of Monetary Economics, Elsevier B.V., Amsterdam,
- [41] Manolescu, A., *Managementul resurselor umane. Strategii și politici în domeniul resurselor umane*, București, Ed. RAI, 1998,
- [42] Marin, D. *Economia României, o viziune asupra tranziției postcomuniste*, București, 2006,
- [43] Marx, Karl. *Capital*, volume III, International Publishers Edition,
- [44] Petrescu, I., *Managementul Capitalului Uman*, Ed. Expert, București, 2006,
- [45] Pigou, Arthur Cecil, *Un studiu asupra societății franceze*, Ed. Macmillan, London, 1928,
- [46] Robert D. Herman and David O. Renz, *Teorii ale eficienței în domeniul organizațiilor nonprofit*, Ed. SagemPublication, Missouri, 1999,
- [47] Sir Karl Raimund Popper CH FBA FRS (28 July 1902 – 17 September 1994) was an Austrian-British philosopher and professor at the London School of Economics. He is generally regarded as one of the greatest philosophers of science of the 20th century
- [48] World Employment Report, 1998-1999, <http://www.ilo.org/public/english/235press/p>

kits/wer98/wer98ch2.htm,

[49] Institutul Național de Statistică – Anuarul  
Statistic al României.

[50] [www.insse.ro/cms/files/pdf/ro/cap2.pdf](http://www.insse.ro/cms/files/pdf/ro/cap2.pdf),

[51] [Infoeuropa.org](http://Infoeuropa.org)

# Development of Maritime University-Maritime Industry Relationships in the "E" Era – Comparison Between Danish and Romanian Maritime Cluster

Dragomir Cristina

*Constanta Maritime University, Faculty of Navigation and Naval Transport*

[cristina.dragomir@cmu-edu.eu](mailto:cristina.dragomir@cmu-edu.eu)

Utureanu Simona

*"Ovidius" University from Constanta, Faculty of Economic Sciences*

[simonautureanu@gmail.com](mailto:simonautureanu@gmail.com)

## Abstract

*In the "E" era, shipping industry, maritime cluster and related fields, Romanian seafarers' profiles and trajectory of their careers have certain features due to cultural, social and economic conditions of life in Romania. This paper presents an analysis regarding designing in Romania a career map for seafarers within the maritime cluster, after the Danish model presented by experts from Southampton Solent University. The analysis shows that Romanian national particularities require an adaptation of the Danish model to the local environment.*

**Keywords:** seafarer, career, port, STCW, employment

**JEL Classification:** J4, J6

## 1. Introduction

The main reference of this analysis is the project *The Mapping of Career Paths in the Maritime Industries*, made by Southampton Solent University for the European Community Shipowners' Associations (ECSA) and the European Transport Workers Federation (ETF) with the support of the European Commission, commenced on 01 July 2004 and officially completed on 30 June 2005.

The reason for choosing the comparison between Denmark and Romania was due to the fact that Denmark has one of the world's largest shipping industries despite the country's small size. Denmark is a global maritime industry leader with long-standing

shipping activities and advanced technologies and the shipping industry is strong and thriving. Helped by stable and competitive framework conditions – not least the Danish International Ship Register – the industry plays an important role in the world's infrastructure. The Danish offshore industry within wind power and wave energy is at the forefront of technological development. Also, the strong naval traditions in Denmark have led to a broad range of advanced technology solutions for the maritime industry to grow and prosper [1].

## 2. Maritime universities – maritime industry relationships in the maritime cluster

Michael Porter defined in 1998 the term "clusters" as a "geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions-such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations-that provide specialized training, education, information, research, and technical support" [2].

In opinion of P. De Langen (2002), there

are four agglomeration economies that attract firms to cluster: a joint labour pool, a broad supplier and customer base, knowledge spillovers, and low transaction costs [3].

Importance, key aspects and benefits of clustering are related to encouraging innovation, specialisation and outsourcing [4] within the cluster delimitation.

A main difference between the two countries with maritime potential, Denmark and Romania, is related to the identification of a maritime cluster. In Denmark there is a strong maritime cluster with a significant history, broadly defined by the industries that exploit the sea for commercial purposes and by the sectors that substantially supply and purchase goods and services for maritime sectors. Maritime sectors that make the cluster include shipping, marine services, shipbuilding, marine equipment manufacturing and offshore mining sectors of oil and gas. The Danish cluster connects trade with production and exploitation sectors and such has a significant impact on the entire economy.

The aim of the work in the Danish cluster organisations is to focus on and develop dynamics in the cluster. The competitiveness of the individual industries depends on the other industries, along with links to universities, maritime colleges/universities, and other educational institutions, government authorities and business organisations.

The Danish Government continually monitor the skills needs of the maritime industries, to ensure educational courses are up-to-date and correctly targeted. To increase the flow of qualified young people into the maritime industries, greater recruitment and information initiatives are implemented regarding career opportunities and patterns in these industries. Efforts are made to increase the inflow of qualified maritime officers into the merchant fleet via a retraining program for navigators in the fishing fleet. Since 2006, the Danish Government also permit qualified maritime officers from EU and EEA countries to become masters on Danish ships. Continuing training courses available to masters from smaller vessels will be reviewed and modified. The Danish Government initiate an analysis of the skills required by the shipping companies' onshore organisations. It will also consider the need

for bachelor and diploma level courses in the area of shipping and chartering, and a technical master's degree in addition to the maritime officer courses [5].

In Romania there was a first attempt to make a maritime cluster starting with 2011. Romanian Maritime Cluster was developed by an informal network which strengthened relationships between major players in this sector. The network could become a channel of cooperation, in order to support its members by lobbying, but also to provide necessary information and expertise to cluster members for sectional initiatives. The members of this cluster are crewing companies, ship operators, companies of project management solutions, ship design companies, training and public relations companies, classification societies, pilot agencies, universities, educational centers for seafarers, research institutes, public authorities [6].

Compared to the Danish cluster, the Romanian cluster is very new, with no history but a good aspect is the fact that the estimated turnover in 2011 is projected to 3 billion Euro. The Romanian cluster has a positive impact for the educational environment as there are established connections between maritime industry, two maritime universities (Constanta Maritime University and „Mircea cel Batran” Naval Academy from Constanta) and two universities with maritime educational programs: “Ovidius” University from Constanta and „Dunarea de Jos” University from Galați. But unfortunately there is no implication of the Romanian government like in the Danish case, to support the cluster and punctually the connections between universities and industries. During the recent years, a variety of public means, aimed at stimulating the cluster process, have been identified and applied by the authorities in many countries. The Romanian public policy aimed at stimulating the maritime cluster development should take these into consideration, but has to be tailored to the particular situation of Romania [7].

The public policy should include [8]:

- support for companies - financial support for companies' projects, advice and consulting for individual firms and stimulation of leader firm development;
- specific service or technology centres

and other cluster organisations;

- provision of information on technology, on general business matters, on market and export opportunities;

- support for training, research and recruiting through education and training programmes, research programmes and mobility schemes;

- support for collaboration - networking and collaboration programmes, contacts with other European maritime clusters, measures to attract outside firms to the cluster;

- infrastructure development – physical infrastructure, knowledge infrastructure (education institutions).

The relationship between industry within Romanian Maritime Cluster and maritime universities consist in establishing agreements for students' internships, for a period of two or three weeks after the summer exam session.

Another type of relationship consist in development of courses and educational programs for employees in the industry and assuring trained and specialized workforce among graduates for the available jobs in the maritime industry.

### **3. Seafarers - cluster industry-maritime university relationship**

Maritime higher education in our country is 100% connected to foreign markets and this represents an advantage when speaking about employment opportunities. Although not in a large percentage in the first year after graduation, graduates find in higher proportion seafaring jobs compared with those who complete other university educational specializations like law, economics, agronomy, journalism etc. Unlike Romanians, fewer foreign graduates choose a seafaring career, due to the fact that wages and working conditions on land are more attractive.

For example, in Italy, annually from 1,500 higher education sea graduates, only 10% intend to go on board. In the case of Romanian graduates, the large difference between seafaring salaries and shore wages motivates them to browse for a seafaring career. A currently barrier for faster access of maritime students to the shipping market is the lack of places to perform internships cadet practice.

Danish seafarers contribute significantly to the cluster maritime sectors ashore. Officers often get additional qualifications to work on shore and enter in non-maritime sectors. Most bridge officers will remain in maritime cluster when they decide to stay on shore. They can find many available jobs in the ferryboat industry, fisheries inspection, pilotage and other employment on water, traditional jobs in the port areas, cargo handling, logistics, insurance agencies, marine equipment manufacturing and sales representatives for maritime products, education and administration. A large operator terminal line can undertake to shore hundreds of deck officers around the world. In Denmark there is a branch of engineering devoted to manufacturing and maintenance operations, leaving the field of marine engineering. Traditional areas of employment include also public utility sectors.

In maritime industry engineers are employed by shipping companies in the offshore sector, by insurance companies, classification societies, in shipyards and engine and equipment manufacturers. Sectors of public utilities, heat and energy, are a traditional area of ashore employment for former naval engineers. Employment in these sectors often requires certain similarities with jobs for engineers on board, involving monitoring and supervisory tasks.

Optimal candidates for these cluster sectors are those with full engineering education, who spent several years at sea or who comes from other industry areas such as wind energy. There are valued skills like understanding of economics and business elements and the ability of learning English and German. Currently shore areas provide a flatter organization, with limited opportunities for hierarchical advancement. Usually that is the input position corresponding to operations engineer position, above which is the hierarchical operations manager and general manager. Engineer can become manager of operations and general manager in some situations. Other opportunities for development and progress are to become a project manager in a special assistance department.

In the Danish ports are usually employed former seafarers, especially former deck officers. Skill level is of less relevance compared to actual maritime experience,

which is necessary for understanding the customer needs. There are preferred people with many years of experience and possibly training in business, human resources and economy. Career advancement is possible from an input position as port assistant to port captain or general manager. Often career progress will be facilitated by additional education.

Mainly offshore industry employ officers for solving the navigation bridge and safety problems and mechanical engineers in position of machinery responsible for all technical operations and rigging maintenance. Barges engineers' jobs require valid certificates. This sector also provides employment for the position of the drillers. Additional training will be required, up to a certain level, in order for barge engineers to obtain STCW training certificates required by the authorities. Career progression is limited to barges, the peak position being offshore installation manager that requires experience as a driller. Some barge engineers became first drillers and then offshore installation managers. It is more common met career advancement in technical jobs, human resources, management and support. Often advancement function will be associated with additional training in human resources and management.

Regarding this aspect, the role of maritime universities is high, both in Denmark and in Romania. Maritime universities can provide additional education courses and training programs for former seafarers in order to make them suitable for shore posts. However, it should be noted that in Romania is more difficult for former seafarers to find a job at shore when they decide to leave seafaring and want to establish near their family or shore friends. From many points of view, the port industry is considered a closed industry and new comer companies face difficult challenges if they want to enter in this area. Therefore, available new jobs are limited and difficult to find.

A major difference between Denmark and Romania case is the wage level that would not differ much in the case of Danish former seafarers who search shore employment but is much different in the case of Romanians. Seafaring jobs offer a higher and more

appealing salary for Romanian seafarers compared to shore jobs. This is the reason for which many Romanians seafarers meet difficulties of adapting to the shore employment positions and salaries and is most probable to continue seafaring until they raise enough money for starting their own business. The same situation is met in the case of former seafarers that would like to employ in the maritime education system. There is a compelling need to hire in Romanian maritime universities former seafarers for teaching navigation courses but salaries in the Romanian universities are much lower than the salaries in the Danish universities and are not sufficient for stimulating hiring.

In Romania in the administration port domain is not expected in the near future, development of a sufficient number of available jobs. Romanian educational domain need former seafarers and practitioners that can effectively train students through their experience on board, but barriers are related to the modest salary and mandatory completion of a doctorate to remain in education. Other areas regularly advertise employment opportunities for jobs that require different levels of education and qualifications.

Analysis of the labor market in Romania indicate a higher rate of unemployment for people with secondary education compared to those with a higher level of education, which implies greater difficulty for ratings employment in shore jobs. Setting up their own business also involves the acquisition of specialized studies in economics, essential for the company's management and business development.

#### **4. Conclusions**

Numele Adapting the Danish model of mapping a career the maritime domain involves identifying employment opportunities in maritime and related sectors from Romania. Romanian seafarers wishing to give up sea career meets difficulties in engaging in a shore profession at a port operator, in port administration, education, in shipping or crewing companies, shipyards or companies that provide services for ships. But most of them, especially the ones that had managerial positions on board, will

become entrepreneurs and will establish their own business.

If the number of Romanian seafarers was in 2003 about 25,000 people, in 2010 in Romania were registered an almost double number of 48,432 sailors. Of these, 22,931 were officers or approximately 47.35%.

Contrary to some officials that believe Romania has too many sailors prepared for foreign fleets and, therefore, should be reduced the tuition figures, especially those funded by the state budget, seafarers trained in Romania earn a revenue of 250 million euro a year directed to domestic consumption.

Romania has indeed enough officers for domestic demand but the number of Romanian maritime officers is low compared to international shipping demand. From this point of view, Romania is one of the leading East-European providers of global fleet officers. Romania y has earned this status primarily because officers worldwide demand was higher than supply, even in conditions of economic crisis.

Economic analysis for 2011 showed that the deficit in international transport officers was approximately 30,000. As early as November 2008, the International Labor Organization, the International Transport Federation - ITF shipping and employers' organizations have launched the "Go to sea" program, which aims to attract young people in the demanding shipping industry.

Not only Romanian seafarers and maritime graduates represent an appealing asset for foreign companies. Currently, attention of foreign ship owners was directed by the Romanian shipbuilding industry due to the technical capabilities and acceptable cheap and high qualified labor force. In the shipyards Romanian partners build ship hulls and equip them with abroad equipment and technology of modern generation. The main beneficiaries are partners from Germany, Norway, Belgium and South Africa which will probably continue to invest and will create jobs that will attract workforce from former seafarers.

Given that in Romania there is an incipient maritime cluster compared to Danish maritime cluster, the model of mapping seafarers' career must be adapted to domestic maritime industry. Danish model remains an essential reference framework for

designing Romanian seafarers' career, which must be taken into account for further development of human resources professional performance.

## 5. References

- [1] URL:<http://www.investindk.com/Clusters/Maritime-industry>
- [2] Porter, E. M., "Clusters and the New Economics of Competition", *Harvard Business Review*, November-December 1998, p.78.
- [3] De Langen, P. W., "Clustering and performance: the case of maritime clustering in The Netherlands", *Maritime Policy & Management*, Taylor & Francis Ltd., Vol. 29, NO. 3, 2002, p. 209.
- [4] \*\*\*, *2006 Innobarometer*, European Commission – DG Enterprise and Industry, 2008, COM (2008) 652.
- [5] \*\*\*, *The Danish Maritime Cluster—an Agenda for Growth*, Ministry of Economic and Business Affairs, Copenhagen, 2006, available on [www.dma.dk](http://www.dma.dk), accessed on 07.09.2012.
- [6] URL: <http://clustero.eu/ro/cluster-maritim>
- [7] Ianca, C., Batrinca, G., "Towards a Romanian Maritime Cluster", *Proceedings of the 3rd International Conference on Maritime and Naval Science and Engineering*, Constantza Maritime University, Constantza, Romania, 3-5 September 2010, p.98-99.
- [8] Isaksen, A., Hauge, E., *Observatory of European SMEs: Regional Clusters in Europe*, European Commission, Luxembourg, 2002.

## Results-Oriented Educational Leadership

Grădinaru Cătălin,

*Faculty of Administration and Business, University of Bucharest, Romania*

[gradinarubusiness@gmail.com](mailto:gradinarubusiness@gmail.com)

Toma Sorin-George

*Faculty of Administration and Business, University of Bucharest, Romania*

[tomagsorin62@yahoo.com](mailto:tomagsorin62@yahoo.com)

### Abstract

*All types of organizations, including educational ones, are results-oriented as increasing competition drives them towards achieving performance. Educational system reform has always represented a fundamental issue that concerns many stakeholders. In this respect, the implementation of a results-oriented approach in education demands responsible and efficient leadership.*

*The aims of our paper are to briefly present the school as an educational organization, and to emphasize the relationship between the results-oriented approach and educational leadership. The research type is literature review.*

**Key words:** results-oriented approach, education, leadership, teacher, organization

**J.E.L. classification:** I23, I25

### 1. Introduction

Schooling is a must for the future of any nation worldwide. Without schooling there is no education at all, thus there is no future prospect. It has been said that sometimes "school kills originality" [1], in the sense that schooling does not necessarily mean creation, innovation, originality, but pure learning, repetition, and instruction. However, modern education guides the student's effort towards an heuristic pattern, according to which he not only memorizes, but also finds out new things. This has been said, it's seems the world goes round since heuristic education dates back to Ancient Times. What is new, though, is the way in which educational process is being built and perfected, by

means of modern technology, flexible pedagogy and the network effect.

The pupil, the student and the teacher alike are not supposed to keep a distance as they are one team, functioning within the same network, each of them being assigned a specific role and a distinct function which should be irreplaceable in a system where everybody learns. Schooling leaves behind a rigid hierarchy and it adopts a more horizontal interrelation centered on competences, credits and team spirit.

Educational system reform has always represented a fundamental issue that concerns many stakeholders. In this respect, the implementation of a results-oriented approach in education demands responsible and efficient leadership [2].

The transition from a rigid, conservatory system to a more flexible one, suitable to present requirements of nowadays' labor force and to modern era has neither been a sudden change nor a linear one, as it may appear at first sight, but a rather complicated and marked by failures that have affected whole generations of pupils and students. Sometimes the transition has taken place not as a consequence of a strong necessity, but as a result of a former experience or the introduction of a new concept. Starting with the implementation of the Bologna process, efforts have been made for a transition to a modern educational approach throughout Europe. In this respect, results-based leadership has become a must.

The aims of our paper are to briefly present the school as an educational organization, and to emphasize the relationship between the results-oriented approach and educational leadership. The research type is literature review.



The reminder of our paper is structured as follows. The second chapter deals with the educational organization and process. The results-oriented educational leadership is presented in the third chapter. Our paper ends with conclusions.

## **2. The school as an educational organization**

The school as an educational organization should be seen as more than a narrow framed space that houses almost stereotyped relations between a master and his apprentices. The institution of schooling becomes the main organization in the educational process, which involves complex managerial functions. The teacher represents both a system manager and a tutor, while the pupil/student turns into an active participant at his own process of instruction. The educational system has a tendency to use more and more a method, which has also been used in competitive athletics since early times and which is based on effect, on result, on the athlete himself. The main effort during his training is made by the athlete. The trainer just guides him. Thus, the latter helps the former not to make mistakes or waste his energy and motivation in vain, but set his targets clearly, objectively, and finally choose together the best way to reach them.

The same happens when referring to the school. The leader is not the supreme, heroic and charming force to be followed, he turns into the best trainer, tutor and of course team member who owns the right experience. The main effort is made by the student himself, who does not learn automatically what has been taught, but he alone stores knowledge that is really useful in order to set cognitive strategies that are easy to memorize and make use of. One could say "as a student, it is I myself who does the learning, the teacher is the one who only guides my learning."

This change is mentioned in the Bologna principles, as well as in any legislation that refers to the educational process, even if there are still a lot of inaccuracies regarding the education system of laws and regulations, either it is about our country or other countries abroad. What really counts though is to center the school activities and its leadership on coordinates that impose a focus

on effect, so a results-oriented type of learning. For instance, the Romanian Law 288/2004 regarding the organization of university studies establishes three stages of this type of learning process: the university diploma/ the Bachelor Degree over a period of 3-4 years, the Master Degree over 1-2 years and the Ph.D. over 3 years or 4 years for regulated professions/positions. This new division allows the student the opportunity to go through all these stages of instruction within a reasonable period of time, in a continuous and interconnected way, each stage presupposing the other. The student is not anymore the object of a plan, the receiver of endless lectures and knowledge, but the very subject of his own instruction.

Moreover, in the educational process, based on the individual, there is an additional support, which comes from the school network and which is of great importance. We should take into account both this network viewed as a new "modus vivendi" and a new "modus cognoscendi", that is present all around the world, and the network itself.

The school network has a synergic effect within the educational process, and is very important for the leadership of the educational system. It is without saying that the Romanian Educational Law of 2011 assigns the responsibilities and competences that those who manage the school network should have. This network is defined as the total number of the credited institutions of education or of those temporarily authorized.

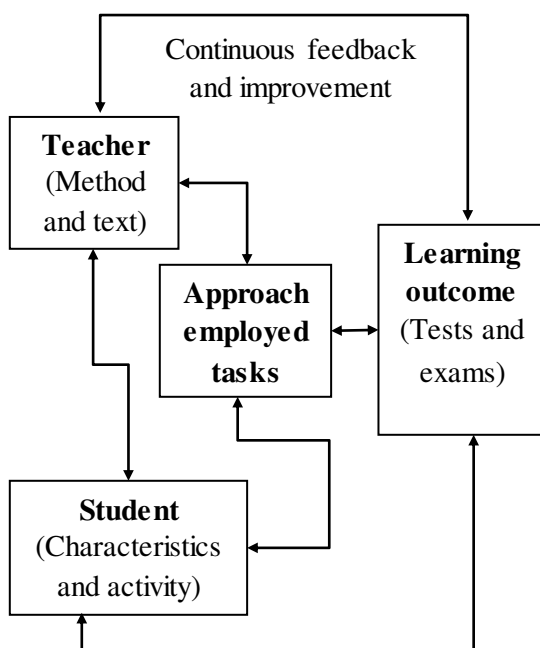
Within this school network, according to the law, there can be made and can function groups/classes as educational alternatives integrated in state or private schools. Although these are important points to make, they sometimes block the free enterprise as well as the way of thinking of the teacher and of the pupil/student, but, as a matter of fact, they are part of the new educational trend.

Sometimes, the whole effort of studying is conditioned by the final questionnaire, by the examination, by the report a teacher may require, by the case study analysis or by the correctness of an equation solving. Everyone is thinking of the grade/mark he will get, of the answer he will give, of the examiner's requests or of the right solutions to solve a questionnaire. This focus on examination and evaluation is not the same with the focus on

effect, but a focus on result only. The course/lecture along with lab work, practical work and the seminar must help the student to build up bridges between concepts (to implement and interconnect concepts) and leave behind the memorizing of things taught, so that he could understand the connections, predict and forecast realistically, based on models and good values.

Obviously, the educational process centered on the pupil/student may be submitted to standards like SR EN ISO 9001-2001, according to the PDCA methodology (Plan, Do, Check, Act) or to the SWOT matrix in order to perform a strategy analysis. Also, the pupil/student can use these tools within the educational process [3]. In fact, it is the pupil/student who must act to reach the targets settled by the curricula, to be involved in the competition, and to co-operate with the teacher (Figure 1) and other colleagues. He must do so as he himself is his first and one of the most important leaders. His personality does not define only by looking up to and following the best ones if not by being part of a team, in which he must be the most responsible for his own instruction, so he could develop a strong character, in perfect agreement with a system of school values, of the team he is part of, of the teacher and last but not least of his own.

Figure 1. The teacher- student connection



Source: [4]

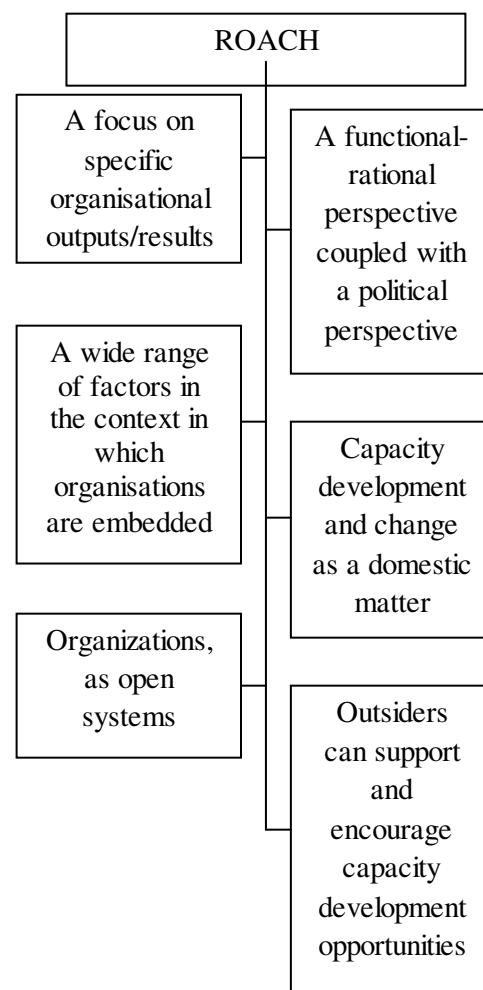
### 3. The relationship between the results-oriented approach and educational leadership

All types of organizations are results-oriented as increasing competition drives them towards achieving performance. A results-oriented approach [5]:

- provides the framework for strategic planning based on learning and accountability.
- leads to the improvement of the leadership effectiveness.

By introducing a results-oriented approach, organizations are confronted with structures that are not able to rapidly integrate such changes [6]. That is why such an approach to capacity development and change (ROACH) builds on six key issues (Figure 2).

Figure 2. The results-oriented approach



Source: adapted from [7]

Over the eighth decade of the last century a significant change took place in the educational pattern, in the sense that quality was what came first. Quality has become a priority, meanwhile quantity was re-dimensioned according to quality. This means that schooling has begun to focus on results so that the effect could live up to the need of performance. As a consequence, the educational leadership has required quality. It is the era of high technology and therefore, the need of first class specialists has increased. The teacher becomes a leader par-excellence, by connecting the managerial system, supervision and evaluation with that of self-evaluation, which promotes professionals rather than indoctrinated employees or living libraries.

The formal leader, or in schooling terms, the teacher should mingle with the informal one, who is highly popular with pupils/students alike, as he is perceived as a team member, the best in his field, the one pupil/student can really learn from, the one who can help him to become a professional in his turn. The individual becomes a human resource, so he can and must be evaluated as such, and not only as an eternal beneficiary, thereby his instruction should be a priority in order to face the professional requirements that have become more and more demanding lately. The pragmatic function of education is highlighted, the school practically turns into a laboratory, schooling proceeds according to educational fluxes, meeting the market demands, while the market meets the need of immediate, however, long-term performance.

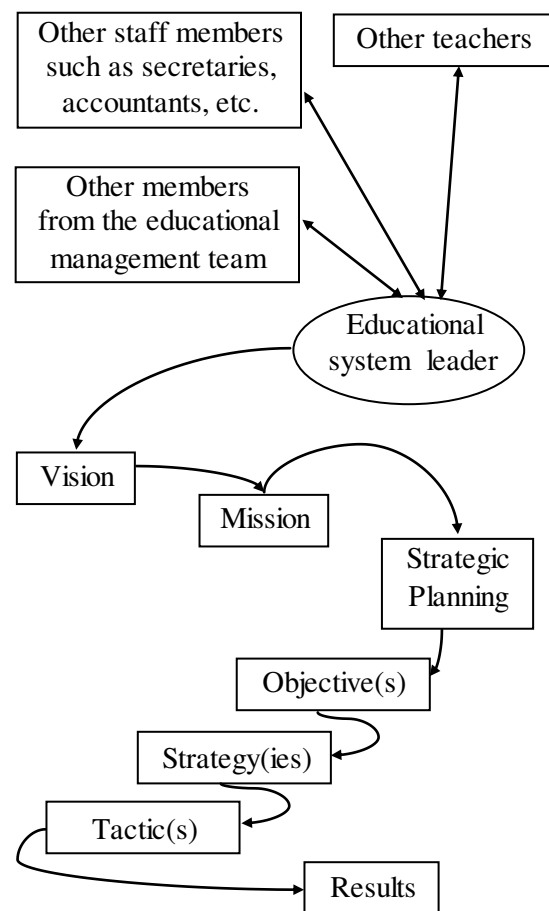
A true leader is not the one who walks in front and saying: "Follow me, as I really know what to do", the true leader is that who builds up the path along with the others, each of them being assigned a distinct role, while he is the manager. A successful outcomes-oriented system requires a dedicated leader, an enthusiastic individual ready to adapt and learn [8].

Organizations act in a turbulent environment, where there is one main condition: continuously adapting to the specific context. From this point of view, the educational environment has a variable evolution thus, in order to achieve better results, the educational organization must work as a unit, as an integrated system,

where the leader must co-exist with all the other members, even when he has to take important decisions regarding the vision or the mission of the organization, when developing the strategic plan with its specific objectives which incorporate strategies and, on their turn, different tactics (Figure 3). Throughout this ever-lasting process, coercive measures may be necessary, and a key part through control-evaluation is the feed-back from various stakeholders.

This context favors the team role within the school, thus the educational leadership focuses its efforts on organization, on school as an institution.

Figure 3. A possible model for an integrative results-oriented educational leadership



Also, the class or the group is divided into work teams and therefore, pupils/students take part in the decisional process. In this case we could talk about the pupils'/students' representatives as leaders (although, sometimes, classes follow an informal leader) who conduct

this process, being those whom the pupils/students follow, assist and support.

An educational institution, when promoting a results-oriented leadership, must take into account all the inputs and the outputs of the system. For example, for an university, inputs are the high-schools' graduates and outputs are the universities' graduates which can be hired by public and/or private companies.

Educational leadership at its best, implements this results-oriented approach to pupils/students.

#### 4. Conclusions

A high quality educational leadership can only emerge within a coherent system, which provides models and a profound respect for good values, future jobs, pupils/students and teachers. No matter how well it might be centered on organization, student, objectives, competition and effect, the act of learning alone is useless if it does not take place within a system of real values, if the participants do not make the difference between quality and quantity, between value and result, between cultural heritage and ordinary, transitory things.

The constant push towards achieving both short and long-term higher performance in educational institutions favors the results-oriented approach, where leadership plays an important part such as promoting an integrated management unit and focusing more on quality rather than quantity in order to achieve better outcomes.

#### 5. References

- [1] Simmschy, T., *Wisdom Dictionary*, Seculum Vizual Publishing House, Bucharest, 2008.
- [2] Schlechty, P.D., *Schools for the Twenty-First Century: Leadership Imperatives for Educational Reform*, Jossey-Bass Inc., San Francisco, 1990.
- [3] Todorescu, L.-L., "Student oriented education – Main landmark of the Bologna process", *AGIR Bulletin No. 1-2*, April-September 2009, pp. 226-234.
- [4] Sanku, S. C. R., Abraham, R., "A Result Oriented Perspective towards Enhancing Student Learning Outcomes in Indian Private Engineering Colleges", *International Journal of Innovation, Management and Technology*, Vol. 3, No. 2, 2012, pp. 95-100.
- [5] UNDP, „Results Based Management”, 2002, <http://web.undp.org/evaluation/documents/RBMConceptsMethodgyjuly2002.pdf>
- [6] St-Germain, M., "The Results-Oriented Organisations: a Critical Look from a Bertalanffian Perspective", 2011, <http://www.bcsss.org/wp-content/uploads/2011/09/pdf61.pdf>
- [7] Boesen, N., Therkildsen, O., „A Results-Oriented Approach to Capacity Change, Ministry of Foreign Affairs”, Danida, 2005, <http://amg.um.dk/en/technical-guidelines/capacity-development/~media/01EE3283C806476682CEF716A683544C.pdf>
- [8] Callahan, K., Kloby, K., "Moving Toward Outcome-Oriented Performance Measurement Systems", IBM Center for The Business of Government, 2009, pp. 15-19, <http://www.cob.org/documents/issues/kloby-report.pdf>

# Elements of Novelty in Corporate Reputation Research

Irina Ioana

*School of Economics and Business Administration Iasi*

[ioana930@yahoo.com](mailto:ioana930@yahoo.com)

## Abstract

*In the rush of achieving more competitive advantages, an important research has been conducted for a better understanding of corporate reputation. For the last 40 years, the concept has been in the loop of researchers and many definitions have been provided. Nowadays, corporate reputation is a strategic asset that has the capability of providing corporate value if it is well understood and applied in the field. New ways of measurement, customized by activity sector, company's type and market are only few aspects that have to be taken in consideration when appreciating corporate reputation.*

*This paper aims to analyze the official websites of the biggest 5 losers of 2013 and to check the importance that they have given to corporate reputation. Fortune's scale of measurement will be considered for evaluating the reputation components that are visible on the online medium for the studied companies.*

**Keywords:** corporate reputation, competitive advantage, intangible asset

**J.E.L. Codes:** M30, M31

## 1. Introduction

Corporate reputation has gained a growing attention in marketing and management fields and managers are more aware of the importance of this intangible asset. It is known that a good reputation is used to sell products for good prices, to attract and maintain the best employees and the best business partners, to penetrate new profitable markets. Even the accounting literature back the notion that corporate reputation causes an enormous amount of wealth encapsulated in what is called goodwill, while some conventional wisdom

assert that the reputation which organizations orchestrate for themselves do cause sustainable profits [1].

As the markets are in a continuous change, corporate reputation has gained many definitions and measurement scales. If at the beginning of marketing research, corporate reputation had been confused with corporate image, nowadays big companies have departments that manage their reputation and pay attention on its dynamicity. This also happens because managers realized the importance of intangible assets in a high competitive market and try to get advantage by using them.

A good reputation is hard to achieve, but harder to be maintained. Through this paper, it will be emphasized the strategic importance of reputation for companies that are in loss and forgot to invest in intangible assets that can lead to profits and competitive advantage.

## 2. What is Corporate Reputation?

A general overview of reputation explains it as favorable or unfavorable public opinion about someone or something, an appreciation. Thus, reputation is subjective and it depends on someone's perceptions. It is also significantly influenced by confidence of others and their reactions depend on the level of trust. Reputation in a complex concept difficult to be explained in a general context; that is a reason why most of reputation studies are applied in particular cases and don't serve as a general truth.

Fombrun defines corporate reputation as "a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all its key constituents when comparing with other leading rivals" [2]. Roberts and Dowling suggest that corporate reputation is a general organizational attribute that reflects the

extent to which external stakeholders view the company as "good" or "bad"[3].

Research also views corporate reputation as a unique asset to a firm. Gotsi and Wilson say that reputation is the evaluation of the company made for a certain period of time by the business partners [4]. Corporate reputation is an intangible capital of the company which is defined as the firm value that exceeds physical asset [5]. Good reputation is worth that money, a Latin maximum says. Reputation expresses firms past performance, the customer and business partner's confidence and its promise for the future in an uncertain and changing environment [6].

Corporate reputation can be described by its components. Some studies have identified ten value issues that add up to comprise corporate reputation. Lloyd and Mortimer [7] identify performance, identity, image, brand, management and ethical leadership as the six core components of corporate reputation. However, Schwaiger [8] in his study identifies ten components of corporate reputation; while Kim Harrison identifies same ten components. These ten components are: quality of employees, quality of the management, financial performance, quality of products and services, market leadership, customer orientation or focus, attractiveness or emotional appeal of the organization, social responsibility, ethical behavior, reliability.

Martin de Castro [9] also conducted a study of the reputations constituents and found eight components: managerial quality, financial straight, product and service quality, innovation, use of corporate assets/efficiency, capability to gather, develop and retain talented people, social responsibility among the community, and value of long term investments.

The totality of all above components translates into good reputation for organizations to understand the value of intangible assets and know how to develop strategies.

### **3. Models of corporate reputation measurement**

From the multitude of definitions, the common description is regarding its subjectivity. This explains the amount of

definitions, but also the numerous measurement scales developed.

Fortune 500 was until 1995 the most complex classification of companies in US, when the place was taken by Fortune 1000. The classification is based on management quality, quality, long-term investment value, innovation, financial solidarity, the ability to attract and retain skilled employees, environmental and corporate responsibility, and effective use of resources.

Far Eastern Economic Review (FEER) was used in 1993 and took into consideration awareness of the company, leadership, products and service quality, long-term investment value, innovativeness.

Fortune GMAC, in 1997 was used to create "the most globally admired companies" and developed based on management quality, products and services quality, long-term investment, financial results, ability to attract and retain competent employees, responsibility towards the environment and communities, efficient use of resources [10]. They measured the company's ability to operate globally and the reputational impact on company capital.

Reprack is used by Reputation Institute to measure the corporate reputation of companies worldwide and considers products and services, innovation, workplace, governance, citizenship, leadership, performance.

The research of corporate reputation is based nowadays on the segmentation of sectors, as every industry has its specific and even companies from same sector are different. Along with the theoretical research, also measurement methods have been developed; so that nowadays the statistical analysis can be successfully applied to understand correlations, factors and determinants of variables.

Zhang [11] used structural equation modeling and partial least square statistical methods in order to analyze the corporate reputation's influence on customer loyalty, going further with the types of relationships that exist between corporate reputation and other variables. Partial least Squares also helped in finding the mediating effect of organizational reputation on customer loyalty and service recommendation in the banking industry and a new model of measurement has been created [12].

Fuzzy techniques are the latest used in evaluation and synthesis of opinions expressed by people. Corporate reputation is a variable that can be used in fuzzy systems. The theory of fuzzy sets encompasses a well organized corpus of basic notions including (and not restricted to) aggregation operations, a generalized theory of relations, specific measures of information content, a calculus of fuzzy numbers. Fuzzy sets are also the cornerstone of a non-additive uncertainty theory, namely possibility theory, and of a versatile tool for both linguistic and numerical modeling: fuzzy rule-based systems. Numerous works now combine fuzzy concepts with other scientific disciplines as well as modern technologies [13].

#### **4. Fortune's losers in 2013 and their reputation**

According to Fortune, there were several companies ranked as the most 500 the most admired companies that is 2013 lost the control of their stock market. The loss can be evaluated in money, but this will also affect their position in future rankings.

The companies in scope of this study have been ranked by Fortune, so this means they had a good reputation at a time. But was this sustainable? Or caused by favorable markets and short-time opportunities? The research was conducted by considering the variables that Fortune used to evaluate the reputation of the companies for creating the most admired companies ranking: products and services quality, long-term investment, financial results, ability to attract and retain competent employees, responsibility towards the environment and communities, efficient use of resources.

Considering the scale established, the ranking "20 biggest stock losers" is analyzed and the first five positions are in scope of the study: Nill Holdings, J.C.Penney, Newmont Mining, Cliffs Natural Resources and Peabody Energy. Every official website of these companies is examined in order to check if it is invested in corporate reputation in the online space.

Nill Holdings [14] placed 495<sup>th</sup> position in Most Admired Companies in 2013 with a revenue of \$6.1 billion; the total return decreased with 61.4% than in 2012. The

official page is a very professional one and contains many buttons. Products and Service is a button that direct user to explanations of technology and Solutions – even if the note of writing is an optimistic one, the quality is not the best from the market. The partner Motorola is used as an advantage for the company, having this name written 3 times on page of Products and Services, but this might lead to trust loss, as the company sells itself with the help of another one. Meanwhile, word "quality" is used just twice on the same page.

In terms of investments, Nill Holdings have a separate space on the page that is professional explained and split: Investor Relations, Company Profile Codes & Charters, Analyst Coverage, Email Alerts, Stock Information, Financial Information, Bondholder Information, and Vendor Information. The ability to attract new employees is reduced to a simple contact page and does not mention anything regarding the current employees, except the management board. Nill Holdings provides support and help to numerous organizations, including Habitat for Humanity International (HFHI), Ronald McDonald House, Reston Interfaith Inc., The International Red Cross, The United Nations Children's Fund (UNICEF) and World Education and Development Fund. Financial results can be downloaded from the website.

J.C. Penney [15] placed a very good position in Fortune's ranking, on 235<sup>th</sup> position, with a revenue of \$13 billion and total return -53.6%. Being a retailer, its website is full of information regarding its products and their quality; when searching for team "quality" in the page, user is directed to a page called "Quality Assurance" where can check products development, sizes and legal compliance. Financial results can be analyzed from the page and a subpage for investors is describing the existing profitable relationships. The career description is very explicit regarding current available positions and actual employees; social responsibility and efficient use of resources are included in the same page with proof of statistics, reports and award on this area.

With revenue of \$9.9 billion, Newmont Mining [16] was placed on 327<sup>th</sup> placed by Fortune. The total return in 2013 decreased with 48.4% than in previous year. The

official website is well organized, but does not offer too many information regarding the company's activity, but word "quality" is often used in the website. Financial results, sustainability, investors and career opportunities are separated each in one subpage; each one offers information about company's scope in the area and reports to proof its participation for several rankings, events.

Cliffs Natural [17] position in 2013 was 445, with revenue of \$6 billion and a total return of -30.2%. The official website offers images of company's activity when it is accessed; the word "quality" is used 84 times in the entire site. The buttons included are for investors, corporate responsibility and careers – jobs available in the company. Financial results are also displayed on the first page and are represented by official reports. Being an extraction company, a special attention is given to the efficient use of resources and the protection of environment with emphasize of word "natural".

Peabody Energy [18] places 365<sup>th</sup> place in Most Admired Companies and had revenue of \$8.3 billion and a total return in 2013 decreased with 23.3%. The main buttons from the official website refers to investors, operations, social responsibility (includes environmental responsibility) and financial results. The word "quality" is used 93 times through the page. Jobs available in the company are listed, but no specification is made regarding current employees.

As analyzed, the first five losers of 2013 paid attention to have a good corporate online page that could bring to a better reputation. Nevertheless, reputation management cannot be examined only through the official webpage – this is only a detail that can help in achieving a better position than the competition.

## 5. Conclusions

Corporate reputation is a controversial subject for many marketing researchers and this provided a huge literature about the concept. Measurement scales were developed and took into consideration components that can be measured separately.

The next step for reputation is explained by modeling theory followed by fuzzy

systems. This part of statistical analysis can provide results related to factors of influence, modeling and moderator effects for huge amount of data collected.

Companies can constantly improve their reputation and increase the value perceived by public. As online medium is a good tool to present the qualities of a company, an official webpage could be used as a competitive advantage. Thus, the analysis conducted in this paper offers an example of how companies can get a better ranking.

The first losers of 2013 have official pages and paid attention to their reputation, but the analysis showed that there are things that can be improved. A reputation is not created only by having a good web page, but if it exists, the maximum available advantages should be used.

## Acknowledgment

*This paper is supported by the Sectoral Operational Programme Human Resources Development (SOP HRD), financed by the European Social Fund and by the Romanian Government under the contract number POSDRU/159/1.5/133675*

## 6. References

- [1] Iwu-Egwuonwu, R.C., 2011, Corporate Reputation & Firm Performance: Empirical Literature Evidence, International Journal of Business and Management, Vol.6, No.4, April 2011, pg. 197
- [2] Fombrun, C.J., 1996, *Reputation: Realizing Value from the Corporate Image*, Harvard Business School Press, Boston, MA.
- [3] Roberts, P., Dowling, G., 2002, Corporate Reputation and Sustained Superior Financial Performance, Strategic Management Journal, 23, 1077-1093
- [4] Gotsi, M., Wilson, A.M., Corporate Reputation: Seeking a definition, Corporate Communication: An International Journal, Vol. 6, no. 1, 2001
- [5] Druica, e., Risc si afaceri, Editura ChBeck, Bucuresti, 2006
- [6] Sandu, M., Some Important Definitions and Measurement Methods of Corporate Reputation, 2012, Annals of the "Constantin Brancusi" University of Targu Jiu, Economy Series, Issue 4/2012
- [7] Lloyd, S & Mortimer, K. 2006. Corporate Reputation: Seeing through the eye of the beholder. Paper presented at ANZMAC 2006, Brisbane, Australia.



- [8] Schwainer, M., 2004, Components and Parameters of Corporate Reputation – An Empirical Study (Electronic Version), Schmalenbac Business Review, Vol. 56, pp. 46-71, [Online] Available: [http://www.sbr-online.de/pdfarchive/einzelne\\_pdf/sbr\\_2004\\_jan-046-071.pdf](http://www.sbr-online.de/pdfarchive/einzelne_pdf/sbr_2004_jan-046-071.pdf)
- [9] Martin de Castro, G., Navas Lopez, J.E., Saez, P.L., 2006, Business and Social Reputation: Exploring the Concept and Main Dimensions of Corporate Reputation, Journal of Business Ethics, July 18, 2009
- [10] <http://fortune.com/2014/06/02/500-worst-stocks>, accessed on November 2014
- [11] Zhang, Y., 2009, A Study of Corporate Reputation's Influence on Customer Loyalty Based on PLS-SEM Model, [Online] Available: [www.ccsenet.org/journal.html](http://www.ccsenet.org/journal.html)
- [12] Bontis, N., Booker, Lome., 2007, The Mediating effect of Organizational Reputation on Customer Loyalty and Service Recommendation in the Banking Industry
- [13] IFSA – International Fuzzy Systems Association, An International Journal in Information Science and Engineering, [Online] Available: <http://www.journals.elsevier.com/fuzzy-sets-and-systems>
- [14] [www.nii.com](http://www.nii.com), accessed on November 2014
- [15] [www.jcpenney.com](http://www.jcpenney.com), accessed on November 2014
- [16] [www.newmont.com](http://www.newmont.com), accessed on November 2014
- [17] [www.cliffsnaturalresources.com](http://www.cliffsnaturalresources.com), accessed on November 2014
- [18] [www.peabodyenergy.com](http://www.peabodyenergy.com), accessed on November 2014

# The Social-Economic Characteristics of a City and Their Influence on Education

Juganaru Mariana

„Ovidius” University of Constanta, Faculty of Economics

[juganaru.mariana@yahoo.com](mailto:juganaru.mariana@yahoo.com)

Juganaru Ion-Danut

„Ovidius” University of Constanta, Faculty of Economics

[juganarudan@yahoo.com](mailto:juganarudan@yahoo.com)

## Abstract

*Education is part of the human needs system and has a significant role in shaping, highlighting, stimulating and fulfilling the human personality. The education of the human being, may reflect the membership in a particular social class, the access to some specific professional and cultural communities, the opportunity to have a particular job, the revenue obtained, a certain consumer behavior. In a society, education is a variable with strong influences on society's progress, and is valued due to its capacity to contribute to economic development, having a catalytic effect. But in the same time, we must also remember its opposite effect, namely that education is a consequence of economic changes. Maybe, this is the stage of education in our country right now.*

*In this article we intend to find out if the social-economic characteristics of a city have an influence on education.*

**Keywords:** interdependencies, education, economic, society

**JEL Classification:** M 31

## 1. Introduction

We assist at debates more in mass-media than at the level of the decision makers from the education field, on the harmonization of the current educational system on the labour market, as a level and structure barometer of the entire economic and social activity in Romania. We think that the labour market sends, for a long period of time, signals that there is a discrepancy between the need of

labour, in terms of both quality and quantity, and the current educational system.

Educations is perceived as a set of applicable measures used to form and develop the human being, intellectual, moral and physical. [1]

In some people's opinion, education represents the method to send and receive knowledge. It is responsible for creating a certain public opinion and for maintaining a social consensus. [2]

The history of humanity shows the permanent growth of education in the economic development of the human society. The approach of education can be made at different levels: macroeconomic (country level), microeconomic (educational unit level), but also at the level of a locality (different in urban and rural areas). The development of the localities (especially of the cities), under all the social-economic aspects, has contributed to the development of the educational system, which, further, may support or block the economic development.

The need of education is determined both by each individual's personality and the social-economic structure of a locality or country. The needs of education are part of the social needs category and represent the requirements the society make towards the educational system. We can understand that when, in the society and in the economy arise changes or malfunctions, they will also be found in the educational system, reason why changes shall be made in education. We wonder if the current educational system, in our country, should not be modified, so that it shall be adjusted and correlated with the current needs of education, generated by the changes in the current social-economic

environment.

## 2. Presentation of the marketing research content

The idea that we develop in this paper is to determine whether there is a mutual influence between the social-economic particularities and the needs of education of a city. In order to verify this hypothesis, we used a part of the database created on the occasion of conducting a marketing research within the "Danube Spirit In Port Communities" project, Romania-Bulgaria Cross-Border Cooperation Programme 2007-2013, project code 2(4.i)-3.3.-14, CODE MIS-ETC-602, co-financed from European funds in the Operational Programme on Cross-Border Cooperation Romania-Bulgaria, Priority axis no. 3: Economic and social development, Intervention area: 3.3 „People to people”. The project partners were the Art Museum of Constanta (P1), „Dunarea de Jos” Museum of Calarasi (P2) and the „Art Gallery” of Ruse (P3). [3]

We chose as a research method the occasional survey, based on questionnaires. [4,5]

For the data collection we issued a questionnaire, with 38 different questions: simple options questions, multiple options questions, semantic questions in scale, open questions, control questions. [5.6] The method of filling in the questionnaires was the self-recording method. The period to complete the questionnaires in the three port cities, was established between July 27 and

August 15, 2013. The processing of the questionnaires, the elaboration of the conclusions and the writing of the research report were done between August 16 and September 5, 2013.

## 3. Setting the presentation general framework of the marketing research

From the content of the entire marketing research, conducted within the „Danube Spirit” project, we selected only the questions which allow us to check if in practice, like we saw that it is approached in theory, there are mutual influences between education, economy and society. In order to introduce more clearly the information, we classified the questions on categories of objectives. Also, for the same purpose, we presented the interpretation of the obtained results, both by processing the answers to each question, and by groups of questions with common themes.

## 4. The characteristics of the researched sample

Within the marketing researched, it was established that the sample's size shall be of 150 persons, 50 from each city, but we effectively used a sample of 154 individuals, because from the partner from Ruse were received 54 questionnaires. All the selected questions from this study are closed questions.

Table no. 1. Centralization of the answers to the question: „Are you a resident of Constanta/Calarasi/Ruse?”

Project partners	Yes	No	Total
P1-Constanta	50 (100%)	-	50
P2-Calarasi	49 (98%)	1(2%)	50
P3-Ruse	54 (100%)	-	54
Total	153 (99%)	1(1%)	154

Source: own research

Interpretation of the results:  
- it can be noticed that almost in majority (99%), the members of the sample are

permanent residents of the partner cities in the project.

Table no. 2. Centralization of the answers to the question: „What age group you fit in?”

Project partners	15–20 years	21–25 years	26–30 years	31–35 years	36–40 years	41–45 years	46–50 years
P1(50=100%)	-	6%	20%	18%	16%	6%	34%

P2(50=100%)	8%	6%	10%	24%	18%	12%	22%
P3(54=100%)	11%	30%	21%	7%	11%	9%	11%
Total	6,5	14,28	16,88	16,23	14,94	9,10	22,10

Source: own research

An imposed condition of the project was that the interviewees to be part of the age group 15-50 years. For a clearer presentation we divided the sample into seven age groups.

Interpretation of the results:

- the researched sample is balanced for all

the seven age groups. The percentages are closed to each other: the individuals from the age group 46-50 represent 22,10% of the total; those from the age group 26-30 represent 16,88%, while the individuals from the age group 31-35 represent 16,23% and from the age group 36-40, 14,94%.

Table no. 3. Centralization of the answers to the question: "What is your gender?"

Project partners	Male	Female
P1-50(100%)	14 (28%)	36 (72%)
P2-50(100%)	24 (48%)	26 (52%)
P3-54(100%)	13 (24%)	41 (76%)
Total	51 (33%)	103 (67%)

Source: own research

Interpretation of the results:

- it can be noticed that the predominant percentage within the sample is for the female gender – 67%, while the male gender

has a percentage of 33%. In terms of the gender criterion, the sample can not be considered homogeneous.

Table no. 4. Centralization of the answers to the question: "What is your level of education?"

Project partners	No. of individuals with professional studies	No. of individuals with highschool studies	No. of individuals with university studies	No. of individuals with postgraduate studies
P1 50=100%	-	4 (8%)	26 (52%)	20 (40%)
P2 50=100%	4 (8%)	16 (32%)	23 (46%)	7 (14%)
P3 54=100%	2 (4%)	6 (11%)	43 (80%)	3 (5%)
Total	6 (4%)	26 (16%)	92 (60%)	30 (20%)

Source: own research

Interpretation of the results:

- within the researched sample, 60% of the individuals have university studies, 20% have postgraduate studies, 16% - highschool studies and 4% - professional studies. We may say that this structure is linked with the

one of age groups, meaning that the high percentage (80%) of the individuals with university and postgraduate studies is correlated with the predominance of the age groups 46-50 (22,10%), 26-30 (16,88%) and 31-35 (16,23%).

Table no. 5. Centralization of the answers to the question: "Which is the field you are working in?"

Project partners	Schools		Universities		Cultural institutions	Local government institutions	Port unities	Economic activities	Touristic activities
	E	P	S	P					
P1 50=100%	2%		4%	14%	6%	6%	20%	14%	20% 14% other
P2	8%	16%	-	-	26%	16%	4%	14%	4%

50=100 %							12%other
P3 54=100 %	17% 17%	15% 5%	15%	22%	2%	13%	4% 9%other
Total	6% 8%	6% 6%	16%	15%	8%	14%	9% 12%other

Source: own research

Interpretation of the results:

- it can be noticed that it was made an almost uniform distribution between the following fields: cultural institutions (in which 16% of the interviewed individuals are working in), local government institutions (15%), economic activities (14%), schools (14%), universities (12%) and other sectors (12%). The lowest percentages can be found at the individuals involved in the touristic activities (9%) and in port activities (8%).
- if we correlate this distribution on activity fields with the structure of the population on age groups, we may suppose that the small percentages of individuals between 15-50 years, who are working in tourism and port activities can be explained both by the fact that these fields cover several types of jobs or

that the population is not adequately qualified.

- if we relate this distribution on activity fields with the specific of economic activities of these port-cities, we may suppose that these small percentages reflect a low activity in the field of port and tourism.

In this case, we think that the mutual influence between education and economy can be confirmed, which theory we presented at the beginning of this study, meaning that the lack of qualified labour force determines a low activity in the port and tourism sector

#### 5. The way in which the residents perceive the connection between education and the social-economic life in their city

Table no. 6. Centralization of the answers to the question: "Do you think that in your city the education system is correlated with the specific of port activity?"

Project partners	Yes		No		Total
P1	41	(82%)	9	(18%)	50
P2	10	(20%)	40	(80%)	50
P3	46	(85%)	8	(15%)	54
Total	97	(63%)	57	(37%)	154

Source: own research

Interpretation of the results:

- what is surprising, regarding the results obtained after the processing of the answers, is the big difference between the opinion of the residents of Constanta and those of Ruse, who answered affirmatively in a percentage

of 82%, respectively 85%, and the opinion of the residents of Calarasi, who answered affirmatively in a percentage of only 20%.

The individuals who answered affirmatively were asked to name the education institutions from their city.

Table no. 7. Centralization of the answers to the question: "Please indicate if in your city there are: vocational and technical schools, highschoools and navy universities?"

Project partners	Vocational and technical schools		Highschoools		Universities	
	Yes	No	Yes	No	Yes	No
P1(41-yes)	28(68%)	13(32%)	38(93%)	3(7%)	41(100%)	
P2(10-yes)	10(100%)	-	-	10(100%)	-	10(100%)
P3(46-yes)	35(76%)	11(24%)	30(65%)	16(35%)	15(33%)	31(67%)
Total-97	73(75%)	24(25%)	68(70%)	29(30%)	56(58%)	41(42%)

Source: own research

Interpretations of the results:  
- from the answers given by the residents of the three cities, it can be noticed that either they do not know if in their cities there are

vocational and technical schools, highschoools and navy universities, or these educational entities are not representative for the navy profile education.

Table no. 8. Centralization of the answers to the question: "Please indicate the activities influenced in their development by the port activity."

Project partners	Transport and infrastructure		Building and ship repairing		Fishing and fish processing		Leisure tourism		Food	
	Yes %	No %	Yes %	No %	Yes %	No %	Yes %	No %	Yes %	No %
P1 (42 yes, question 8 =100%)	92	8	95	5	71	29	88	12	81	9
P2 (35 yes, question 8 =100%)	86	14	23	77	80	20	80	20	34	66
P3 (53 yes, question 8 =100%)	86	17	88	12	64	36	79	21	43	57
Total	88%	12%	73%	26%	71%	29%	82%	18%	53%	47%

Source: own research

Interpretations of the results:  
- all partners think that the transport and infrastructure sector is influenced by the port activity, in large percentages: P1=92%, P2=86% and P3=86%;  
- regarding building and ship repairing, we notice a big difference between the inhabitants of Constanta-95% and those of Ruse-88%, who answered „yes” and the inhabitants of Calarasi, which only 23% of affirmative answers.  
- concerning fishing and fish processing, the percentages are almost close: P1=71%, P2=80% and P3=64%;

- high similar percentages of affirmative answers we find for the leisure tourism: P1=88%, P2=80% and P3=79%;  
- the residents of Constanta consider that the port activity has influenced the food sector in a high percentage of 81%, while for the residents of Calarasi the percentage was of 34% and for those of Ruse, the affirmative answers registered 43%.  
- at the sample's level, we can say that the most influenced sectors by the port activity are transports and infrastructure (88%) and leisure tourism (82%).

Table no. 9. Centralization of the answers to the question: "Please specify if the port authority is involved in supporting social events?"

Project partners	Yes	No	Total
P1	29 (58%)	21 (42%)	50
P2	34 (68%)	16 (32%)	50
P3	24 (44%)	30 (56%)	54
Total	87 (56%)	67 (44%)	154

Source: own research

Interpretations of the results:  
- even if many inhabitants stated that the presence of the port influences the social life

of their cities, only 56% of them consider that the port authority is involved in supporting these events.

Table no. 10. Centralization of the answers to the question: "Please specify in what ways you perceive the effect of this involvement from the social point of view?"

Project partners	Financial involvement		Organizer of social events		In other ways
	Yes	No	Yes	No	
P1 (29-yes)	20 (69%)	9(31%)	25(86%)	4(14%)	-
P2 (34-yes)	23(68%)	11(32%)	29(85%)	5(15%)	-
P3 (24-yes)	21(87%)	3(13%)	20(83%)	4(17%)	-
Total 87	64(74%)	23(26%)	74(85%)	13(15%)	-

Source: own research

Interpretations of the results:

- from the total sample, 64% think that the port authority is involved financially, and 74% consider that the port authority is involved as an organizer of social events.

## 6. Conclusions

The database created on the occasion of the marketing research conducted within the project „Danube Spirit In Port Communities” project, Romania-Bulgaria Cross–Border Cooperation Programme 2007-2013”, gave us the possibility to check, practically, for three port cities, the theoretical aspects regarding the mutual influence between education, economy and society.

The city represents an economic center, with job opportunities. The individuals with adequately education levels, will occupy these working places and will contribute through education and work, both to the economic and social development of the locality. Further more, the social-economic development ensures the education framework. When this mechanism runs properly, meaning the correlation between the three aspects, both the individual and community development is achieved.

The answers given by the surveyed sample to the selected questions and presented in this study, show that the population of the three cities perceives the mutual influence between education, economy and society.

The intensity of this influence differs from one city to another, which proves that the development level of each locality (from the educational, economic and social point of view) is different.

If we consider Constanta city, we can notice that the answers at the question about the perception of the mutual influence between education, economy and society, have higher values, compared with those of the other two port cities, which took part in the research. The explanation may be backed

up by several aspects characterizing this city: it has the country's largest port, the development level is high, compared to the level of the other two cities, the educational system is diversified, reason why the social life has a different structure and dimension, compared with that of the other two cities.

## 7. References

- [1] Coteanu,I.,Seche, L., Seche,M. ( coord.), *Dicționarul explicativ al limbii române*, Encyclopedic Univers Publishing, Bucharest, 1998
- [2] Cicea ,C., Dobrin, C., *Contribuția educației la dezvoltarea economică*, Economia Magazine, Management series, VIII, No. 1, 2005,p.44-53  
([www.management.ase.ro/reveconomia/2005](http://www.management.ase.ro/reveconomia/2005))
- [3] [www.spirituldunarii.ro](http://www.spirituldunarii.ro)
- [4] Florescu, C.(coord.), *Marketing*, Marketer Publishing, Bucharest, 1992
- [5] Juganaru, M., *Teorie si practica in cercetarea de marketing*, Expert Publishing, Bucharest,1998
- [6] Stefanescu, V., Teodorescu, N., Neagu,V., *Chestionarul-instrument de marketing*, Marketing-Management Magazine, no. 2-3, Bucharest, 1993, p. 16-25

# An Analysis of the Process of Sport Performance Management

Molcuț Alin,

*West University of Timișoara, Faculty of Economics and Business Administration*

[molcutalin@yahoo.com](mailto:molcutalin@yahoo.com)

Văsuț Elvira

*Bega School Sports Club, Timișoara*

[vasutelvira@yahoo.com](mailto:vasutelvira@yahoo.com)

## Abstract

*Management in sport it is a catalytic converter both within sports structures, as well as in their own activities, thus contributing to efficiency by detecting, encouraging and motivation of individuals with special skills for sports.*

*The main aim of the paper is to provide reasonable literature for the process of management in sport with special feature in order to help sport organizations. Second, we attempt to examine the performance for Romanian public rowing schools.*

*Using data for the period 1992-2011 and time series models (naïve and correction for heteroskedasticity), the results suggest that specific factors like the selection process, as well as financing activity affect positively the performance measured through the medals obtained at official international competitions.*

**Keywords:** performance, management, sport organizations, rowing.

**JEL classification:** L 25, L 83

## 1. Introduction

Management in sport contributes to optimal operation of sports organizations, of a considerable number of people, of numerous means and skills, as well as the objectives and initiatives. Due to sports management there are coordinated efforts to either individuals or groups of individuals to achieve a common goal. Sport management is supporting complex situations, ensuring continued management of the various sporting activities, in this way being generated efficiency.

Special features of management in sport consists in the fact that they shall apply to all sports disciplines relating, which allows a participation organized, leading to obtain the best results in sports competitions. In the context of the activities of sports, facilitate coordination and management persons to drive an improvement in the physical condition, by a framework organized sports of your workout.

Management in sport it is a catalytic converter both within sports structures, as well as in their own activities, thus contributing to efficiency by detecting, encouraging and motivation of individuals with special skills for sports. By means of the selection process shall ensure a climate psycho-social favorable, but and rewards for those who auto exceed continuously in the manufacture of superior performance.

Also, the management in sports helps in the formation of and sizing optimal sporting activities and individuals involved in this process, and is thus ensured recruitment, hiring and promotion on the grounds of professional competence. This creates in this way consensus and optimum conditions with significant impact on the effectiveness in the field sport.

The main aim of the paper is to provide a reasonable literature for the process of management in sport as well as to examine the performance for Romanian public rowing schools. Using data for the period 1992-2011, the results suggest that specific factors like the selection process, as well as financing activity affect positively the performance measured through the medals obtained at official international competitions.

The paper is organized as follows. After a brief introduction, second section comprises an overview for the process of management in sport with particular features. Section three



exhibits a case study with an econometric model used to test the relation between performance and management activities. The results are reported in section three, while section four concludes.

## **2. The process of management in sport**

Due to the fact that the system has a powerful sports determination pop up through deep changes, it is appropriate to use management which, by the processes, generates significant changes in variety, flexibility and dynamism sports activities. Currently, in the field sports appear and develops frequently numerous actions and benefits, attitudes and work, analysis, and various deliberations on which sports managers are converted into a series of strategies, regulations, decisions and conduct, with the management process [1]

When approaching problematic sports management, it should be highlighting concept of process, which is its own managerial activity within each sports organizations. The process of management in sport means a process of work has been applied in two major groups: processes of execution and processes of management [2]

Processes of execution inside the sports organizations refers to the activities carried out by all employees in sports structure (federation, club, sports association, sports center, etc.), that the target fulfillment of objectives proposed. As a general rule, in sports activity, the objectives relate to obtain physical performance. The basis of the processes of performance in sport is a series of specific means, having a weighted in training and less than in the competitions. Your manager is the person, who lays down with accuracy what should undertake organizations to reach success, establishing a series of activities through plans.

The driving processes in the context of the activities of the sports action by whom the manager plan, organize, decide and shall supervise the work his subordinates, with a view to achieving the objectives sports organization or activity sports [3]

If we take a look at sports organizations as a system, we can say that by means of the driving processes takes place harmonious operation of all their components. In the sports organizations, the process of

management is continuously, European Socialists with establishing targets and continuing with the development decisions and drawing tasks which lead to the achievement of the objectives. Dividing management process in management positions shall include the following: planning, organization, and control your heart's content.

### **2.1. Special features of the function of planning in sport**

In sport, sporting activity planning is a collection of processes and operations for anticipating it. Through such approaches, it may be possible evolution of sports activity and performance. Using the function of planning, the most important function of the driver, it gives a prospective dimension of management. This is the "all the shares which shall state their objectives in the short, medium and long term, to formulate the rules of action with a view to their implementation and is based resource requirements." [1]

Prediction is based on a thorough analysis in the course of which shall be taken into account following items: available resources, initial results of the activities of the present situation and the objectives of activity. Through witted, sports manager anticipates developments in the situation for the selection, promotion and promotion of competitive athletes on plan, and in relation to the items competitive aims at a national or international affirmation of sports [4]

In sports activity management plan shall constitute the instrument of general objectives and operational, current. It is not something definitively established, its provisions may be amended in the light of the factual background of the moment times stage its implementation. Therefore, in view of the circumstances shall be reviewed its objectives, planned performance and the resources employed, the means used. and also on the basis of the results obtained is carried out changes and improvements in that might be required.

Design future situation in sports activity shall take place by means of one or more operations: diagnostics, forecasting and planning. Diagnosis is a collection of operations on objective, thorough knowledge of the present situation at a time. By

analyzing statistical diagnostic trouble associated human resources, material and financial, thereby fostering the existing performance comparison with those targeted.

Forecasting means an instrument of knowledge, investigation in time with which lasted over future trends of sporting activity. By forecasts, sport managers shall establish long-term objectives and strategic decisions. In sports activity, forecasting aim to predict sports performance, but also the processes and phenomena of the organization's future sporting events.

Planning is a managerial vision that achieves framing sporting activities in future trends, with the objectives and the phasing in time of the measures and actions for achieving them. At the level of units sporting, the plans shall contain provisions and tasks to include all aspects of the activity from the twigs sporting: research, development, supply, pay wages, cost calculation, accounting sports activity. In sports activity management plans are tools by which human efforts shall be oriented toward achieving one or more of its purposes, making connection between general objectives and operational.

Planning in sports activity is a process voluntary activity marks the beginning of the management. This process thus requires programming of stages which have as a starting point information, as detailed knowledge of the situation, addressing solutions, of a decision, by choosing optimal variant, in correlation with the factors internal and external peers. Managers sports organizations shall take into account in the planning activity following aspects: setting the objectives, defining strategy, the development of action plans, the preparation and implementation of the decisions, assessment of the activity of the achievement of the objectives, the adoption of corrective measures and decisions not being realizable performance in the case provided for [5]

Finally, the programming is a way used in the development of programs that affects the sequence and the interconditioning actions that should be applied for the purpose of achieving plans. In sports activity programs have a horizon of time relatively low, him being conditional on competitive sports calendar. Programs have, in their turn,

binding because they contain a series of elements derived from sports unit plan tasks.

## **2.2. Features of the function of organization in sports activity**

This function is described as being the most visible function of management, designating the processes of management, of activities, measures and resources by which constitute the 'drive system, the system led and the system of links between them [6]. Through the organization of combine in a rational manner and seamlessly integrate all functional elements normal to the unit as a whole, ensuring layout materials and human resources in an optimum way.

The organization provides a general interest with the individual establish clear powers participants in sporting activities. On the basis of their complexity, the organizational structure of the sports units brother, high specific forms for trade union federation, clubs, sporting associations, departments, teams, groups of sports, etc. organization shall be determined by organizational structures and their compartments, and specific powers. In the framework organization structures a sports-based order and discipline, on rationality and efficiency, balance sports activity.

In view of the dynamics facing sport today, sport managers should pay particular attention to organize function on the background of a thorough knowledge of each compartment and of each member, so as to establish very accurately organizational structure and the distribution of tasks and resources.

In sports activity, the organization is based on forced ranking and for the distribution of tasks and responsibilities, taking into account of the preferences and options ensemble members respectively. Organization of a formal unit is sporting activities where it comprises persons who are institutionalized, unitary and-coordinated conscious toward achieving its objectives and specified performances, and informal, when the activity does not have an institutionalized character and is not rigorously subordinated to a lens unit.

Organizing in sports activity is usually designed as an open center system and continuous interaction with the environment,

so its elements components are interrelated and influence each other. In the field physical education and sports, the organization of work will become much more effectively with as long as it is prepared more thoroughly, thus ensuring proper functioning of all establishments, organizations, central and territorial, which make up the system of physical education and sport.

The manager, within the framework of a sports structure, set out the roles and purpose of work performed by each compartment, the post and their members, watching the allocation and control of carrying out the duties and resources, the objectives set.

### **2.3. Features of the drive function-motivation in sports organizations**

Within the framework of management of sports structures, drive function is of crucial importance, through its action on human resources in to get them to participate actively in achieving all the objectives. This function is focused only on human-factor, having the reason involvement supported and more efficient personnel [1]. Drive function includes two times: control and motivation.

Command is an intervention of managers by acting on subordinates, for the purpose of mobilization and their drive for carrying out the tasks and objectives for which they are responsible. It is influenced by the driving style of your manager: democratic, authoritarian, and consultative persuasive. Transmission control consists of a decision taken by manager to questions constantly raised in the various structures of the organization sporting events. Orders made by the manager must be simple and straightforward, formulated with clarity, in such a way as to answer such questions as: who? What? Where does the money come from? How will they do that? Also, manager's orders must subscribe competence alone, not to exceed their capacity execution [7].

The Reasons for the optimization consists in collective behavior, by helping individual interests and needs in line with those of sports organization, thus stimulating subordinates to obtain superior performance.

In sports management, in parallel with the organization of activities shall be carried out and their coordination, thus ensuring uniform

guidance in respect of the various actions undertaken on the purpose or activities of all approximation factors, human resources (coaches, technicians, medical staff, administrative, sportsmen etc.) involved in achieving the objectives [4].

Coordination in sports activity allows the various parts or sub-units of the organization to ensure that sporting orientation efforts toward a general purpose, and in the same direction of action.

This function provides synchronization of actions from all actors of all human resources (athletes, coaches, technical and administrative staff, etc.), involved in carrying out plans, programs, and in setting the objectives or performance sports.

Individual duties shall be nominated by the respective sports structure, for the purpose of achieving the objectives and performance of planned. To carry out an effective coordination, a sports manager must take into account the following:

- Communication shall be made a single person or to the whole group, collectively;
- The message what is it to be the result of a decision thoroughly prepared;
- Expression to be as clear, simple and concise;
- To take account of the specific features of person or ensemble addressed;
- The volume message to be as accessible on the number and complexity of the information.

### **3. Case study**

In this paper, we adopt the econometric frontier approach and the data for this study were retrieved from National Institute of Statistics for period 1992-2011 and were analyzed through software Eviews 8. The main aim of the study is to test the relation between performance in rowing and rowing public school management.

Rowing is an endurance activity where performance, e.g. race duration over a particular distance, is determined by several factors. The overall fitness of athletes is the key. Rowing involves all major muscle groups (i.e. quadriceps, biceps, triceps and abdominal muscles) and requires cardiovascular endurance. [8]

The motivation for this is related to different behavior for public organizations. If

in private organizations, i.e. companies, the performance is reflected by the ability of generating profitability [9], in public organizations, particularly sport organizations, the performance is measured by the results achieved at several official competitions.

To do so, we use log of medals obtained by Romanian rowing players on official international competitions (MEDALS) as a proxy for dependent variable and 2 proxies for the management: the log of players enrolled in Romanian Rowing Federation (PLAYERS) and public costs with sport activities (FINANCING).

We hypothesize that if there is proper environment, i.e. financing and players with higher skills, higher performance is expected. In other words, it is likely to exhibit a positive association between medals and players as well as financing. As a preliminary step, descriptive statistics are reported in table 1

Table 1 Descriptive statistics

SPECIFICATION	PLAYERS	MEDALS	FINANCING
Mean	653.857	40.857	1641.714
Median	626.000	29.000	1912.500
St. Dev	133.330	34.580	419.891
Kurtosis	4.512	6.285	-0.835
Skewness	1.736	2.471	-0.952
Observations	20	20	20

Source: Author calculation

Based on the data, one can state that all variable exhibit a non-normal distribution and are not characterized by volatility. The model uses a co-relational study based on Ordinary Least Square (OLS) econometric technique for time series. Based on the methodology aforementioned, the specific empirical model is:

$$MEDALS_t = \alpha + \beta_1 * PLAYERS + \beta_2 * FINANCING + \varepsilon_t \quad (1)$$

where "MEDALS" represent the number of medals obtained by Romanian players on official international competitions, "PLAYERS" represent the number players enrolled in Romanian Rowing Federation, "FINANCING" represent the public costs with sport activities and  $\varepsilon_t$  is the idiosyncratic error component.

Given the nature of data (time series) we have decide first to use the naïve model

(model) and second the Newey West procedure (model 2) in order to deal with the heteroskedasticity issue. The regression results are reported in table no. 2.

Table 2 Results

VARIABLES	COEFFICIENTS	
	Model 1	Model 2
PLAYERS	0.985*** (0.484)	0.985*** (0.323)
FINANCING	0.830*** (0.653)	0.830*** (0.508)
CONS	-8.973*** (2.043)	-8.973*** (1.269)
R-squared	0.26	
F-statistic	64.599	67.036
p-value	0.000	0.000
Observations	20	20

Notes:

Standard errors are shown in parentheses.

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Source: Author calculation

Thus, the regression results do not reject the hypothesis proposed. As expected, both PLAYERS and FINANCING are positively correlated with MEDALS. These highlight the importance of financing as well as the selection process in achieving performance for rowing public schools.

In terms of significance, both models are statistically significant (differ only standard errors) with F-statistic equal to 64.599 and p-value 0.000 and does not exhibit autocorrelation of errors since Durbin-Watson equal to 2.15. Furthermore, around 26% of variations in gaining performance could be explained by financing and selection process.

#### 4. Conclusions

The sport approach in terms of management is an act brave, under the circumstances in which demarcations of the types of organizations have lost the intensity feature first half of the 20th century XX. Existing public organizations, commercial and associative (among whom it is to be credited and sports organizations) imposed on a stringent definition of means of driving them, i.e. the subject and the time of action, the levels of analysis and the special notes on management practices.

An understanding of the management concept sports cannot be separated from

demarcation of management that self-contained science, but also as art. This consists in the ability to ensure that the manager's organization's balance in a volatile environment and to harmonize all interests of the parties involved in organizational activities, under conditions of limited resources. In other words, the manager shall ensure that overall handling of the organization, this indicates a set of policies or the productive services, communication, marketing, human resources, policies for the financing and control of the budget, which should be consistent and to converge in the direction of a strategic project, kindred spirits shall be, in the end, the organizational culture.

In a world that is evolving constantly, each external factor represents a challenge that may affect essentially sports organizations, it results that managers need to be able to monitor and to respond adequately these factors the dynamic, under the conditions in which they wish to maintain that organization on the market. Fundamental attributes of what must be a sporting activity of a manager can be remembered: exercise of, the delegation of authority, decision-making and designating leaders on strategic positions of the organization. The latter can be carried out both in the current employees of sports said entity, as well as among professionals, who have the training and knowledge of academic sports domain respectively.

The case study performed for Romanian Rowing Federation suggest that specific factors like the selection process, as well as financing activity affect positively the performance, i.e. the medals obtained at official international competitions. However, body mass, technique, team coordination and the management of energy resources also influence the performance

## 5. References

- [1] Zecberu, V., *Management în cultură*, Ed. Litera Internațional, București, 2002.
- [2] Comescu, V., Mihăilesc, I., Stanciu, S., *Management – baze generale*, Ed. Actami, București, 1998.
- [3] Voicu, S., Nagel, A., *Introducere în managementul și legislația sportului*, Editura Universității de Vest, Timișoara, 2003.
- [4] Todea, S.F., *Managementul educației fizice și sportului*, Ed. Fundația România de mâine, București, 2000.
- [5] Nicolescu, O., *Management*, Ed. Economică, București, 2005.
- [6] Daft, R., *Management*, Eighth Edition, Thomson South-Western, RR Donnelley & Sons, Willard OH, USA, 2007.
- [7] Lăzărescu, A., *Management în sport*, Ed. Fundației “România de mâine”, București, 1999.
- [8] Hoffmann C.P., Filipeschi, A., Ruffaldi E., Bardy B.G., Energy management using virtual reality improves 2000-m rowing performance, *Journal of Sports Sciences*, 32:6, 501-509, 2014.
- [9] Boțoc C., Profitability-capital structure trade off: case of publicly Romanian companies, *The Annals of The University of Oradea, Economic Sciences*, Tom XXII, no.1: 969-976, 2013.

# What Means, in This Period, The Human Resources Strategy in an Organization?

Munteanu Anca-Ioana

West University of Timisoara, Faculty of Economics and Business Administration

[ank.ioana@yahoo.com](mailto:ank.ioana@yahoo.com)

## Abstract

*Human resources strategy is an integral and means to solve problems of human resources to enable the organization to meet its objectives by ensuring the existence of the necessary capacities within the organization.*

*In the present paper, we intend to introduce new approaches to the concept of "human resources strategy" in the literature and which are adapted to the new trends in the business environment.*

*Presentation of information in the literature in a critical manner, which is the method used, can be useful business environment in Romania.*

*So, the work is theoretical, but some conclusions to be drawn very relevant.*

*Human resources strategy means accepting the Human Resources function as a strategic partner in formulating the company's overall strategy and in the implementation of these strategies through human resources activities such as recruitment, retention, motivation, and determination of staff rotation rewarding.*

**Keywords:** business strategy, human resources strategy, human resources

**JEL Classification:** L2, M5, O1

## 1. Introduction

Over time, the role of the Human Resources function has evolved considerably and in a constantly. Initially it has been awarded the sole role of "personal manager" (during the 70's). Then this role I have added the control and alignment with the law, that each "implementer". The next step in development was the role of "expert" for the period of the 90's, this focusing primarily on the behavioral side of human capital, supported mainly by the activities of

recruitment, employee assessment, reward and training.

In parallel with the behavioral side, amplifies and involvement of HR functions in the areas of organizational effectiveness and business planning.

Since 2000, however, appear the first signs of the need for transformation of the HR function in a "strategic partner" in the development process of the organization, by drawing and implementation of strategies and systems to assist management in execution, and organizational culture added value to the organization's human capital. Today, we are more than a decade since the last transformation of the role of the HR function into a strategic partner.

Strategy formulation refers to making decisions in terms of defining the vision and mission of the organization, establishing long-range goals and short to support the organization's vision and strategy selection to be used in achieving the organization's objectives.

Implementation of the strategy refers to the alignment of the structure, systems and processes in the organization with the strategy chosen. It involves making decisions regarding the establishment of the organizational structure and providing leadership relevant to the strategy set and monitor the effectiveness of the strategy in achieving the organization's objectives. Changing strategic dimension involves belief employees to make changes in their working style and method.

Human Resources Strategy recognizes the very role of partner in the strategic human resources in achieving organizational excellence in all respects, by employing a highly competent workforce.

## 2. Human Resource Strategy - a Strategic Partner

At the moment, in a dynamic business environment, easily adaptable to diverse customer requirements between business strategy and human resource strategies should be a line as good. Only in this way organizations can manage to cope with the new requirements.

From the literature it appears that, depending on the degree of dependence on business strategy, there are three types of HR strategies:

- *Human resources strategy oriented investments:* human resource is seen as an element of investment for developing the firm;
- *Human resources strategy oriented value:* attaches great importance to the relevant values of an organization;
- *Human resources strategy oriented resources:* staffing opportunities influence business strategy.

All this requires adjustments to the number and composition of the workforce, imposing setting judicious categories of staff to be employed, and the funds to be allocated for the recruitment, selection and training, specialization, so that sufficient staff undertaking and competently at the appropriate time.

To ensure proper development of the organization in the future, it is necessary to have intense concerns regarding training and development of human resources available.

On this subject, an author [1] has identified several criteria that must to base any human resource strategy:

- *Human resources strategy should contribute to business development and meet its needs;*
- *Human resources strategy should be based on analyses and detailed studies, not just assumptions;*
- *Human resources strategy can be put into a program that expects results and implementation programs;*
- *Human resources strategy must be coherent and integrated, composed of elements that align and reinforce each other;*
- *Human resources strategy must take into account the needs of employees, but also those of stakeholders.*

In [2] opinion, in an organization can talk about the existence of a business strategy, a human capital strategy and about the human resources, not only about the existence of a human resources strategy.

According to [2]:

- *Business strategy is one that defines the direction, position, purpose, objectives of the organization, with particular emphasis on the competitive advantages that can be obtained;*
- *Human capital strategy refers to talent management in the organization, leadership, organizational culture, all this arguing general business strategy;*
- *Human resources strategy supports the strategic direction and support required by organizing human resources and harnessing their capabilities so as to align human capital strategy.*

Discussing all about this link that must exist between the organization's overall strategy and human resources strategy is needed impetuous approach has two aspects:

- *Strategic or vertical fit;*
- *Internal or horizontal fit.*

In general, the vertical fit is seen as an important step in achieving organizational objectives by initiating human resource activities that are aligned with business objectives, while horizontal fit is essential when there is a good use of these resources.

- *Strategic or vertical fit* - "ensure alignment of business strategy and human resources strategy. It involves matching of human resource strategies and business strategy and competitive strategy of the organization" [3], and "a fit between human resource management practices and strategic management processes in organizations" [4].

In this sense, the model of [5] show possible links between business strategy and human resources, thus completing the above:

- *An administrative linkage* - human resources administrative work involves mainly wage administration;
- *An one-way linkage* - human resources strategy is derived from the business strategy;
- *A two-way linkage* - human resources experts established external or internal development, may become part of the business strategy;
- *An integrative linkage* - 100 % alignment of human resource management and business strategy.

- **Internal or horizontal fit** - refers to the congruence of various HR practices that can be crucial for an organization.

*"Logical combinations between human resource management practices are more difficult to imitate than one practice seen in isolation."* [6]

According to [3], the fit between human resources practices and some packets must be coherent and consistent.

Strategic fit and internal fit have an influence on strategic human resource management in two aspects:

- Organizational;
- Environmental.
- **Organizational fit** - is the necessary link between HR strategy, policies and practices and organizational systems (production systems, communication and information technology system, the department of research and development, marketing system, financial system, legal system). It focuses on teamwork, job rotation, job autonomy.

The authors [3] described "organizational fit" right fit between a coherent set of HR practices and other systems in the organization.

- **Environmental fit** - is focused on the relationship between human resource strategy and the institutional organization. Organization operating in different institutional contexts and face some market mechanisms and some institutional.

Both, both vertical fit and horizontal fit, contribute to the competitiveness of an organization, but it is very important to combine a variety of HR practices in a systematic way.

From business strategy, which defines the direction and priorities of an organization, two distinct concepts must be introduced when talking about strategy and human resources:

- **People strategy** - one that contains strategic directions related to employees;
- **Department of Human Resources** - one that supports the execution of these strategic priorities through specific processes.

A finer distinction of the two concepts occurs when the two strategies are identified leaders said: If "people", the prerogative of determining how the organization will behave with employees returns, according to a study conducted by PricewaterhouseCoopers, CEO- site, while in

the case of the Department of Human Resources strategy, the primary responsibility for implementation are those of the Human Resources function and related service providers.

Whatever, the strategic positioning of an organization in terms of "people", positioning the corporate language is defined as "employer branding", actions and processes of the Human Resources Department who are required to bring this position to pass.

The usefulness of the existence of the Department of Human Resources strategies aligned with the organization's strategy is proven by the results of studies conducted in this regard, a survey by [7] showing that the organizations in which they exist:

- obtain greater revenue by up to 35 % per employee;
- have an absenteeism rate of 12% lower.

And yet, 42 % of companies analyzed have a strategy of the Department of Human Resources. And motivation, in most cases, comes from the fact that in defining this strategy companies have stopped to state "people strategy" in the form of "aspirations" - type "employees are our most valuable resource", "position ourselves as an employer of choice", "encourage accountability" - without them accompany some specific concrete plans and processes of the Human Resources Department to implement them.

Consequently, although in a survey conducted by [7], on a sample of 1,150 CEO from over 50 countries, shows that 89 % of them put on their agenda as human resources and 67 % believe that this is where their time would be best used, only 43 % of CEOs agreed that their Human Resources Department is prepared for what they want: the implementation of business strategy through specific processes of Resources human.

### 3. Conclusions

Since every organization, be it public or private, try to define the strategy for the next period in a regular and systematic manner, we believe that an important role in this process must be assigned human resources department. This strategic planning should include the involvement of the Human Resources function at the strategic level, as part of organizational strategy.



At the moment, the most striking change in the role of human resources is of increasing importance that they have in developing and implementing overall business strategy that has a certain organization.

Traditionally the strategy was the company's plan for how it will balance its strengths and its weaknesses internal to external opportunities and threats, in order to maintain a competitive advantage, which is its core role.

Today, the definition of business strategy is somewhat different. Strategies increasingly depend on strengthening organizational reaction and construction team working, human resources and all these attributes a central role.

The key to competitiveness in an era of rapid change global orientation towards quality industrial environment is represented by the human resources of an organization, only able to provide this competitiveness.

Now, it has become increasingly common action involving human resources still in the early stages of developing and implementing the strategic plan of the company. So not only react to human resources strategic plan already adopted.

The strategic role of human resources may be essential for managers who are challenges.

The partnership between human resources and managers creates the difference from its competitors by offering superior quality customer service, high quality products, with features much better.

People are behind any success. Technological equipment have new ideas, so as to solve problems that inevitably arise, or to seize the opportunities in the external environment.

Only people through the process of thinking, can make the difference.

The way people are involved and use a company varies greatly.

#### 4. Acknowledgement

*This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral*

*research in Romanian economics science domain”.*

#### 5. References

- [1] Armstrong, M., *A Handbook of Human Resource Management Practice*, Kogan Page Publishers, 982 pagini, London, 2006.
- [2]<http://www.managementexchange.com/story/seeking-differentiation-unleash-potential-your-people-human-capital-strategy>
- [3] Paauwe, J. and Boselie, P. , “Challenging strategic HRM and the relevance of the institutional setting”, *Human Resource Management Journal*, Vol. 13 No. 3, London, 2003, pp. 56-70.
- [4] Schuler, R.S. and Jackson, S.E., „Linking competitive strategies with human resource management practices”, *Academy of Management Executive*, 1(3), Washington, 1987, pp. 207-219.
- [5] Golden, K.A. & Ramanujam, V., „Between a dream and a nightmare: on the integration of the human resource management and strategic business planning process”, *Human Resource Management*, 24 (4), London, 1985, pp. 429-452.
- [6] Delery, J., and Shaw, J., „The strategic management of people in work organizations: Review, synthesis, and extension”, G. Ferris Ed., *Research in Personnel and Human Resources Management*, Vol. 20, Emerald Group Publishing Limited Oxford, UK: Elsevier Science, 2001, pp. 165-197.
- [7][http://www.hr-club.ro/portalthrclub/bibliotecavirtuala/1.%20Manual bune practici HR Club Editia 1 2 010.pdf](http://www.hr-club.ro/portalthrclub/bibliotecavirtuala/1.%20Manual%20bune%20practici%20HR%20Club%20Editia%201%202010.pdf)

## Social Media - Return On Investment

Nițu Oana

*Faculty of Economics, "Ovidius" University, Constanta, Romania*

[oana.oprisan@yahoo.com](mailto:oana.oprisan@yahoo.com)

Nițu Claudiu Valentin

*Faculty of touristic and commercial management, „Dimitrie Cantemir” University,  
Bucharest, Romania*

[valynitu@gmail.com](mailto:valynitu@gmail.com)

Tileagă Cosmin

*Faculty of Economics, "Lucian Blaga" University, Sibiu, Romania*

[cosmin.tileaga@yahoo.com](mailto:cosmin.tileaga@yahoo.com)

### Abstract

*It's increasingly difficult to do now marketing, and the companies that do not use social media to communicate, accelerates their extinction. Social media has changed everything in the last three years, it's now normal for a client to connect with a brand, and customers expect to receive quick feedback through social media, everything takes place in real time.*

**Keywords:** social media, web 2.0, metrics,

**JEL Classification:** M1, M2, M3

### 1. Introduction

Business owners, even large ones, must begin to think that small shop owners who all know their customers, their preferences, constantly communicate with them, provide them additional reasons to return to the store.

But a good monitoring of these relationships helps to obtain the necessary data to make informed decisions in the future, without throwing money out the window on random actions. In this regard, two major measurement variables changed recently in the Web 2.0 era. It's about Google Analytics and Facebook Insights interfaces.

Unfortunately, most of the tools we have available measures only some numbers using Social Media [1].

With or without meaning, those numbers tend to be treated wrong when it comes to Social Media. It talks about influence and reach (beyond the area directly controlled by

the enterprise) on Social Media channels. If we are interested in these issues, why settle for the likes and RT counting?

Long time we did not get any answer in this regard, marketers are still unsure how to calculate social media ROI. And we have not yet received an answer, but it can be seen at the end of the tunnel.

Even if we talk about a different environment, things do not change that much. We're talking about age-old principles in business, in general, and advertising in particular. Traditionally, a brand promotes something as much as budgets allow, whether we are talking about an idea or a well constructed advertising message. The message is spread everywhere. It attempts to create a conversation around the brand and finally, buzzes (entries) and the resulting interactions are measured.

This suggests the need to measure two aspects:

- The first is the traditional nature of promotion and consists of measuring and correlating numbers with business objectives, the costs of a campaign, obtained results. Simply said: ROI - return on investment;
- The second is related to the interactions obtained, or consumer attitudes.

The results of strictly monitoring can help in two ways, closely related to measurement issues:

- We have on one hand the business objectives, which helps to identify methods that are effective,

comparable to their costs, and those that are not;

- On the other hand the objectives related to the quality of interactions are included, and the feeling of indications obtained.

The most important thing is that, in the end, the results of these measurements eliminates the purely intuitive part of communication actions, once tested [2].

## 2. How to collect data?

It is obvious and indisputable that, above all, it requires the audience. The primary role of promoting (be it of any kind) is to get an audience to be exposed to brand messages. Social Media successfully served this purpose by available platforms (Facebook, Twitter, Pinterest, Google+, blogging, YouTube, etc.).

The next step is that they have a clear destination. The site is a manifold center of inbound marketing efforts. Therefore, to measure social media, *landing page* is crucial. In dedicated campaigns, it should be, in turn, dedicated.

Of course, a method of *tracking* is necessary (most widely used for this purpose is Google Analytics).

Initially, the results of the campaign refers to visitors who enter the site. If the number of visitors does not increase (during the course of a campaign), it means that it was ineffective [3].

For a correct measurement is important to eliminate visits without traffic sources. All campaigns must have specific UTM tags to see the direct results. It is not enough to know how many visitors come from Facebook or Twitter, because on each of these, various actions are taken with reference to the site.

Therefore *landing tab* should have its own identifier to be viewed in Campaigns section in Google Analytics, the same with promotions tab, and so each application and, if possible, every posted link which has reference to the site.

Then, it is important to know what they are doing on the site. Depending on their actions on the site, we can see if a campaign is effective.

## 3. What data is collected?

It starts by finding out how much a visitor costs and by determining what profit it brings. First, for any marketing action, it is important to know the ROI (Return on Investment).

### Costs

When it comes to cost estimates, we must take into account three components:

- Human factor – the costs related to the number of people who actually work for a campaign  $x$  required time  $x$  pay per hour;
- Process – the costs involved in preparing marketing materials (copy and design);
- Technology – the costs allocated to access the necessary technology.

### Profit

ROI is closely related to the *lifetime value* of a customer. CLV (Customer Lifetime Value) is the income generated by an individual during the period in which he is the client of a brand.

The classical method is quite simple: when it is known how many sales a client produces during the relationship with the company (1 customer = 3 purchases per month worth about 100 euros  $\times$  1 year = 1200 euro per client) it can be established how much it can be spent on a customer acquisition, meaning the CPS - cost per sale.

Then, taken actions are followed, each with its conversion rate.

For example: using direct mail in promotion:

- How much does sending a message costs;
- What is the conversion rate;
- If from 100 emails sent to the client, one client is won, this allows finding the cost of this action for that client;
- How much of the total CPS for a customer is the cost of this action? The two should be equivalent.

In this case, the collection of information is an essential step to make interpretations and to make correct decisions related to Social Media.

#### 4. How to translate the data collected?

Following the visits made by Social Media, it begins the work of understanding the values of these channels. Sometimes Analytics shows us high *bounce rates*, fewer page views and frightening conversion rates. These things make Social Media to become, in fact, anything other than a "gold mine" as it was positioned [4].

Things are not so bad, but only if we analyze the data.

On the web, visitors are rarely buyers (or translated into conversions) at the first visit. The web is a tool for discovery, research and investigation, and users use it as such. More specifically, our habits do not change overnight. Even when we know that we want to buy something, we use the Internet to inform us about the options that we have in the first phase, purchase decision occurring after that.

#### 5. Social Media does not conclude transactions, it only creates the potential for future conversion.

How? By bringing users on the page, familiarizing them with the brand, creating positive associations and directing them to content in order to maintain them interested. However, Social Media rarely meet a specific need.

The steps usually followed by a future buyer through the "entangling nets" of Social Media are complex. He can see a mention on Facebook, a link on Twitter, an article or an *ad* in Reader, a search on Google etc. To which channel is granted in the end credit for conversion? Yes, Google Analytics now has *multi-channel Funnels* which theoretically helps us to restore the steps a user has made to conversion. Basically, we want to know which is most effective.

Twitter and Facebook are among the first steps in the process, the same as when the client has not yet realized its need, or he does not know of the existence of the product. We have, therefore, the following natural course of things: visits, *leads*, customers. And the natural course of things we should keep in mind when interpreting data from Social Media.

#### 6. Metrics, ROI, KPIs - assessment.

The metrics needed to evaluate the success of Social Media are specific to each organization individually. Therefore, there is not a unique solution in terms of measurement and analysis Social Media.

Each company has (or should have) measurable objectives to achieve. Some possible objectives are:

1. Specific to the business
  - Increase *brand awareness*;
  - Generate *leads*;
  - Generate traffic;
  - Reduce the cost of customer service;
  - Improved customer satisfaction.
2. Specific to Social Media
  - Identify customers and potential customers opinions on the company;
  - Gather information about the competition;
  - Interaction with customers and potential customers;
  - Support for marketing campaigns.

It is very important to focus attention on indicators of success more full of meaning in Social Media such as *reach*, influence and *advocacy*. It is also good to know that metrics indicating social success are not always found in Social Media.

Sometimes, it is more relevant if improvements are made in terms of customer relationship management and significant reducing the time spent per interaction, respectively the costs, and the *buzz* created around a discussion not prevail. Similarly, an important metric when seeking to obtain *community engagement* is to increase loyalty, not the number of comments [5].

Metrics indicate the best the changes through which business passes, whether positive or negative, by means of indicators that record increases or decreases. However, these metrics in a single consultation is not enough to find the achieved ROI.

It helps, however, to find various information related to traffic (how many visits and visitors came through social media sites), data on those who follow us on various social media channels, as well as data on social interactions, respectively performance of site's content (if people share content on social networks etc.).

## 7. Calculating the ROI

Calculating the ROI on Social Media is a necessary step, especially to compare the efficiency of the conducted campaigns. To calculate ROI, it is important to turn metrics into business benefits. For this it is necessary to have a mix of data collected and on the revenues that are not necessarily related to the adopted Social Media plan[6].

ROI is very important to measure the value of business initiatives, and in this case, can help us understand whether or not Social Media brings results. To calculate ROI, two things must be known: Campaign benefits and costs. The equation is as follows:

$$\text{ROI} = (\text{Benefits} - \text{Costs}) / \text{Costs} \times 100$$

Thus, we can find the percentage of ROI (or Return on Investment).

But a strategy is still necessary, to include measurable objectives, budgets, strategies and mechanisms to achieve them. And finally, natural selection takes place after which the most effective channels will survive.

## 8. Conclusions

Business owners, even large ones, must begin to think like small shop owners who all know their customers, their preferences, constantly communicate with them, provide them additional reasons to return to the store.

Customers should be put first, they are more important in the long term than immediate sales. Customers want a personal relationship with the brands they buy, customers buy brands that constantly communicate with them, brands which they trust. A difficult or dissatisfied client should not be overlooked, as through social media his dissatisfaction may quickly reach more people, compared to when the internet was not as developed.

Social media has changed everything, it is now normal for a client to connect with a brand, and customers expect to receive quick feedback through social media, it takes place in real time. We should do not enter social

media if we are stiff and we have too strict communication rules, we must first change the way we communicate internally.

If we use social media and we do not get any results there are two choices: our product or service is bad or we do not know how to use social media correctly to communicate and promote ourselves.

Social media is not about likes or tweets, it's about establishing relationships with our customers using our online communication applications.

It's getting harder to do marketing now, and the companies that are not using social media to communicate, accelerates their extinction.

## 9. Acknowledgements:

*This work was supported by the project "Excellence academic routes in the doctoral and postdoctoral research – READ" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/159/1.5/S/137926.*

## 10. References

- [1] Anderson, P. (2007): *What is Web 2.0? Ideas, Technologies and Implications for Education*, in: JISC Technology and Standards Watch, February, pp. 1-64.
- [2] Constantinides, E., Fountain S., (2008): *Web 2.0: Conceptual Foundations and Marketing Issues*, in: Journal of Direct, Data and Digital Marketing Practice, Vol. 9, No. 3, pp. 231- 244.
- [3] Drury, G. (2008): *Opinion Piece: Social Media: Should Marketers Engage and how can it be done Effectively?*, in: Journal of Direct, Data and Digital Marketing Practice, Vol. 9, No. 3, pp. 274-277.
- [4] Peppers, D. și Rogers, M., (1993), *The OnetoOne Future: Building Relationships One Customer at a Time*, Editura Curency Doubleday, New York;
- [5] Reichheld, F.F., (1996), *The Loyalty Effect: The Hidden Force Behind Growth, Profits and Lasting Value*, Editura Harvard Business School Press, Press, Boston, M.A.
- [6] Reinartz, W. și Kumar, V., (2002), *The Mismanagement of Customer Loyalty*, published in *Harvard Business Review*, July.

## Organizational Culture – Essential Aspects. Casy Study : Turkish Airlines

Popovici Norina

„Ovidius” University, Faculty of Economic Sciences, Constanta

[norinapopovici@yahoo.com](mailto:norinapopovici@yahoo.com)

Moraru Camelia

Ph.D. Student, Academy of Economic Studies, Bucharest

[cami.moraru@yahoo.com](mailto:cami.moraru@yahoo.com)

### Abstract

*Organizational culture is one of the important concepts affirmed recently and influenced in a significant manner the mode of action and thinking of researchers, managers and entrepreneurs, professionals from different organizations from all over the world. This interest has grown exponentially as a result of pressure from inside and outside organizations, pressures calling for a better understanding and an increase in the competitiveness of organizations and their constituents to be able to survive and develop in the new conditions. Developing the concept of organizational culture has been favored by major reconsideration of the role that human resources plays in the evolution of the organization.*

**Keywords:** manager, culture, brand, organization

**J.E.L. Classification:** M1, M14

### 1. Introduction

According to the definition provided by the literature, organizational culture is a system of values, ideals, expectations, beliefs and common rules of conduct that prevail among members of an organization and conditioning direct and indirect its performance and profitability[4].

Profitability is a problem that any economic concern, since the purpose of its business is to make profits, to conduct a profitable business. Economic activity in order to obtain the largest possible profit should be based on a coherent economic theory that is tasked to guide the efforts of

material, financial and human enterprise in the competitive environment[1]. In this context, the enterprise intangible skills become critical.

Morgan (1989) brings into focus culture seen as a language, an iceberg, an onion, an umbrella or a glue that sticks. Defining culture using these metaphors is particularly useful when we want to understand a phenomenon by direct and indirect associations can be made with other real-world phenomena, concrete phenomena that we can know and consider[6].

Edgar Schein defines organizational culture in 1986 as a pattern of basic assumptions that a group has created, discovered and developed as a result of learning in the confrontation process with the inherent problems of external adaptation and internal integration, assumptions have worked well enough to be considered valid by the group members and to be taught to new members as the correct way to perceive, think and feel[7].

Organizational culture varies from organization to organization, under the influence of several variables or factors[3].

### 2. Perspectives of Islamic management. Turkish managers versus Western managers

From a cultural standpoint, Turkish managers tend to be strong individualists; this means they are not always familiar with teamwork. Efforts to promote Western style team-building can work well during training; however, they often do not match the realities of the local culture and do not translate easily into everyday practice.[5]

A manager in Turkey should keep religion

in mind. Take, for example, religious holidays - there are two major periods of Islamic religious celebrated for 4-5 days, which, combined with the weekend would mean two short breaks between 5-9 days. This creates both a business interruption and commercial opportunities.[2]

*Tabel 1. Differences between Turkish managers and Western ones*

	<b>Turkish managers</b>	<b>Western managers</b>
<b>Leadership Style</b>	Very authoritative. Too many directives.	Less emphasis on the personality of the manager and more on style and performance.
<b>Organizational structure</b>	Very bureaucratic super-centralized. Vague relations. Environment unpredictable and ambiguous.	Less bureaucratic, more delegation. Relatively centralized structure.
<b>Decision making</b>	Ad hoc planning. Decisions are taken at higher level. Avoiding high risk.	Sophisticated planning techniques. Modern tools of decision making.
<b>Evaluation and performance control</b>	Informal control mechanism, routine. Lack of strong performance evaluation systems.	Modern control system, focusing on cost reduction and efficiency of the organization.
<b>Personnel policies</b>	Heavy emphasis on people and engaging "healthy social origin" people.	Solid policies staff. Trained employees is usually an essential selection criterion.
<b>Communication</b>	Tone depends on the social position, power and influence of the family. The chain of command must be followed strictly. Friendships are strong.	Emphasis on equality and reducing disparities. Friendship is not so strong.

Source: Sasu and Andries (2003)

### 3. Presentation of Turkish Airlines

THY - Turkish Airlines, Inc. (Turkish Türk Hava Language Yolları Anonymous Ortaklığı) (THY) is the national airline of Turkey with the base at Istanbul. The company operates a network of passenger transport by air in 140 international and 35 domestic cities, serving a total of 155 airports in Europe, Asia, Africa and America. The company's main base is at Atatürk International Airport (IST), with secondary bases International Airport Esenboga (ESB) and Sabiha Gokcen International Airport (SAW). In 2010, 2011 and 2012, THY carried 29 million, 32.6 million and 39 million passengers with an annual income of 8.4 billion, 11 billion and 14 billion dollars.

The company has approximately 15,978 employees. Since April 1, 2008, THY is an official member of Star Alliance.

The company's mission is to become a leading airline with a global coverage due to strict adherence to the rules on flights to safety, reliability, product line, service quality and competitiveness.

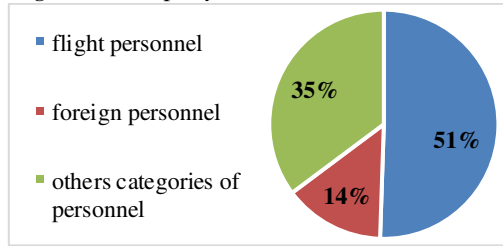
The company's objectives are:

- extension of the long-distance flight and improve the company's global identity;
- improving the identity of the company in terms of service menthane by developing maintenance technical units;
- keeping the company's leadership in civil aviation;
- in cooperation with a global airline alliance to integrate its network of flight in a way that will improve the company's image and marketing opportunities;
- development of a flight center in Istanbul

Turkish Airlines planes carry passengers in three classes: Economy, Comfort and Business. Turkish Airlines fleet consists of 251 aircraft starting March 2014. Turkish Airlines is one big family. Members of this family can adapt to technical changes at any time, social world, with a broad and open vision. For employees, aviation should be a concern, but slowly it turns into passion.

The total number of 15,978 employees. Bellow it is presented the employees structure.

Figure 1. Employees structure



Source: own processing

Turkish Airlines instructs its young pilots in the Air Academy, and each employee is trained and educated and then takes up its responsibilities. Besides this, for those who wish to develop their career in the field, THY offers specialization in various fields.

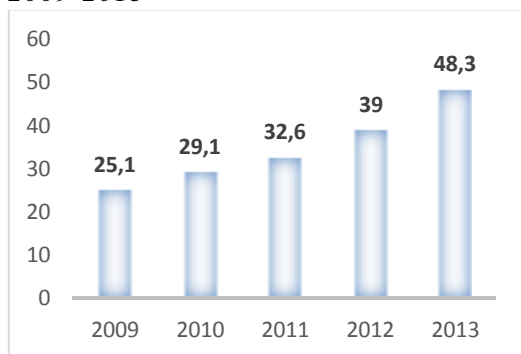
Tabel 2. Total number of employees between the years 2010-2013:

Years	Number of employess
2010	10272
2011	15735
2012	15857
2013	15978

Source: own processing

In terms of motivation, Turkish Airlines offers various material benefits to employees, such as benefits from birth, motherhood, marriage, death, insurance, medical services, free or discounted tickets. Turkish Airlines had 19.6 million passengers in 2007, increasing only in 3 years with 10 million passengers.

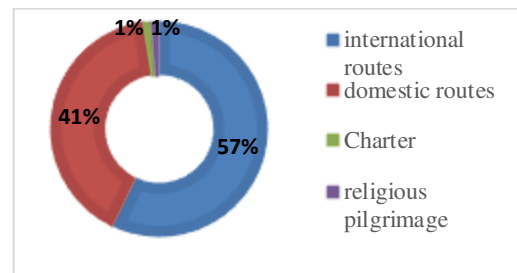
Figure 2. Total number of passengers during 2009-2013



Source: own processing

Loyalty program of Turkish Airlines - Miles & Smiles is addressed to passengers that frequently travel and accumulate miles that can be used to obtain free tickets for passenger or companion.

Figure 3. The total number of passengers on routes in 2013:



Source: own processing

It's easy to collect miles as long as you travel with Turkish Airlines or with any other partner, a member of Star Alliance or partner hotels, rent-a-car companies etc.

#### 4. Cultural brand of Turkish Airlines

THY company's brand manager defines the relationship between brand and culture as follows: "There is a reciprocal relationship between brand and culture. Culture includes values created in the history and social development process and tools used to convey these values to the following generations. Ignoring the dominant culture of the society will have negative results on the success of the brand".

There are cultural traces visible on branded items of THY and strong effects of Turkish culture with on the brand. Cultural influence was a major part of the branding process of THY. In other words, the success of the brand has been strongly established using Turkish cultural elements. Not only that THY was influenced by Turkish culture, but also THY has effects on Turkish culture as a strong brand.

According to General Manager Selim Ozturk culture brand of THY means creating a privileged travel experience with brand identity that combines hospitality and warmth of its local culture, with dynamic and innovative approaches presented in all points of contact with customers.

THY Turkish culture reflects its customers by providing traditional values of Turkish culture such as: hospitality, friendship, being helpful and showing a caring attitude in question. When customers are tied to the cultural values of the country with the brand, these THY values prove to be: rich cultural heritage, hospitality, friendship, intimacy, trust, quality and being in the world.



Table 3. Cultural codes of Turkish Airlines

Customer-oriented	Prestigious	Trustworthy	Visionary	Entertaining	Global
traditional hospitality; courtesy ; facing the solutions ; concerning ;	takes work seriously ; it is privileged; has "the most"	has standards ; consistent ; disciplined; experienced; informed; punctual	Innovative ; dynamic ; energy ; initiator ;admirable	features rich treatments ;funny ;comfortable ; full of surprises	alternatives many flight networks; the synthesis of East and West ;multicultural ; niche and private route

Source: Interview with Manager of Turkish Airlines brand

A brand can create its own culture THY defining culture as a mixture of Turkish culture and corporate culture of THY. THY cultural codes can be seen in the table below.

Table 4. Turkish Airlines cultural codes mentioned by client

Quality	Combination of tradition and modernity	Being legendary
quality of services hospitality friendly comfort	synthesis of East and West it is proud of its past effects of Ottoman culture: clothes, music turkish authenticity religious texture	being the first flight of Turkish trade cultural heritage THY success refers to Turkey proud that THY is a Turkish brand share the world a Turkish brand success

Source: Interview with a THY customer

Brand culture stands out with strong effects of Authenticity Turkish and balanced presentation to its guests worldwide. With these aspects of brand culture, has a power to differentiate brand among competitors.

### 5. Intercultural management

Cultural differences affect consumer perceptions and behaviors. Because of this, THY differentiate its communication

messages for different regions, countries and cultures, by fixing the main theme of the advertising campaign and maintaining cultural elements of the brand. One important thing is to be able to be successful in different countries with the same cultural brand items. THY lead this process with different principles and behaviors: They present unique close, creative and customer centric experiences in every meeting. These experiences lead to significant long-term relationship with customers.

Today THY, is a global brand, because of its success in intercultural management. It became a member of Star Alliance, sponsoring well-known teams in the world and collaborating with international airlines, they were the right choices of THY in the path of becoming a global brand. THY succeeds in different cultural environments, thanks to the high quality that is the same everywhere. Although the company is facing problems, they are not reflected by customers. Another important advantage is the wide range of THY direct flights to long routes. THY brand manager noted the following examples of brand communication:

-THY never uses statements or words that are not appropriate for the culture and morals of the country flying;

-THY plans communication campaigns without trying to benefit from consumer confidence and without exploiting the lack of information or experience.

- in flight routes, THY attitude is based on respect for cultural values.

- in all of THY communication practices, it is essential to not give misleading messages, just the truth.

-THY does not create lack of information and do not use excessive offers to lead consumers to false ideas.

### 6. Conclusions

From what we have analyzed in this paper we have emerged that the basis for a successful business irrespective of its size lies organization behavior, how employees view the company's objectives, their ability to be found and to take part in fulfilling the main goals, in a word - "organizational culture".

There are many types of organizational culture but the most important thing is for it

to exist and be strong.

This is possible only through team-building sessions, staff training and evaluation. We chose the Turkish national culture because it is characterized by the richness of cultural variety and there can be seen great cultural differences even in geographical areas quite close to each other.

Within Turkish Airlines honesty, humanism, innovation, openness, fairness and safety ensures foundation for the unique organizational culture. THY has an important place in the history and culture of Turkish society and this is a brand that creates major effect, with its history and cultural codes.

THY maintain the basic elements of culture in all platforms, but are assembled with the cultural aspects of different countries. One of the most important factors to increase success stand out brand culture and intercultural management.

## 7. References

- [1] Asalos, N., Trandafir, R.A., (2009). Conceptual Issues and Influencing Factors of Profitability in Tourism, Student Book Publishing, Bucharest;
- [2] Buğra, A., (1998). Class, culture, and state: An analysis of interest representation by two Turkish business associations, *International Journal of Middle East Studies*, 30 (4);
- [3] Bush, T., Anderson, L. (2003), *Organisational culture, Leadership and Strategic Management in South African Schools*, Commonwealth Secretariat, London,
- [4] Hofstede, G., (1996). *Management of multicultural structures*, Economic Publishing House, Bucharest;
- [5] Istocescu, A., (2005). Management - Islamic Countries, *Economic Journal*, Management Series 1(4);
- [6] Morgan, G. (1997). *Images of Organization*, Newbury Park Publishing, CA;
- [7] Schein, E. (2006). *Organizational Culture and Leadership*, Wiley Imprint, San Francisco.

\*\*\* [www.turkishairlines.com](http://www.turkishairlines.com)

\*\*\* [www.yev.org.tr](http://www.yev.org.tr).

## Loyalty Marketing: Attracting and Retaining Customers and Workers

Pricop Oliver Constantin

"Ion Ionescu de la Brad" U.A.S.M.V. Iasi

[opric24@yahoo.com](mailto:opric24@yahoo.com)

Robu Alexandru Dragos

"Ion Ionescu de la Brad" U.A.S.M.V. Iasi

[alexandru.robustu@consolvo.com](mailto:alexandru.robustu@consolvo.com)

### Abstract

*The study of consumers and employees' behaviour remains a corner stone to successful marketing and management strategies. By studying and understanding both concepts we can analyze the effect that the service company employees' behaviour has on customer perceptions and the relationship in influencing each other's choices. The study proposes to analyze new formulas for attracting and retaining customers and employees, focusing on cost-effectiveness analysis and the reaction of both categories to new marketing stimuli. This analysis will provide the Human Resources Managers with new knowledge and a different approach used also by the marketing specialist. This paper therefore aimed at studying the relative importance of long-term strategies in an effort to attract and retain loyal customers and workers building and growing a sustainable business.*

**Keywords:** behavioural strategies, loyalty methods, loyalty degree.

**J.E.L Classification:** M12, M15, M31

### 1. Introduction

The human being represents the essence of all socio-economical activities, both as a provider as well as a receiver of added value. A certain behavioural management strategy must have as reference point developing competencies and links between the members of the organization and the community's members, aligning two seeming opponent visions in one demarche creating a sole consumption identity.

The customer's loyalty process as the employees' loyalty process is a non-stop process with the purpose of increasing the organization's efficiency on the market and on an internal basis (employees). The employee represents the company's main resource because he is the only one capable to exploit and capitalize the organizational resources in order to gain competitive advantages. The customer represents for the company the main component of its economic environment because he is the one to ensure, in the end, by his own quality, the company's existence.

The two above mentioned processes may be mirror analysed because they consider the same demarche, but customized within the developing context. More, mirror analysis allows identifying the similarities and differences between the two processes and identifying the behavioural management strategies that a company must apply. Behavioural management strategies must have as main objective capitalizing the double role of any person – that of an employee or customer and align the means of gaining employees and customer loyalty. Thus a double effect occurs: the conversion of organizational culture to consumer behaviour with favourable effects upon public closure to the company's offer and the adaptation of customer specific vision towards the means of achieving working objectives with positive effects upon work productivity and public relations.

Mirror analysis of gaining employees and customer loyalty processes may be structured on the following three levels:

- loyalty process stages
- loyalty sources
- means of quantifying the loyalty level

## 2. Stages in employees and customers' attracting and selection

The loyalty process, indifferent to its subject – the employees or the customers, has two stages:

- attracting and selecting the proper persons;
- the seeming loyalty of them.

Attracting and selecting the employees is the first step in assuring an optimal human resource aligned to the company's objectives. The employees are, nowadays, the resource that can differentiate one company to another. Access to material, financial, technological resources is handily to anyone and constitutes as a differentiating source only if its exploiting means or efficiency are distinct; these aspects are strong related to the employees' abilities and competencies. More, each individual's personality is transposed specifically in his own work, offering a unique source of business differentiation. Here's why it is important for a company to recruit the market's best human resources, this becoming achievable if the company has an appealing working offer. A frequent employer's mentality error is them considering the hiring process to be one way, meaning they are the ones who select and decide which candidate enters or not the company. A certain mentality has the chance to push away the true values and a large mass of mediocrity is left to select. The company has first to become attractive, secondly to have a working offer wished by the best specialists – thus it will assure itself with the best human resources.

Likewise, the customers are attracted by optimal offers based upon their selecting criteria. Still, not every type of consumer can become loyal to a company. There are persons who, by their nature, don't have a constant behaviour, even though there are the premises of a total satisfaction. Their degree of becoming loyal doesn't count the company's demarche, but a physiological and psychological necessity shown at a certain time, to whom is addressed a certain good or service. If a company doesn't know how to select its customers considering its own serving capacity and offer, it risks investing in persons with disloyal consumption behaviour. This is why a company must

attract and select the most appropriate customers before making them loyal.

Selecting the appropriate customers isn't an easy task. These have to be selected among those consumers who generally are buying that particular kind of product, who have the purchasing financial and logistics capacity, who have the physical and psychological availability to purchasing and usage. In order to reach these customers, the company has to correctly segment the market, so to exactly set the consumers target group, to assort their expectations to market niches, to implement the right strategies in order to exceed each and every segment's expectations, to analyse the market's competitive offers and to position its own offer according to these variables. [1]

From an organizing point of view, attracting and selecting the employees and the customers emerges as a succession of stages, similar as orientation, but different as working instruments and applying methods:

*Table 1. Stages in employees and customers' attracting and selection*

Stages in employees' recruiting and selection	Stages in customers' attracting and selection
Analysing company's present employee and composing a data base regarding the reasons their company selection and remaining decisions were based upon. Thus a company suited, able to be recruited and becoming loyal employee profile can be identified. More, the empty positions or the needed competencies can be also optimal identified.	Identifying company's present customers and composing a data base regarding the shopping's size and type, the shopping frequency, the market segment they from. Also, it is useful to know the customer's personal data and his socio-professional (for PI's) and economical-legal (for SME's) evolution, his acquisition psychology.
Identifying candidates, creating a system able to transform them in efficient employees. The future	Identifying potential customers, creating a system able to transform them in actual customers and discovering the

<p>employees are both a motivation for the present employees to a continuous performance, a company's possibility to improve productivity and efficiency, as well as a request for a developing company. The companies must continuously monitor the labour market and become attractive to it.</p>	<p>purchasing barriers until that moment. These persons represent company's tomorrow market to ensure the future company's development. They must be stimulated to request information on their own, thus having the impression it's their decision making process.</p>
<p>Integrating HR specialists in collecting information from the employees or candidates and summarizing them in a data base. The company must continuously identify the employees' or candidates' requests regarding their motivation and loyalty. At the same time, present tendencies for competencies in the labour market must be identified.</p>	<p>Integrating sales agents in collecting information from the customers or potential customers and summarizing them in a data base for usage purpose. The company must insure the sales force with proper office supplies for information collecting and transmitting and to convince them of their important role in customer knowledge.</p>
<p>Facilitating a quick and efficient communication system between the company and its existing employees and candidates: on-line reports; recruiting forums and sites, employees or managers blogs, operative meetings, video-conferences, face-to-face meetings. The purpose of this system is to involve the employee and the</p>	<p>Facilitating a quick and efficient communication system between the company and the customers: claims registers, special phone lines for customer information, a non-stop customer relation service, frequent meetings with consumers' representatives and, if possible, with each and every customer. All these have the</p>

<p>candidate in the company's mission.</p>	<p>purpose to make the customer feel important. [2]</p>
--	---

The very employees' loyalty assumes insuring an equitable and motivational system, able to maintain a high level in individual's professional satisfaction. Stages of employees becoming loyal are:

- regular meetings with employees in order to evaluate their wishes and possible needs;
- offering those stimulants that are motivational and generate a productivity plus;
- regular renewal/renegotiation of labour contracts or stimulants;
- anticipating the possible changes in employees motivations and expectations;
- monitoring the competitors activity concerning the wages and recruiting policies.

Customers becoming loyal consider the sum of relations the company initiate and continuously develop with the consumers, with the purpose of keeping them consuming for a larger period of time. In order to have this, the company must go through the next stages:

- regular contact to new customers in order to evaluate their wishes and possible needs;
- offering those products that are raising the new customers' interest;
- regular renewal of contracts or product offers;
- anticipating possible changes in new customers' taste;
- monitoring the competitors' activity related to the new offers on the market.

The company must prove creativity, compelling organizing spirit and diligence in order to treasure an earned customer.

### 3. Loyalty sources

In order to be successful in employees' loyalty, one must know the sources it is based upon:

- 1) **level of equity in wages policy.** The employees' perception on his wage equity has three reference points: the volume and the responsibility of his work, other person's wage for similar activities, and his wage level

according to the company's mean wage. Proper correlation of these three elements makes the employee feel that his professional value is recognized, as the zero limit of motivation.

2) **opportunities and career support.** The existence of promotion openings and the company supporting them both through accessible and equitable conditions, as well as through continuous training and perfecting sessions, insures the employee with professional fulfilment of objectives and ideals based upon a long term perspective within the company.

3) **working conditions and logistics.** It is important that the employee feels comfortable in the working place and benefits from the logistics needed for efficient completion of his work, otherwise he will feel more acute the effort made in this purpose and will consider it distortional according to the received salary.

4) **continuously monitoring the employees' reactions.** The employees must be continuously observed in order to be aware of any change in their level of motivation and satisfaction. The very fact that they are monitored for this purpose will assure them that they are important for the company.

5) **the additional offered advantages.** The additional advantages can be material ones (gifts, trips, product prizes, etc.), financial ones (money prizes, bonuses, etc.) and relational ones (merit acknowledgment, giving higher importance tasks, access to superior hierarchy levels, integration in elite groups, clubs).

6) **company image and reputation.** People prefer working in well-known companies and in companies that have a good social image because this makes them feel also important, as being among the best. The Romanian saying "man makes place" also works in present society the other way round "place (company) makes man (employee)". More, a powerful company offers a far more credible warranty of a safe job.

7) **routine and convenience.** These sources of loyalty work especially for less active employees who weigh better the job stability. But also for the other employees routine of activity, of colleagues ensures, as time goes by, a mental comfort - very important as loyalty factor. Few of these loyalty sources are:

1) **customer service.** Customer service is an alternate of two elements: systems and smiles or smiles and systems. Even if the company holds professional service and delivery systems, it also needs a nice, pleasant staff to attract the customer. If the company holds a nice, smiling staff, this is not enough; it has to have the capacity to honour a customer's request, meaning to hold the needed system. The secret of business success lies in the relationship of the salesman with the customers.

2) **continuously monitoring the customer's reactions,** their degree of satisfaction obtained from purchasing or consuming a product. This can be made by involving the company staff in all aspects, instruments and processes that has as a final purpose the customer, also offering them total freedom of action and decisions. Also, technical surveillance instruments can be used in order to observe the consumption behaviour (video cameras, unilateral mirrors, etc.), as well as hiring special monitors for representative moments of the sales flow and structure. Claims registers can also be an information source that provides customers' dissatisfactions. [3].

3) **company's offer.** As much as we try speaking nice words and having a pleasant and true attitude, we shall never make a customer become loyal unless all this relationship demarche isn't supported by a valuable product offer. Thus, we must offer a quality product or/and service. A good offer is not the company's own opinion, but the customer's one. The offer must have as a final point its usage value, the usefulness given by the customer when consuming the product.

4) **the offered additional advantages.** These advantages can be material ones (gifts, trips, product prizes, company logo promotional products, etc.), financial ones (money prizes, deductions, bonuses, etc.) and relationship ones (facilitating contracts with certain personalities, offering the possibility of working on a short period of time within the company, meetings with company representative members, attending ceremonies and celebrations with the company staff etc.). Publicizing this source of loyalty can have as consequence attracting new consumers.

5) **company image and reputation.** Loyalty process' success especially lies in consumer's trust in the offer provider. People prefer to join the powerful and the trustworthy ones. The image of a company and its reputation of a financially powerful one and able to superior satisfy anytime certain consumption needs, will make the customer believe he has made the right choice and will provide him the motivation of repeating it.

6) **delivery promptness.** Nowadays, time factor is especially important. It must be considered as part of the offer; so it is a consumption motivation element. Quick delivery is especially important on industrial markets, and on product markets, for direct sales products.

7) **service and warranty.** The lack of a well-organized service activity and the failure of warranty deadlines means distrusting the professional competence and correctness of the company. The customers' thought will be that of a bad deal when purchasing from that company and will not make a renewal.

8) **routine and convenience.** These two loyalty sources are working especially for low value products, with a high consumption frequency or low importance for the customers. Unlike the others, they aren't company's subject, but more its placement (eventually the internal special organization) and the buyer's psychological structure

#### 4. The evaluation of loyalty degree

The evaluation of the degree of employee loyalty can be made using the followings:

- the analysis of the evolution of staff labour productivity can be an important evolution indicator for employees' degree of motivation and loyalty. Decreasing productivity is a clear signal for employee's lack of loyalty.
- the involvement degree for new activities. A company employee who considers himself as a long-term one will be wishful to take part in new projects and will have a high degree of loyalty.
- the degree of employee's financial dependence to the salary. As the employee is less financial dependent on his job salary, just as much he will hardly

become loyal due to pecuniary instruments.

- employee's level of alignment to the company's group which he belongs to. The membership to working place collective has the tendency to make the employee loyal, feeling indebted to be a part of team's performance.

In order to evaluate the degree of customer loyalty, specialty literature offers some ways to induce it, such as:

- the percentage of consumers for a certain product/brand considered to the total amount of acquisitions made in a certain
- period of time;- the mean period of time for consuming a certain product;
- the probability of repeating the purchasing act considering constant environment factors;
- „the entropy index calculated by the formula:  $F = -\sum_{i=1}^n P_i \times \log P_i$ , where:

F – the loyalty index for the targeted brand;

$P_i$  – the probability of purchasing the targeted brand;

n – the number of brands the buyer can choose from” [4].

#### 5. Conclusions

The employees and customers' loyalty process must be mirrored, existing endless correlations that can be made. Thus an empathic context between the employer and the customer, between the employee and the customer, between the company and the community is created, with beneficial effects for labour productivity and consumption efficiency. A unique approach of loyalty processes for both parts leads to a synergic effect in behavioural management strategies area, this generating a better capitalization of the main company's resource: people.

#### 6. References

- [1] Hart N., *Marketing industrial*, Ed. Codecs București, 1994
- [2] Philip K., *Principiile marketingului*, Ed. Teora, București, 1999
- [3] Thomas J. M., *Manual de marketing*, Ed. Codecs București, 1995
- [4] Gherasim T., Maxim E., *Bazele marketingului*, Ed. Sedcom Libris Iași, 1977

# Modern Methods of Identification of the Risk in Romanian Management

Romanescu Marcel-Laurențiu  
Constantin Brâncuși University of Târgu-Jiu  
[marcel\\_romanescu@yahoo.com](mailto:marcel_romanescu@yahoo.com)

## Abstract

*This article gives a simpler about human condition, that it has an in-depth understanding of our concerns most hidden. We'll try to put in view of the importance for improving the effectiveness of personal to be successful. It is important to know that to win in business is quite impossible, in the same way as a lost. Among the most modern methods of identification of the risks within the framework of firms is method of classification of risks, carried out by stages and grading of card risks. Business Management exemplifies influences study company, the method by which they are structured and administered, the manner in which it operates, the study of nature and management roles, but with an emphasis on key tasks of planning, control and decision-making, as well as the study importance of information and communication.*

**Key words:** Modern, business, risk, managerial communication.

**Classification J.E.L.:** J50, L10, M10

## 1. Introduction

For a successful business to change an unfavorable would agree it is absolutely necessary to start triumphs [3, p. 6]. In the modern world it is necessary to focus only on the methods of immediate friendship, strategies of force, on the ability to communication and positive attitude. Any manager is the person who initiates and conducted an action, assumes certain risks associated with innovation, in exchange for some materials or personal satisfaction. Business is carried out in a social framework, most of the times, business relationships are based on cooperation. Obtaining economy success is not dependent on the scam, unfair

practices or of undermining/elimination of competition.

Carrying out a business requires effort and determination. Not everyone has desire, power, and willingness to get involved in business and this to a large extent because he has the skills necessary for a manager.

## 2. Delimitation influential factors in the development of managerial

The concept of organization could be treated separately from other concept - the human behavior. This close connection is generated by the fact that the organization is a human community designed and oriented to achieve objectives determined. [ 5, p. 9].

The success or failure in business may be due to a broad variety of factors. A lot of people consider that it is too big a risk his involvement in business. Others are happy with the potential benefits to which they are able to obtain and may not take into account the causes of potential failure in the business. [1, p. 76].

In business, competition is high and failure rate new firms and small is sufficiently high. Knowledge of factors which have led to the success or failure of firms may be an important step to go with the Americans to avoid failure in business. Factors influencing development of entrepreneurship are both the nature as well as macroeconomic and microeconomic.

Managerial development may be due to macroeconomic factors, on which it can act. They are: general development of the economy, inflation, interest rates, access to capital and government regulations [5, p. 56].

In addition to macroeconomic factors which may promote the success or failure in business, other factors employers' associations consider the subjective nature, on which contractor may act: competence entrepreneurial, financial control, stock control, planning, location, the work of



marketing, human factor, record keeping accounts and attitude.

Carrying out a business requires effort and determination, not all persons have desire, power, and willingness to get involved in the business, so it does not have the capacity needed for a manager.

Among the most common features of successful entrepreneur are the following:

- *His desire to assume the risk.* Inevitably, involvement in business involves and the taking over of personal and financial risks. However, research shows that entrepreneurs assume a moderate risk. Risk in assuming one distinguishes between absolute risk and the relative. Most businesses are risky. However, if the potential contractor has recently been dismissed or is in a service without perspective, the risk relatively can be much smaller.

- *Control your own destiny.* Key factor in the decision to enter the business is the desire to control your own destiny. Research shows that entrepreneurs have a high control of his own destiny.

- *Spirit of innovation.* Creativity is an important feature of the successful entrepreneur.

- *Need for accomplishment.* Managers are persons strongly motivated by the need for accomplishment. Need for accomplishment is considered to be an important dimension of the personality your manager. This causes leaving a big companies and assuming risk his involvement in their own businesses.

- *Accepting uncertainty.* Managers accept unsafe situations and make decisions in conditions of uncertainty.

- *Self-confidence.* Managers of success have a strong confidence in its own forces.

- *Persistence.* Managers are not intimidated by obstacles which appear in the path. Having regarded intense desire to overcome the difficulties, they continue their efforts to solve the problem.

- *A spirit of initiative.* Managers always looking for situations in which they are personally responsible for business success or failure.

- *Referral opportunities.* Managers have the ability to predict trends and to recognize opportunities that may arise.

- *High energy potential.* Managers have an energy potential high, they have the ability

to work for an extended period of time, without feel the need to lie down to rest.

Obviously, the characteristics suitable contractors "unlucky" are contrary to those previous ten traits. Among the most relevant such a characteristic note: greed, dishonesty, the impatience and the lack of confidence in people. The aim of management of a company involves exclusion of any accidental reactions of the law firm. Still in the process of creating a company is aimed at carrying out activities in terms of effectiveness and efficiency [2, p. 7].

### 3. Analysis methods for identifying business risk

A new method is mapping processes, which constitute diagram for the definition of the process. This underlines each process in detail and can exemplify four components - key what are played back in carrying out any process or activity, as well as:

- A process exposes entries results - which normally are processed or consumed during the process.

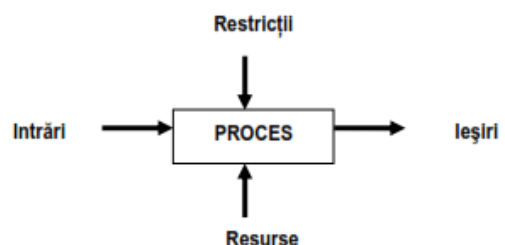
- Outputs are results - products or services.  
- Restrictions are of two kinds: organizational and external, they have the modeling task processes.

- Resources are useful for obtaining outputs, they are consumed during processes.

Modern methods of identification of risks become a complex that what constitutes a volume visible effort, time and money.

For an analysis of the risks of the Organization is necessary drawing up a list of the main risks.

Figure 1. Diagram for the definition of the process.



Sursa: [7].

Modern technologies to increase visibility of the risks require a decision by introducing more structured following some steps as:

- Event identification;

- The probability of occurrence of the event;
- The way in which event persons;
- The number of persons affected by;
- Risk assessment;
- Classification, planning, revision.

Risk classification method is based on national statistics, having a real relevance for employment. It is relatively simple, a step-by-step process, with calculations easy. Classification of risks can be achieved without the need of knowledge or appreciable competent theories and applications in risk management. The system reflects a wide range of accident hazards existing in many work environments, enabling their classification in a correct manner, neutral and systematic.

A strategic method to be applied frequently to identify risks in an organization is the grading card risk. Risk classification method.

By this method to improve the performance of companies it is necessary to rely on improving performance by quantifying indicators-key performance. Method focuses on the time course of the risks, their impact on business, but also the correlation between exposure to the risk of the firm and the ability to risk it.

The modern method of identifying risk - scoring card - identify two types of risk in a company

- Risks interne,
- Risks foreign affairs.

Financial resources are risks, with influence on financial resources and the balance sheet business. Risks of infrastructure risks are laid down, more precisely those which are covered by insurance and similar mechanisms.

Risks of reputation they shall have regard to the image created by the company to customers, suppliers, shareholders and the company in general.

Environmental risks are those risks linked to the organization's position on the market - business risks affecting their customers and expense, the ability to maintain contracts with its foreign partners, the profile of the market organization and performance.

In certain situations the second method to provide proper identification to the risks at the level of a business does not represent the most successful method for environmental

organizations today, as they adapt to new, keep pace with change, do not take into account other opinions, things on which the method is not focus. Risk profile method exemplifies annual public reporting on controls of risk management, allowing strategic evaluation and monitoring, systematic and structured of risks (4).

This method is composed of five stages:

- The definition of units of risk;
- The establishment of degrees and an outline of priorities;
- Identification and threat assessment;
- Classification of risks and identification of controls;
- Monitoring and action plans for control of the risk.

Method of determining the risk profile provides a comprehensive approach, approach which takes and strategic.

#### 4. Conclusions

The idea of business shall be drawn up on the basis of achieving a distinction absolutely useful between the function of execution and managerial function. In most new business main cause of failure is a managerial incompetence. Most managers do not having the skills required to run a business, because they made huge mistakes made by a contractor experienced, well-trained senses them easily and avoid them. In order for the manager to be successful when you assume a risk in the business, he shall be required to set up an adequate financial control and the error margin is very low. A plan drawn up correctly gives it an opportunity to obtain your manager's upper advantages of opportunities that may arise and to prevent some difficulties might occur. Planning does not mean simply to think about the future. It includes the determination of objectives and determination of the methods to achieve them. As the company grows, grow and problems in difficulty.

Task management consists of convert energies physical, mental and intellectual members of the firm's behavior in accordance with the requirements and objectives of the entire operating companies.

## 5. References

- [1] Andronic, B., "Performanța firmei", *Editura Polirom*, Iasi, 2000, p. 76.
- [2] Burdul, E., Popa, I., "Metodologii manageriale", Editura Pro *Universitara*, Bucuresti, 2014.
- [3] Covey, R., Stephen, Eficienta in sapte trepte sau un abecedar al intelepciunii, Editura Alfa, Bucuresti, 2002
- [4] Dickson, C.G. "Risk analysis", 3 edition, *Wittherbys Publishing*, New York, 2003,p. 77.
- [5] Dumitrașcu ,V., "Firma flexibila", Ed. Cantes, Iași, 2000, pag. 56
- [6] Dumitrascu, V., Ciupitu, S., "Bazele managementului. Aspecte comportamentale ale performantei", *Editura Pro Universitaria*, Bucuresti, 2013, p. 9
- [7] [http://www.audit-scotland.gov.uk/docs/local/2000/nr\\_010201\\_process\\_mapping.pdf](http://www.audit-scotland.gov.uk/docs/local/2000/nr_010201_process_mapping.pdf)

# Influence in the Organization's Strategic Business Management of the Firm under the Conditions of Globalization

Romanescu Marcel-Laurențiu  
Constantin Brâncuși University of Târgu-Jiu  
[marcel\\_romanescu@yahoo.com](mailto:marcel_romanescu@yahoo.com)

## Abstract

*Management is attractive due emphasis he puts on a purposes, on identifying strengths and weaknesses of those opportunities, on the importance and external threats, from the point of view of optimal deployment of forces to the achievement of the objectives set. I played the idea that strategic planning is no exception, and models used must be adapted company particularities. As a result, strategic planning may have a wider utility, in a new economic context, through favorable influences exerted by various categories of environmental factors of exogenous genetic material organization. Future company must be lead by the following principles: in all of the areas, its activities are deploying innovations; tends toward total integration with similar companies; supports radical organizational changes, social responsibility, eco-friendly.*

**Key words:** Management, purpose, strategy, the company

**Classification J.E.L.:** J50, L10, M10, M 20

## 1. Introduction

Concerns about the leadership human activity occurred with the first forms of social organization and have been amplified as material and spiritual progress of humanity. Although items and percept management still appear since the ancient times, scientific their crystallization is relatively recent date, if we take a look at management training of science of historical perspectives.

Development of science and technology has accelerated and enriched human thinking in the field and the management organization of economic and social activity. Management that the science has not occurred on a virgin

field. Up to modern concepts of our own day, the science of management has come a century.

Management science has a range of reference, has its own principles, it operates with specific methods and techniques to achieve objectives organizational and has a distinct object of study.

In particular, the object of the study of the science of management is an analysis processes and relations of the management of organizations and research environment economic, social and cultural fields in which these organizations acts. As a result of this study, it is discovered principles, rules and other elements of essence which explains the content and dynamic management.

As a result management managerial processes, top figures stand out from the crowd, because they put on the entire fingerprint activities carried out within the company, causing the level of its effectiveness.

## 2. Formulation of a strategy

Central notion of strategic management, this strategy is typical of the activity of the firm, whereas shall specify directions in which is oriented to the attainment of these objectives and the way in which it is carried out. Business strategy formulation constitutes, so, the final act essential of painstaking process - which is incumbent on a high responsibility, and yes as far as managerial capacity of the factors of strategic decision - described above. [1]

Strategy formulation reflects, by themselves, the clarity of conception of management of the top of the company with regard to the co-ordinates of major activity, and to the performance to be achieved.

Business strategy formulation is required for various segments of earth of holders of interests of the latter, namely: [4]

- For managers at all hierarchical levels of the law firm with a view to the inclusion of full of their decisions and actions in the strategy laid down, as well as to ensure the collection of clear their role of integration in the effort spent materialization assembly strategy;

- For all other employees of the company with a view to raise awareness concerning performance which is expected of them and, by default, the efforts that have to be made;

- For all holders of interests in outer with view to making sharp images on the activity of business, its assessment of the prospects and identify opportunities on which its future evolution open them;

- For potential new entrants on specific market company that they need to understand major orientations of its activity and its main competitive weapons;

- On the workforce interested to undertake within a company with a view to assessment of the prospects of professional development and career advancement to offer this.

As the company moves forward toward strategic management practices, ways and means to establish gradually strategy stand on ceremony, the procedures are becoming more stringent requirements, the whole process of strategic planning and strategy formulation is the consistency and drive.

Which company is an informal mode of the laying down of the strategy does not have written documents to a record as such, as a result of a process of construction of strategic alternatives and identification of alternatives considered as the most appropriate for the firm's current condition and for her environmental situation of action; this does not mean, however, that managers of businesses do not have mental outlined a strategy that follows through all decisions and their actions and which a change whenever changes internal or external company complains about this work.[5]

In such a case, availability of information regarding the strategy business of strategic analysts specialized market, that is, for those who seek and interpret trends in performance of its competitors on the market in question,

it is, in a practical sense, very weak, in fact makes it difficult noticeably analyzes to be carried out in relation to that firm's.

On the other hand, company with a consolidated system of the pursuit of strategic management has a rigorously formalized lying down and for the formulation of the strategy, which enables him to make available to analysts, a rich informational material enabling analytical steps and allows them to relevant conclusions on the company in question.

The company that doesn't have a strategy defined, a fact reflected by the lack of coherence of the various her activities, her reactions to the emergence of messy opportunities or threats; even if in the short-term firm in this situation shall record any successes, on lack of a long-term strategy to govern evolution cancels, in a practical sense, chances to achieve further of improved performance.

The company that follows a specific strategy, even though it has not been established formally and explicitly affirmed. The company that has the strategy laid down without being made in writing, a fact that is absolutely necessary to identify the components in order to understanding strategic substance and her coordinates the action.

In case of late phases of strategic planning, when the strategy has been established within the framework of a rigorous formalized and is declared in writing, a fact that makes it appreciably analysis and understanding.

Wording in writing of business strategy takes the form of a "declarations of strategy" to be: [2]

- To be clearly and rigorously drawn up;

- it must be expressed in terms active, normativi;

- to make explicit reference to the general aims of business;

- reflect the co-ordinates of the major action of the firm.

To the extent that management is to choose and organize business development in the future, the quality of an essential strategic diagnosis is to be evolutionary, dynamic, and prospective, with all oriented toward the future and looking for the main trends of development environment, which will affect your business.

Even if most Romanian managers are allergic to approach prospective, it's always preferable to tackle the future with hypotheses, even if only qualitative, than to do so on the basis of quantitative information, but reflecting a past that cannot capture every time changes.

If forecasting consists of imagined future things by intuition and reasoning, giving us an idea of events likely to which we must adapt our, prospective is useful, and richer in matters of strategic reflection, she returning to judge what we are today from the future, and not the other way around.

Overall strategy or partial strategies are natural consequence of strategic decisions, in turn the result of complex decision-making processes.

To understand essence strategic management should be to fancy ourselves various aspects which are necessary to achieve success. We cannot imagine that undertaking without specific purposes, without organizational structure, without subject to a clear position on the market, without the need for a range of products or services which they provide. All of these areas are interrelated and common to them is that all can be included in a strategic plan well determined.

### **3. Adaptation approach to the market and business environment**

Company strategies have right coordinate reference essential products/services offered by the company and the markets where it is present. Company may opt to maintain current range of products/services or for diversification, for continuing to operate on the same markets or for the expansion to new markets.

Analysis of the competition on the market industry specific company which he/she belongs must be supplemented by that of the positions on which the companies of the industry concerned occupying them in relation to the costs at which it develops products/services.

There are no differences between firms sensitive final between the costs, to be determined, in the main, de:

- the costs of which are purchased resources necessary for the conduct of activity;

- Technical basis and the technologies used which, having been placed in productive activity at different times and with different acquisition costs, have yields which varies within the limits wide and they determine, as a result, technological inputs and costs as appropriate;

- Costs to which specific activities are carried out various firms, first of all, the production and sales;

- The costs of inland transport and dispatch, and external transport;

- Costs distribution channels of their own or access to the channels belonging to other companies;

- Inflation rates and exchange rates of national currencies existing in the countries in which they carry out their activities and transnational multinational companies etc.

Under the conditions differences existing between the final costs that the companies carry out their products/services, strategic cost analysis has as its object position determination on which the company holds in relation to costs in relation to competitors, in other words at what level is located its costs compared with those of their competitors.

By carrying out analyzes the aims are to evaluate competition competitive position and of the main strong points of competitors the most important in the market. Already mentioned, above, that the strategy each firm is subject to a condition of the strategy with other companies that are confronting on the market and wrapped, in its turn, rival strategies.

Competitiveness any economic activity is closely linked to the elaboration and implementation of effective strategies to make profits/benefits. On the one hand company strategies define the trajectory for a period relatively long and manage resources to achieve these objectives. On the other hand knowing the path and steps result in substantial reduction of risks Rompres organization strategies

### **4. Business operation under the conditions of globalisation**

In the study of analysis of business operation under the conditions of globalisation it is necessary to be listed and analyzed factors with positive impact, negative, on future business operation; to be

brought arguments in support of findings; to be highlighted the importance of professional quality company manager, employees; to be analyzed the flexibility of the company's geographical location, to the structure end product. [6]

Globalization has no impact, does not change, does not require changes to cca. 30% of national companies; support current possibilities of national companies.

In certain extent firms "converted" people from other "tastes", "mode", "culture", etc. , but these convertiri shall be made slowly, are felt good after periods of activity. Globalization contribute not only to solve economic problems, but also to the social and culture. Future company manager constantly has to solve problems with many variables.

Company with more partners will have greater economic opportunities, priorities in relation to its competitors. Commercial business operation in the EU area is subject to establish tangible and lasting impacts additional.

Successful companies are more susceptible to proposals to extend the number of partner countries. Processes of globalization are generated by behavior of companies which may include: total globalization, local, joint venture. [8]

Firm, within the framework of their respective responsibilities social, must also assume certain commitments. Final products of that firm's future will be under his attention and the strict rules of increasing customers, consumers, of which they have been living in the territories in which will enable future company. This is disallowed by the managers contemporary firms which make an effort to solve some of social issues, including to exclude the use child labor, chemical use, environmental pollution, used -chemicals, environmental pollution, use of ingredients in the processes of processing of the raw material etc.

Solving many of these problems, it will be accompanied by his expense by firms of new additional costs. Responsibilities social problems, currently, are formulated and discussed more and more by those who do not obey the companies. Managers are more concerned about the economic aspects of the firm than environmental, social.

Social responsibilities problem can and will be resolved in that measure, in which the

administrative authorities territorial sea, plants will impose restrictions and penalties future company. No social responsibilities is generated by "run" for profit, the passivity of governments in imposing standards required in the processes for conducting the firm's activities.

Increased attention managers compared with the level of professionalism of the employees it's natural. But, in this professionalism it is necessary to include and professionalism of the protection of the aquatic environment, naturally-aspirated engine, land and social problems.

## 5. Conclusions

Consequently, the establishment of the most judicious their strategy can only be achieved by knowing advantages and weaknesses other companies and predicting their future strategic moves.

Determining the competitive position of the most powerful competitors has as a basis for their specific approaches reference relating to the segment of the market for which they cover with their products/services.

There is, in this respect, three major approaches:

- the growth of the segment, specific aggressive firms, able to invest substantially in developing their existing capabilities;
- The retaining segment acquired, its own firms whose individual rate of increase in the performance of their is located at the level of the industry or around it;
- The reduction in the market share covered, which was adopted by the two companies, either as a result of pressure determined by their weaknesses of operation, either as a deliberate move to prepare the withdrawal from the market with a view to migrating to another more advantageous market.

Firms, in their rush for profit, create problems. The company does not "wishes", does not support these problems, then the company shall be required to pay more expensive for companies that they, the companies do not create problems.

There is a problem with defiant behavior of the firms from human society. Future business problem is not to solve environmental problems, social, but not create them. Environmental issues, quality of

food products can and should be resolved by administrative structure of each country by the introduction of restrictions, testing, penalties are applied. The objective, unbiased, systematically, quality of company's products future can have only consumers. They, being gifted with "mini testing laboratories", mobile with the supports laws in the "conflicts" quality of the products-consumer-seller, can turn into supervisors of the firm's activities future.

Company manager future economic success will be tied to the level of social responsibility, the level of environmental protection; cooperation with non-governmental organizations, with the media. Company manager future should become the developer in solving some social problems, environmental, of which the consumer nor suspects. [7]

## 6. References

- [1.] Burdus, E., Caprarescu, Ghe., Andronescu, Armenia, Miles, Michael, "Managementul schimbarii organizationale", editia a-II-a, *editura Economica*, Bucuresti, 2003, pag. 75-76.
- [2.] Clarke, L., "Managementul schimbarii", Bucuresti, Editura Teora, 2002, pag. 67-68.
- [3.] Cornescu, V., Mihailescu, I., Stanciu, S., "Managementul organizatiei" Bucuresti, *Editura All Beck*, 2003, pag. 125-126
- [4.] Doval, E., "Managementul schimbarii organizationale in context international", Editia A-2-a, *Editura InfoMaket*, Brasov, 2008, pag. 135-136
- [5.] Ionescu, Gh.Gh., "Marketizarea, democratizarea si etica afacerilor", Editura Economica, Bucuresti, 2005, pag. 81-82.
- [6.] Nicolescu O., Nicolescu C., Antreprenoriatul. Managementul intreprinderilor mici si mijlocii, Editura Economica, Bucuresti, 2008, p. 77.
- [7.] Prelipcean G., Burciu A., Introducere in management, Editura Economica, Bucuresti, 2008, p. 67.
- [8.] Spataru L., Stancovici A., Eficienta si evaluarea afacerilor, Editura Economica, Bucuresti, 2010, p. 55.



# Organizational Culture - Synthesis Particularities Give Personality And Dignity Of Each Human Group

Sanda Gheorghe Gabriel  
Enea Constanta  
Enea Constantin  
„Constantin Brancusi” University of Targu-Jiu  
[constantina\\_enea@yahoo.com](mailto:constantina_enea@yahoo.com)

## Abstract

*Environmental adaptation and behavioral integration are two major problems the organization of this beginning of century is confronting with. Organizational culture is one of the solutions to solving these problems.*

*This paper presents the characteristics of organizational culture and the degree of influence on it by the different levels of managers. The most important part of the paper presents how managers can change the culture of organizations through influencing the cultural web of it.*

**Key words:** organizational culture, identity of members, performance criteria, external environment, results.

**J.E.L. Classification:** L 83

## 1. Introduction

The organizational culture acts as a reference system which allows organization members to better understand the world that surrounds them and act accordingly. She made available to the individual the "mental equipment" with which help may done order in the complexity and diversity that surrounds him [1]. At the same time, culture is a means of adaptation and integration organization which regulates the relationship with the environment and relations within it, by contribution to strengthening internal cohesion [2]. Since the decade of the eighth century, on the international area has been a growing importance of the elements "soft" of firms management. Since 1990 was granted a change of organizational attention, as the basic element of adaptation to firms

environment. The tight correlation between leadership and change has been researched and demonstrated by numerous authors. This is due to the fact that leadership is a desirable attribute of managers, although being a leader and a manager does not necessarily requires the same skills and capabilities but both involve flexibility in thinking and adaptability. According to the Dictionary of romanian practical language [3] the word culture has the following sense:

- all the knowledge of an individual;
- all activities subject to rules and social and historical patterns of behavior transmitted through education, own a given social group;
- all rules of conduct adopted by an individual and manifested in the given social group.

One of the complete definitions of company culture is given by Kroeber and Kluckhohn [4]: "The firm culture of the company consists in a determined manner of thought, expression of feelings and response, which is obtained and transmitted by symbols, as distinct elements representative groups of people, including their expression of facts, the essential element of the culture consisting of traditional ideas and values attached to them".

In a simple manner, for a common perception, the business culture is perceived as "the way things are made here", which is typical to organization: habits, attitudes, revailing mode of training and acceptance of behavior expected. In a simplified definition organizational culture submit all rules of conduct adopted within the organization.

The features of organizational culture are [4]:

- the identity of members of the organization with position or the company as a whole;

- the emphasis is on group or individual that is the extent to which activities are organized around certain people or groups;
- managers focus on people or tasks, the extent to which managers take into account the influences and consequences of decisions on people;
- how is the integration of subunits that can be independent or interdependent;
- the way in which is made the control measure in terms that are used in rules and regulations to oversee the conduct of employees and the extent of freedom they have;
- risk tolerance in terms of the degree of acceptance of innovative behavior, sometimes aggressive and risky employees;
- the prizes and rewards especially in terms of the grant criteria: performance criteria or other criteria;
- tolerance to criticism and conflict states in terms of the level to which they are accepted criticism and conflict states;
- orientation on purposes or means that is the focus of managers on the results or the techniques and processes necessary to obtain such results;
- degree of openness of the system in the sense of measure in which the organization monitors and give signals and responses to changes in its external environment.

There are several approaches on the concept of "organizational culture" [5]:

- *rational-pragmatic*, culture is considered an attribute of the organization, something that the organization possesses;
- *systemic*, the organizational culture is the most important element of the organization, which performs the function of adaptation to the external environment and internal integration;
- *anthropological* - treats organizational culture as the essence of the organization.

The "web" elements of cultural organization are: rituals, stories, practices symbols, control systems, power structures and the formal organization structure in the center of their being it paradigm [3]. We'll look at the manner how the management, regardless of level, affects development, change and transformation of these elements.

Organizational life *rituals* such as training programs, evaluations and promotions, the conduct of meetings and meetings, the negotiation and acceptance of views

emphasizes "the way things are made here" and may signal the importance of things on the scale of values the people of organization think. The major contribution training these rituals lies obviously to the top and middle managers. Due the fact that they can be assimilated to organization policies should be consistent with the implementation of strategy.

*The stories* which are circulating among the employees are saying to newcomers or even in addition create a certain image and certain expectations about the behavior of individuals.

In order to define a wanted behavior, managers can determine themselves the content of these stories so that they are more widely accepted.

*The practices* are common modes of behavior of members of the organization in relations with others revealing "the way things are made here." This element of culture is the most difficult to change because it involves not only management will but also will involve all members of organization. For that managers should adopt a participatory behavior expressed by the availability versus subordinate in order to make direct communication with them and hire some young people whose thinking has not yet been deformed.

The most obvious *symbols* in an organization are linked to titles, the terminology used in common language, offices, cars, parking places etc. This presents the nature of relations, the motivations and values of any organizational structure.

As the degree of formalization increases, imposed by symbols, decreasing the influence of managers on the other elements of culture.

*The evaluation and control systems* and the reward systems emphasize what is really important to organization [6].

The simply existence livelihood systems assessment and control is not sufficient to motivate the employees, they must be clear and well known throughout the organization.

*The structure of power* is important in terms of influence the power centers have on it. The power group, sometimes act informal, must to awareness to the higher managerial levels, to use as beneficial their influence.

*The structure of formal organization* restricts what should be truly important to its members: achievement, power, bureaucracy, or cooperation. Cooperation-oriented firms are more flexible, easily adaptable to changes including the organizational culture.

## **2.Experimental research of organizational culture**

*The paradigm* illustrates the organization philosophy and refers to [7]:

- orientation of company (or the results to humans);
- awareness and reward success;
- awareness of the need for an ongoing analysis of the environment to seize new opportunities in time;
- opening and devotement to change.

Given that changing organizational culture is made the most numerous cases to adapt the organization to a new strategy must be carefully studied the correlation between strategy and culture, the element that distinguishes organizations.

Thus, after statistical analysis, performed at several companies [5], were found several elements that distinguish organizations high performing of those performing poorly:

- the management ability to formulate, communicate and gain acceptance of organization members on the implementation of this vision;
- the capacity of managers to induce change in order to implement new strategies;
- ability to take risk, which can be developed based on risk tolerance;
- the ability of managers to develop employee commitment through organizational culture;
- maintaining a high level of performance given the desire of managers to maintain employee loyalty;
- keeping the direction set out in strategy despite some minor disturbance that could interfere in the short term;
- the extent to which the planning process takes account of certain assumptions, generate alternatives and express more points of view.

In order to find values that are accepted by members of economic organizations, the actual situation and the desired situation, we conducted a survey/pool of organizational culture [9]. Were selected also joint stock

companies with majority belonging to the state, and entrepreneurial organizations (LLC), founded in the 90s. Regarding the reasons that hamper the formation of culture in the organization, 42% of the subjects investigated showed a lack of missions, of some values, which would join the organization in a team. A strategy is missing, especially to S.C. TERMOSERV SA, which is in the process of reorganization. On the leader of this organization depends the formulation of a vision on how to work in the future.

Another issue is the reorganization of the company and frequent staff turnover, whose rate is highest at private companies (ROCONSTRUCT MBS - 61%, MOVA PERST - 50%). The cause probably lies in the fact that these collectives only forms. In contrast, only 10% of employees from SC CONFECTIA SA said that the reorganization of the firm and staff turnover is a barrier to enterprise development. And not because there would be a high level of motivation, (workers' wages are quite low and their work is not appreciated) but, rather because they could not find a better job. Many specialists having with old experience in work, left the company. People often come to work because of skills or simply the need to communicate with other people. Here it depicts that a high level of motivation does not necessarily reduce the fluctuation of personnel, but also reduced fluctuation does not mean that there is a high level of motivation.

Another reason is the scarcity of professional proficiency and knowledges in management area, which is a serious obstacle for business performance MOVA-58% and ROCONSTRUCT - 60%, where for 11 years any employee has not participated in training courses.

Trening programmes, qualification and training of employees in these businesses /enterprises are limited to a maximum, due the lack of money. Only 15% of respondents from the firm TERMOSERV indicated this reason, a large number of employees being young and having higher education.

Low levels of effectiveness at the MOVA and ROCONSTRUCT plants are caused, inter alia, by the insufficient technology and new working methods. Technical and technological factors are influencing the

organizational culture as well. Values, norms of behavior are generated by the existence of a certain technology and a certain degree of technical capacity of the plant.

Not incidentally, nearly half of the employees interviewed ROCONSTRUCT company reported a lack of rules, norms of behavior, which would regulate the activity of the organization. Rules of behavior are based on shared values and beliefs. If they do not exist, then missing the rules that define how to act.

In order to find out what employees expect from the companies they work, they were asked to highlight certain values, as their priority. Subjects that were investigated in unanimously said that the company must ensure, first, the wage.

This value of money shows the mood across Romanian society in which, for some accumulation of capital has become an end in itself, and for more money are not negligible, at least to the extent that they want a civilized standard of living or at least decent. Safety regarding the workplace is important for 89% of respondents, as the uncertainty about the day tomorrow is for them a source of permanent stress. In the third place in the hierarchy of priorities is provided the opportunity to obtain professional recognition - 60%, followed by good relations with colleagues and superiors - 46%.

In last place are the length of service and pension, or possibility to contribute to the enterprise development. Of those issues mentioned above result that people living think of today rather than thinking about the future of the enterprise, but a plant may have a lasting success only target to the future.

### 3. Conclusions

1. Organizational culture has a complex character, is a system that self-organize and *which govern the human existence*. The culture is manifested in social life, permeate all spheres of human activity. Culture is regulated by the actions of individuals united in various social groups. The direct mechanism that ensures this organization is the institutionalization of relations and behavior of individuals, due to which their actions are planned and coordinated.

2. Analyzing the development of culture we should take into account the ratio between universal and specific, which to the culture of a society formed an inseparable dialectic unit. Culture could be explain only referring us to some cultures specific, because there is no single culture for all mankind, but a multitude of cultures, which correspond to different forms and levels of organization of human existence.

3. In contemporary philosophy the characteristic of the society is expressed through the notions of culture and civilization. Civilization refers to material structures, economic management that can be used by people in any society. As a unifying factor in a company, it reflects the processes of globalization and spread of new information technologies. Same time, the culture is a summary between characteristics and values that give personality and dignity of each human group.

4. There is a dialectical interdependence between culture and organization. On the basis of culture elements integrates the human group, through them governing the action and made the control of individuals. Culture shapes organization, the organization creates its own culture.

5. Organization as socio cultural system is one of the essential aspects of the new management paradigm. Management centered on control, concerned about the rationality of the organization and how to personalize the work tasks and results, is replaced by participatory management, where effective leadership is the capacity of manager to integrate efforts of all members of the organization in order to achieve desired results. Authoritarian style of management, determined by the paradigm "man is lord of the universe" is replaced by the existential style, which man appears as being emotional, expanding, which is searching *the sense* of his activity.

6. Both the theoretical aspect and in practice, society and personality should be regarded as stand-alone entities, with the characteristics and rules specific modeling the social integrity. In interpersonal relations, personality has a certain degree of autonomy, being at the same time fundamentally dependent on other people. The dominance of interests of the individual or group within a social entity is not random. Spring training

is a growing company culture. Thus, in Western culture the individual is a distinct, separate from its environment, individualism prevails here, the orientation towards action, towards an active intervention in the external environment for processing it. For eastern cultural traditions are valued in the group solidarity and harmony in interpersonal relations. In current conditions, it is necessary to form a *social integrity*, built on the synthesis of group interests and the individual interests.

7. In any organization the main value is people. In order to survive and prosper the enterprise must have a staff, which to be characteristic the sense of responsibility for the fate of the organization working, professional employees, active, competent, with innovative and creative spirit. The efficiency plants use the most effective potential of their workers, creating conditions for them to contribute actively to the activities and achieve the targets. Meanwhile, individuals assigned a certain importance of its relationship with the organization. Offering his abilities and skills, he expects to be assessed and paid [7].

8. Organizational culture consists in the range of accepted values and practices accepted of the organization, made up along its history in response to problems of internal integration and adaptation to the environment to live [8]. The organization is an organic compound to the base of potential viability is the organizational culture: the goal because people were united in a group, people, rules of behavior, principles of life and activity that they share holding horizons. An effective organizational culture manages to unite a group of people able to work as a team. A positive psychological climate for its members collectively oriented the members towards common values and ideals, connecting employees to the work group which have a special value, they mobilize to achieve effective results at work. Because of ideation systems, human activity becomes purposeful, based on purpose and ideals.

Of the entire study detaches many conclusions:

1. That the issues related to organizational culture, aimed at two levels namely [9]:

- the myth part, of history, in which are included myths, stories, slogans, symbols, ceremonies and "heroes" of them;

- the given part, presented by rules, standards, habits, structure, systems, leadership, strategy, etc.

2. The change of organization culture becomes necessary whenever it becomes a hindrance to the implementation of new strategies.

3. As the highest hierarchical level of organization members is, the greater their ability to influence its cultura.Strategy of the company, established at the top level sets the guidelines for developing policies with regard to human resources, is element major to influence on culture.

4. Managerii, especially the top, can influence the culture in many ways. For this, they must make a real analysis of the organization and then define the web of cultural and desired organizational philosophy and put it into practice.

5. Changing the organization's culture is designed to increase performance, which leads to differentiation performente of those firms with poor performance. Organization's identity, myths, rituals provides solutions to solve for a limited period of problems unlike the organizational culture which is the central process of adaptation and integration.

Knowledge and sharing the organizational culture are necessary and useful because it is the most useful anticipatory element of an organization, perhaps even unique. Thus, understanding the collective behavior is essential, especially in situations, more numerous, the organization needs to adapt to ever changing conditions, which included expectations and aspirations of its members.

### 3. References

- [1] Dobrescu E.M., Getting started in small business management and medium, Ed Expert, Bucharest, 2007
- [2] A.Istocescu, Intreprenoriatul and intraprenoriatul in Romania, Ed ASE, Bucharest, 2006
- [3] Johnson, G., Exploring Corporate Strategy, fifth Scholes, K edition, Hemel Hempstead, Prentice Hall International, 2006
- [4] Senior, B.,Organizational Change, Pitman Publishing London, 1997
- [5] Tanta A.D., Entrepreneurship, Editura ASE, Bucharest 2006
- [6] Themet M., La culture d'entreprise, Que sais-je?, PUF, Paris, 2008

- [7] I. Verboncu, Management Organization, Economic Ed, Bucharest, 2008
- [8] xxx - Practical Dictionary of language, ed flower gifts, Bucharest, 1995
- [9] xxx - The "managerial behavior in organizations in Romania" (Comoros) - SSMAR 2008

## Marketing Specific Communication – A Support in Establishing the Connection with the Personnel of the Organization

Stoica (Mihali) Ana-Maria  
*The Bucharest University of Economic Studies, Romania*  
*Spiru Haret University, Bucharest, Romania*  
[ana\\_maria\\_mihali@yahoo.com](mailto:ana_maria_mihali@yahoo.com)

### Abstract

*Communication influences the development of society in general and of the organizations that compose it in particular. Human beings, their actions, the way they communicate provide the meaning and the value of the organizations they are part of. In the marketing field, this aspect is particularly complex and in most of the cases even vital for the existence of the organizations.*

*The educational, cultural and social diversity of the public that makes up the partner with which the organization has to relate imposes a series of requirements that have to be met by all the communication undertakings conducted by the organization. The environment in which the organization carries out its activity - namely the customers, suppliers, transport operators, funders, state institutions, public opinion, its own employees - requires the establishment of a system of mutually beneficial relationships, specific to each of the above-mentioned categories. These relationships are built and reinforced through communication. The aim of such undertakings is to support lucrative, safe and sustainable business.*

**Keywords:** Communication, Marketing communication, Internal marketing communication.

**JEL Classification:** M31, M39

### 1. Introduction

Communication must be learnt! Communicating with a stranger differs fundamentally from communicating with your teacher. The questions of life are the

very questions to which one has to answer by employing the model of communication. What should we communicate? With whom? Where? How? How much should we communicate? The answers to these questions must be carefully prepared or occur depending on what is at stakes, depending on the purpose of communication and on the interest in establishing a connection with the others.

We may talk about communication with a positive result when the stakes, the purpose and the answers to the questions above are minutely prepared and when the participants „achieve a shared understanding, stimulate others to take actions, and encourage people to think in new ways.” [1] Ideally, any communication should be effective. Consequently, besides the process characterized by the transmission and reception of messages, stimuli, symbols – through verbal or non-verbal language, mental and behavioral connection must also take place, that is the feed-back must occur.

The messages a painting manages to convey, the aesthetic feelings it triggers differ from one receiver to another. The participants in the communication process perceive and interpret the messages transmitted or received depending on the culture, on the institutional education, on the experience, the beliefs, the principles, the personality components, the character that position them among their peers.

Marketing communication is a multilateral concept that can be explained through two unitary terms, namely *communication* and *marketing*. The interdisciplinarity of the approach relies on a common denominator, namely the fact that „communication is the transmission, reception and processing of the information.”[2] This definition outlines the actions that are carried out through

communication. The participants are, on the one hand, the transmitter, and on the other hand the receiver, while the message that circulates between them represents what is at stake in this interaction. Marketing communication aims not only at merely transmitting information, but also at convincing the receiver that the information is relevant for the acknowledgement of the goods/services offered, so that the buying behavior is enhanced.

According to this perspective, through marketing communication, the organization ensures the transparency that is necessary for the target audience to become familiarized with the various relevant aspects related to the organization's activity or to the products it offers.

Besides direct, personal communication, mass communication is equally important, due to the affective, motivational, even mobilizing and/or manipulating effects it generates. Promotional communication techniques (advertising, public relations, sales promotion, direct marketing, personal selling, participation in marketing events) act, on the one hand, as foundation, and, on the other hand, as support for the other techniques and as a regulator of the messages that are delivered to the target audience. Advertising, sales promotion, direct marketing and public relations play a major role in supporting the efforts associated to personal selling (and exhibitions). [3] One could say that the entire communication process becomes more effective if the promotional activity is well conceived, organized and carried out.

## **2. Current stage of the knowledge**

Starting from the statement that „the communication concept lies at the core of each and every action the organization carries out under the influence of internal and external factors, bearing an influence upon formulating the ideas, upon the habits and the attitudes of the market; the concept has come to acquire numerous meanings that incorporate elements pertaining to many different ways of thinking” [4], one may draw the conclusion that communication is actually oriented both towards the exterior – towards the market, and towards the interior of the organization.

Although it is to be noted that certain organizations tend to focus on external marketing communication, which seems vital to ensuring commercial transactions, they do not deny the value and importance of internal communication (i.e. with the personnel within the organization).

In this respect, an organization's management should be aware of the fact that all the employees must acknowledge and implement the marketing concept, policy and strategy of the organization.

Even if they do not carry out concrete communication undertakings, the employees become an important source of messages and, at the same time, they contribute to building the image of the organization, through the way in which they perform their service tasks that are visible to the external environment, through their attitude towards the customers, the suppliers, the partners and towards the other groups external to the organization.

The image of the organization becomes visible due to the relationships its personnel – as representatives of the organization – establish with the external environment, acting as major and credible message carriers. As a consequence, organizations have increasingly started working at turning their employees into active players – through communication – in the processes targeted at connecting with the external environment. Moreover, through the actual feedback they deliver towards the interior, the employees are liable to contribute to the adjustment and improvement of the organization's communication efforts. These mechanisms function properly if the personnel of the organization understand and are convinced of the importance of internal communication, which makes them more sensitive to aligning their verbal communication with their concrete behavior, facts and deeds, determining/motivating them to communicate messages and information about the organization.

Nevertheless, such an approach entails the necessity to establish internal partnerships, and once the partnerships are set up, communication will become the only pragmatic means able to ensure the cohesion of the team of employees, as well as their „offensive” strategy in relating with the external environment.



Undoubtedly, each and every employee within an organization has a different mission – specific service tasks and responsibilities – as provided in the job description. This does not mean that they are not interested in the results obtained by their colleagues, particularly in view of the fact that they all contribute to the overall success that ensures their job stability.

In fact, all the employees will „speak the same language”, will adopt the same values, will aim at the same objectives, and together, they will attain a most favorable position of the organization on the market. At the same time, turning employees into promoters, their perception by the external environment as beholders and guarantors of product quality will generate indubitable attitudes related to the buying behavior and, as a consequence, will enable the organization to achieve market success.

In order to become more motivated, the employees must be first of all informed. Their informing induces the idea that the organization's management acknowledges them as important partners. The need to be informed is equally necessary for the department managers, as well as for the employees in the execution sectors. Each of them wants to know what, when, how, where and who is supposed to do whatever is necessary for the effective functioning of the organization. Knowing the answers to these questions allows considering the life of the organization in accordance with a logical scheme which is unanimously accepted by the employees and helps building the adequate environment that enables initiative to thrive and raises the awareness of the necessity to get involved in the decision-making process. Attaining such a good understanding of the organization's values and objectives stimulates the employees' work effort and consequently it fosters organizational performance.

In other words, the personnel of the organization must be familiarized with the general and specific objectives, with the means and procedures to be employed, with the position of the organization on the market, with the competitive environment in particular and with the market mechanisms in general, with the brand and the image of the organization, etc. Hence, the objective is to convince the employees of the fact that the

management acknowledges the importance of each and every employee's role in the life of the organization, in increasing the strengths and in diminishing the negative effects of the organization's weaknesses. Ignoring these aspects leads to vulnerabilities, loopholes, lack of commitment, lack of initiative and risks bearing a negative impact on the image of the organization.

Moreover, it is precisely these aspects that impose delivering messages that, taking into account the dynamics of the system, ensure the knowledge of information that enables its “translation” and continuous adjustment. In organizations, we often encounter employees who, when asked for some information, answer back with „Just a minute, please. I have to ask...”, instead of „I inform you that ... For further details, please ask my colleague.”

The personnel's role in the organization's activity, in the establishment of its functional and operational structures, their capacity as emitters of messages to the external environment of the organization, their capacity as image carriers places them in a special position among the communication target groups. The attitudes of the organization's personnel while carrying out their service tasks or outside working hours, when – voluntarily or involuntarily – they express the satisfactions or dissatisfactions that derive from the status of employee, are important not only because of the messages that are delivered, but also because they represent the effects of the management's efforts to motivate the personnel so that they behave in the interest of the organization. When the organization aims at satisfying the customers' needs and requirements, it should take into account the fact that the implementation of modern technologies, of the results of technical creativity, of the requirements to improve product quality is supported to a great extent by the personnel available and that the organization can afford.

Internal marketing communication can be considered effective if the relationship between the employees and the management team is well balanced and if it provides a stable and harmonious working environment. To this end, it is essential that the employees be aware of the problems and requirements related to the well-functioning of the

organization, that they be able to develop a cohesive work environment, that they be proud to belong to the organization and they that give their loyalty to their organization. The practice has validated a wide range of forms and means of action in the above-mentioned directions. In order to deliver information and messages, the organization uses print and audio-visual materials (internal newsletters, good practice guides, notice boards, leaflets, documentary films, circulars, postings on the social networks, on the internet, the intranet, so on and forth). The longer an employee stays with an organization, the better he/she is informed and the more he/she is committed to the organization's well-functioning, as he/she comes to take on the vocational role of an informal leader, a leader by experience. That is why motivating and ensuring staff retention are of a primary importance. In order to build motivation and internal cohesion, the management uses the organization of events for the employees and interactive activities (anniversary parties, spending holidays together, family visits to the workplace, seminars for employees, etc.). All of these are means of building collaborative working collectivities, characterized by positive thinking, capable of carrying out effective actions and of making relentless efforts for the well-functioning and development of the organization.

The personnel should be considered as the most important part of the organization's capital. Such an approach accounts for the managers' interest in continuously improving the financial satisfaction of their employees, which adds to developing an environment likely to increase the employees' commitment to the organization. At the same time, commitment must be acknowledged, outlined and stimulated through certain opportunities encouraging the employees to display their aptitudes and positive habits. The moral resultant of such an approach to internal communication is the personnel's loyalty, which, in its turn, helps developing a relationship with the customers and with the public opinion likely to enhance the adoption by the latter of the product and brand value, as well as the appreciation of the positive image of the organization. The human resources departments are not the only structures able to generate loyalty and,

subsequently, a pro-organization attitude. The marketing structures must also contribute to this end. These structures are liable to acknowledge the importance of the message the organization delivers to its customers. These messages are likely to be delivered more smoothly and more effectively due to the formal or informal contribution of the personnel that is endowed with pragmatic marketing thinking and is capable – on behalf of the whole collectivity – of transforming problems into opportunities.

The marketing communication must be employed by each and every department of an organization, even if it is the Public Relations department that is formally in charge of it.

Inside the organization, marketing communication enables the employees to step out of anonymity, places them in active positions of trust exercised in their professional activity, as well as in their relationships with the customers, makes them aware of the business prospects and, in this context, allows them to evaluate the shortcomings of communication, the weaknesses and the optimizing solutions.

If in the case of the organizations that manufacture the products, the contact with the clients is established through the distributors, in the case of the service providers the relationship is carried out almost entirely through the organizations' employees. Tourism providers are a particular case, in the sense that their personnel play a key role in every activity carried out in the organization (production, marketing communication, direct sales, organization of events, etc.). As regards the personnel employed in the tourism industry, apart from the professional knowledge, their outfit, their general knowledge and capacity to communicate verbally and non-verbally, their attitude and charisma, their ability to behave in a constructive and friendly manner improve the image of the organization and produce an impact that drives up the success of the organization. For instance, in the case of a tourism provider, the connection between the tourism services provider and the client is established through the travel agent. Consequently, the latter's outfit and performance are crucial for the success/failure of a transaction. The success

also relies on the travel agents' expertise, on his knowledge about the product/service, on his conviction that the offer is of high quality, on his attachment that induces a proactive behavior relating to the image of the product/service that is provided. Acting otherwise means failure, and failure is actually the result of deficient communication.

The contact personnel are a key part of the organization, ensuring the interface between the customer and the organization. These employees provide information about the organization and about the products it offers. The success of communication and of the relationship with the customers is influenced by the employees' outfit, posture, looks, language, communication skills, availability, and so on and so forth.

### 3. Conclusions

Global, local and regional markets on which an organization operates are characterized by a competitive environment in which all the players seem to act on the offensive and seem to detain the ideal in terms of quality, forcing the competitors to use marketing communication and their creativity in the field so as they can maintain and develop within the profitability margin likely to ensure their success.

The one-sided nature of communication does not only create the illusion of the „job well done”. If the organization communicates without taking into account the feed-back it receives, without putting in place a structure meant to monitor the feed-back, not only that communication won't be adjusted so as to become effective, but it will trigger a series of negative effects relating to the organization's image in general and to its aims in particular. This aspect requires the reiteration of the concept of full circle of communication and the acknowledgement of the importance of feed-back to the process of marketing communication.

### 4. References

- [1] Bovée, C., Thill, J., *Business Communication Today*, Prentice Hall, Upper Saddle River, 2005, p. 4.
- [2] Clow, K. E., Baack, D., *Integrated Advertising, Promotion, and Marketing*

*Communications* (ed. Fifth), Pearson/Prentice Hall, Upper Sadle River, 2010, p. 6.

- [3] Fill, C., *Marketing Communications. Interactivity, Communities and Content* (ed. Fifth), Prentice Hall, Harlow, 2010, p. 863.
- [4] Bruhn, M., *Marketing*, Editura Economică București, 1999 apud Stăncioiu, A. F., *Strategii de marketing în turism [Marketing Strategies in Tourism]*, Editura Economică, București, 2004, p. 147.
- [5] Blythe, J., *Essentials of marketing communications* (ed. Third), Prentice Hall, Harlow, 2006.
- [6] Steinberg, S., *An Introduction to Communication Studies*, Juta&Co, Wetton Cape Town, 2007.

# Innovation in Business Strategies in the Cosmetic Industry to Address the MicroTrend of Sun-Haters

Tampa Mircea

*The University of Medicine and Pharmacy „Carol Davila”, Bucharest, Romania*

[tampa\\_mircea@yahoo.com](mailto:tampa_mircea@yahoo.com)

Voicu-Dorobanțu Roxana

*The Bucharest University of Economic Studies, Bucharest, Romania*

[rovodo@gmail.com](mailto:rovodo@gmail.com)

## Abstract

*The paper presents a review of innovative strategies developed by the cosmetic industry in the past ten years in order to address the microtrend of Sun-Haters, a niche segment of the population, with the power to influence the widespread behaviour. Starting from the definition of the SunHaters and the medical implications of the trend, the paper discusses the emergence of the trend and several strategies for the cosmetic industry, implemented to take advantage of this trend.*

**Keywords:** sun-care, cosmetic industry, innovation, dermatology.

**J.E.L. Classification:** O31, N30

## 1. Introduction

Defined by Mark Penn in his homonymous 2007 book as a microtrend, the SunHaters are „people who greet summer sunshine with floppy hats [...], grudgingly show up at the pool parties with full body wetsuits, and slather on fourteen layers of 50+ sunscreen just to go to work. In an office” [1]. From being a microtrend in 2007 (an apparent independent behaviour which in the end, like a pointilist painting, leads to a larger image), the market for suncare has turned into a multi-million dollar industry, sparkling innovations and creative approaches to targeting niche markets and educating consumers.

The evolution of the sun-care industry is more than evident with the increase in revenue generated by the overall cosmetics market, the development of the skin-care segment, the growing number of research

articles on the topic (more than 3 million articles listed in Google Scholar as of November 2014). Evermore evident is the prevalence of the topic in mass-media, and the focus on various types of customers. If up until 2005, the message of protection against sun damage was directed towards Caucasian customers, more research on the topic has led to a growing number of commercials focusing on dark-skinned individuals, such was the case with Neutrogena and their 2012 collaboration with a well-known dark-skinned actress [2].

Another component of the skin-care market, with an increasing number of critics is the indoor-tanning industry, which has led to new regulatory policies and is in the mainstream of education for the overall population. Stemming from an evident interest of teenagers in this specific method of UV ray exposure, indoor tanning is in the forefront of a series of reports by the World Health Organization and National Institutes of Health [3], which reveal the direct link between it and cutaneous carcinogenesis. Regulation in the cosmetics market is by no means a new element to consider, and it is not concentrated on indoor tanning. Liang and Hartmann [4] make an extensive analysis of regulatory measures in the US market as early as 1998.

Therefore, the issue of sun-care, started as a micro-trend of a narrow niche of users, as opposed to the ‚sunny’ disposition of the baby boomers (confronted with the damaging effects of photo-ageing), has turned into a major trend in the cosmetics industry, with significant ramifications on the medical side of dermatology. The capacity to constantly innovate, provide better solutions and increase awareness, whilst maintaining a

portfolio of products meant to satisfy the needs of multiple types of customers, has become the name of the game for cosmetics companies.

## **2. The Medical Background of the SunCare industry**

Sun exposure has both positive and negative effects on general state of health of an individual. While it enhances the mood and conducts to vitamin D synthesis in the skin, with beneficial effects of bone density, ultraviolet (UV) radiation exposure also produces chromosomal damage and DNA mutations in skin cells, consequently leading to skin ageing, sunburns and skin cancer [5].

UV radiation exposure from both natural and artificial sources is a major causal factor for three types of skin cancer, namely basal cell carcinoma, squamous cell carcinoma and malignant melanoma. In respect to artificial sources, the use of tanning beds (indoor tanning) is a major problem in developed countries. A study published in 2012 by Miyamoto et al. [6] reported 6.7% of male high school students using tanning beds, as compared to 25.4% in the female counterpart. Adjusted analysis of cross-sectional data in the study revealed that indoor tanning in males was positively associated with engaging in various risk taking behaviors such as unhealthy weight control practices, binge drinking and attempted suicide. Worth mentioning, that sun beds use increases the risk of melanoma, even in the absence of sunburn [7].

The World Health Organization's International Agency for Research on Cancer classified UV radiation from indoor tanning devices as carcinogenic in 2009. A recent study (September 2014) published by McWhirter and Hoffman-Goetz [8] aimed to assess whether media coverage of skin cancer and recreational tanning increased in volume or changed in nature after this moment, by conducting a direct content analysis on 29 popular magazines in the United States; they concluded that the classification of indoor tanning devices as carcinogenic did not impact in a significant manner the volume or nature of skin cancer and recreational tanning coverage in magazines.

Sun radiation that reaches Earth through the ozone layer encompasses a wide

spectrum of electromagnetic waves, which can be divided into infrared waves (800-1700nm), responsible of the warmth sensation felt on skin surface, visible radiation (400-800nm) and ultraviolet (UV) waves (290-400nm), which is subsequently divided into UVA (320-400nm) and UVB (290-320nm) [9].

Humans have developed a wide range of natural defense mechanisms against UV radiation, such as the thickness of the skin, natural oxidative species scavengers (glutathione, vitamin C), DNA repair mechanisms and immunity [9]. However, the most important defense mechanism is melanin synthesis. The melanin content of skin cells increases after sun-exposure, and melanin is disposed in melanosomes in order to shelter cell nuclei containing nucleic acids from UV radiation. The effect observed is skin pigmentation, generally acknowledged as tanning.

The modality and the extent in which the skin responds to UV radiation depend on several factors, such as the amount of exposure (time spent sun-bathing, geographic latitude, ozone layer depletion, professional exposure etc) and the capacity of skin defense (melanin synthesis and type of melanin). In respect for the last, there are several types of skin types (Fitzpatrick skin types) ([9], [5]). Besides the above-stated defense mechanisms, photoprotection may be acquired using either mechanical protection (clothing, umbrellas, hats) or chemical protection (sunscreens).

Sunscreens are topical products containing agents that scatter, reflect or absorb UV radiation, decreasing to a certain extent to amount of UV that reaches the skin underneath. There are various formulations available, mainly in products for skin use; however, there is also an increase use of UV filter agents in cosmetic makeup products (primers) as well as in lipsticks.

Sunscreen could be classified in two main categories in respect to their purpose: Primary sunscreens, especially designed to protect skin from UV radiation (e.g. beach sunscreens) and Secondary sunscreens, designed for other purposes than skin shelter (moisturizers, anti-ageing creams, etc) wherein sun protection is just an additional claim, instead of the main goal [10].

The extent to which sunscreens protect

the skin is coined as SPF (sun protection factor) and is calculated by dividing the number of transmitted radiation quanta to the number of blocked quanta; therefore, a SPF of 10 permits passage of 1 ray out of 10, a SPF of 30 permits the passage of 1 ray of 30, and a SPF of 50 permits the passage of 1 quanta out of 50 blocked; therefore, the degree of protection varies in this series from 90% to 96.6% and 98%, respectively [9]. Considering that the larger the SPF if, the degree of supplementary protection is decreasing over a value of 50, in the European Union the products with SPF larger than 50 are labeled as "SPF 50+", by convention.

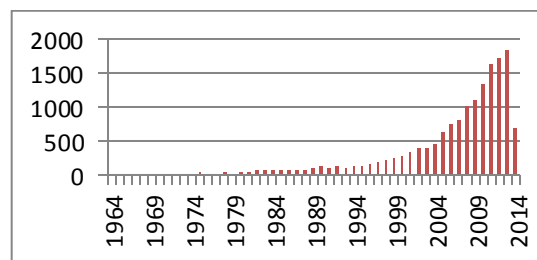
- Type I never tans, burns easily
- Type II usually burns, tans minimally
- Type III burns moderately, tans gradually
- Type IV burns minimally, tans readily
- Type V rarely burns, tans profusely
- Type VI never burns (black individuals)

General recommendations are deployed by the dermatologists to the population, such as avoiding sun-exposure between 10am and 2pm (as 2/3 of total daily UV radiation reached the Earth in this time interval), using sunscreens with both UVA and UVB filters, reapplying sunscreen after swimming, reapplying sunscreen every 2 hours, using lipstick with UV filters etc [9]. These recommendations are usually made in conjunction with various campaigns concerning the risk of sun-exposure. In Romania, both the National Society of Dermatology and the producers of sunscreens activate in such campaigns, mainly in summer; the objectives of these campaigns are increasing the awareness of sun exposure negative effects and early skin cancer detection, in a joint effort to change social norms concerning tanned skin and to increase awareness, knowledge, and behaviors related to both sunbathing and indoor tanning [11].

There is a constant increasing trend over the last decades in medical research concerning sunscreens. A search of the medical database Pubmed using the keyword

"sunscreen" revealed an increase of 4.1 times from 2004 (450 articles) to 2013 (1845 articles) [12]. Currently, sunscreens contain various UV filters such as titanium oxide, iron oxide and zinc oxide, but latest research is directed to analyzing new agents such as: vitamin C, isoflavones, cadmium and caffeic acid.

Figure 1: Number of medical publications on sunscreen over the last 5 decades



Source: PUBMED, 2014 [12]

### 3. Current Market Status

The global cosmetics market stems from the hedonistic need of humans to increase their overall appearance and improve their well-being, by supporting their quest for life goals and status [13]. There are numerous detractors from the constant invasion of the consumer psyche with messages related to the superficial outward image, regardless of ethnicity or age ([14], [15]), [16], [17]), , and this approach is evermore obvious from the positioning of the US market as the largest at global level, responsible in 2012 for a revenue of close to 55 billion USD, and a compound annual growth rate of close to 5% in 2013.

A consolidated global market, the cosmetics industry may be considered almost an oligopoly, with more than 50% of the revenue clustered into the hands of the top 10 players. Although the cosmetics market in general, and skincare in particular appears to be targeted towards developed countries, where the spending per capita is higher, emerging markets have a similar importance, with a rather different market dynamic and more segments, thus determining a diversification of the portfolios of large manufacturers and a tropicalization of their products. Criteria for segmentation has been represented by gender, age, ethnicity, geographical location, in order to cover a wide

pricing spectrum, as well as various attitudes toward technology, preference for organic products and environmental concerns.

The largest segment of the cosmetics industry is skincare, which accounts for a third of the market. However, the distribution of preference of consumers is different amongst the largest markets, with the US, China and Indonesia mostly focused on skincare, and Turkey, Brasil and other Central Asian countries focused on haircare. This distribution is expected to be found within the next years, according to studies by Euromonitor [18].

Within the skincare segment, sun-care carries in 2013 a share of 10%, with an expected growth within the next years of 6.5% [19]. The overall market for sun-care reaches a total value of more than 8.5 billion USD in 2013 [19], and two-thirds of this is directed towards prevention (sunscreens), the rest being represented by after-sun and self-tanning.

#### 4. The Innovation trend

Innovation in the field of sun-care is often at the borderline between medical and cosmetic, driven by the concern of the baby boomers as related to photo-ageing, the overall preoccupation of the society with ageism, the possible saturation of markets, such as US, Brazil and China [18], the specter of cancer and the statistics that melanoma is one of the most common forms of cancer. [20]. Thus, UV filters and sun-protection benefits have become essential for the cosmetics consumer, 62% of them claiming that they list this characteristic as high priority in choosing their facial cream [19]. The same customers are interested when choosing a product in ease of application, convenience, affordability, whilst maintaining the 'works as advertised' sense. This leads to the constant need for innovation from the cosmetic companies, which seek to blend packaging, placement, price and product (with its medical features) in a mix which appeals and educates. The Multifunctional skin product with added sun-care, a trans-category product, becomes thus a need for growth. The 'Care and cure' trend, adding various protective oils, anti-oxidants, vitamin C, isoflavones, cadmium or caffeic acid, blends the boundaries between medical

and cosmetic. Packaging in a spray format (which has an average growth rate of about 34% since 2005, [18]) provides convenient application and speed, moreover so when the product within the spray pack is in foam or liquid form, with added benefits of the aforementioned substances. In the area of placement, alternative distribution channels such as e- and m- commerce are increasing their market share with every year, in particular for premium brands.

The innovation does not stop; however, with the classical 4Ps. Cross-product developments are becoming the norm, with sun-care moving into textiles, for instance with sun-safe clothing which blocks 98% of UV rays [21] or SPF boosters for usual textiles - liquid silicone alkylates [22]. Another area of innovation is linked to wearable technology, capitalizing on the trend that "71% of those aged 16 to 24 want wearable tech" [23], that is clothing and other accessories embedded with technological elements, such is the case with Google Glass or fitness activity trackers. Thus, sun-care may be connected to provide customers with information regarding sun exposure, recommended solution to reduce risk (chemical or other), etc. [24].

#### 5. Conclusions

The traditional model of innovation within the product range proves to be insufficient for the modern cosmetic corporation. Streamlining a portfolio for a market that requires the best technology with the less environmental impact, the best value for money, the most convenient application and the less damage whilst still maintaining the 'fun in the sun' attitude of baby boomers is a walk on wire for most cosmetic companies. Nonetheless, an innovation strategy focused on the development of cross-category products, collaborative endeavors which lead to a stretching of the scope of sun-care and towards educating communities.

#### 6. References

- [1] Penn, M, *Microtrends – The small forces behind tomorrow's big changes*, Hachette, New York, 2007
- [2] \*\*\* „Sun Care Use Statistics Help Urge Neutrogena to Encourage Better Skin

- Maintenance", Posted: August 6, 2012 at <http://www.gcimagazine.com/marketstrends/segments/suncare/165135176.html>
- [3] Levine, J, Sorace, M, Spencer, J, Siegel D, „The Indoor UV Tanning Industry: A review of skin cancer risk, health benefit claims, and regulation”, *Journal of the American Academy of Dermatology*, Volume 53, Issue 6, December 2005, Pp. 1038-1044
- [4] Liang, B, Hartman, KM, „It’s Only Skin Deep: FDA regulation of Skincare cosmetics claims”, *Cornell JL and Pub.Pol’y*, 1998, 8. Pp.249
- [5] Wolff K, Goldsmith LA, Katz SI, Gilchrest BA, Paller AS, Leffell DJ, *Fitzpatrick’s Dermatology in General Medicine*, 7th Edition, McGraw Hill, 2008, ISBN 978-0-07-146690-5
- [6] Miyamoto J, Berkowitz Z, Jones SE, Saraiya M. “Indoor tanning device use among male high school students in the United States”, *J Adolesc Health*. 2012 Mar; 50(3):308-10. doi: 10.1016/j.jadohealth.2011.08.007.
- [7] Barton MK. „Indoor tanning increases melanoma risk, even in the absence of a sunburn”. *CA Cancer J Clin*. 2014 Sep 24. doi: 10.3322/caac.21248.
- [8] McWhirter JE, Hoffman-Goetz L. „North American Magazine Coverage of Skin Cancer and Recreational Tanning Before and After the WHO/IARC 2009 Classification of Indoor Tanning Devices as Carcinogenic”. *J Cancer Educ*. 2014 Sep 6.
- [9] Arndt KA, Hsu JHS, *Manual of Dermatologic Therapeutics*, 7th edition, Lippincott Williams & Wilkins, 2006, ISBN 978-0781760584
- [10] Draelos ZD, *Cosmetic Dermatology, products and procedures*, Blackwell Publishing, 2010, ISBN 978-1-4051-8635-3
- [11] [www.srd.ro](http://www.srd.ro), accessed 5 Nov 2014
- [12] <http://www.ncbi.nlm.nih.gov/pubmed> , accessed 5 Nov. 2014
- [13] Marcoux, D „Cosmetics, skincare, and appearance in teenagers”, *Seminars in cutaneous medicine and surgery*, 1999, Vol 18, No. 3, pp. 244-249
- [14] Graham JA, Jouhar, AJ, „The effects of cosmetics on person perception”, *International Journal of cosmetic science*, 1981, 3(5), pp. 199-210
- [15] Lee, YR, Jung HJ, „The Effects of Well-Being Consciousness and Appearance Management of Korean and Japanese Consumers on Attitudes toward Korean Herbal Cosmetics”, *Journal of the Korean Society of Costume*, 2012, 62(2), pp. 87-102
- [16] Davis, LC, „African American women’s use of cosmetics products in relation to their attitudes and selfidentity”, 2013
- [17] Beresniak, A et al, „International validation of a quality of life instrument specific to cosmetics and physical appearance: The Beauty QoL”, *Journal of Investigative Dermatology*, 2013, Vol. 133
- [18] EUROMONITOR INTERNATIONAL, *The Multifaceted Evolution of Global Beauty - Global Briefing*, Oct 2014 Report, <http://www.euromonitor.com/sun-care>, accessed 7 Nov 2014
- [19] Datamonitor Market Data Assessment – Chipalkatti, R., *Sun-care Innovation Trends*, In-Cosmetics Conference Hamburg, April 2014
- [20] <http://www.skincancer.org/skin-cancer-information/skin-cancer-facts>, accessed 7 Nov 2014
- [21] <http://www.coolibar.com/>, accessed 8 Nov 2014
- [22] <http://www.siltech.com/index.php/personal-care#SilwaxB116> , accessed 8 Nov 2014
- [23] <http://www.forbes.com/sites/victorlipman/2014/09/22/71-of-16-24s-want-wearable-tech-why-dont-i-even-want-to-wear-a-watch/> , accessed 8 Nov 2014
- [24] <http://www.coolwearable.com/sunsprite-light-tracker/>, accessed 8 Nov 2014



## Airlines Alliances – Burst of Benefits or Competition Threats?

Utureanu Simona

*"Ovidius" University from Constanta, Faculty of Economic Sciences*

[simonautureanu@gmail.com](mailto:simonautureanu@gmail.com)

Dragomir Cristina

*Constanta Maritime University, Faculty of Navigation and Naval Transport*

[cristina.dragomir@cmu-edu.eu](mailto:cristina.dragomir@cmu-edu.eu)

### Abstract

*In the airline domain, carriers enter into cooperative arrangements to generate greater profit, to reduce unit costs from economies of size and to minimize or share risks by strengthening their position on new markets. This paper analyses tactical and strategic airline alliances and presents the effects of airline alliances on market price, referring to the problem of double marginalization effect. In order not to become threats for free competition, in EU airline alliances are constantly monitored by the vigilant eye of EU Commission.*

**Keywords:** code sharing, aircraft, joint venture, double marginalization, antitrust

**JEL Classification.:** O18, R40

### 1. Introduction

It is well known that competition in the market increases efficiency and encourages innovation. Competition also creates incentives for product differentiation and improves the quality of goods and services provided. In that sense, competition enhances consumer welfare by providing consumers with a wider choice at competitive prices and consumers make informed decisions in their preference for goods and services in respective markets when they are well informed. This increases competition between firms and results in efficiency and/or quality improvement, which in turn benefits consumers. In [1] there are presented studies that quantify benefits to consumers from competition in different sectors of the economy as well as those that quantify the adverse effects of anti-competitive practices on consumers.

On the other hand, a cooperative approach leads parties to seek win-win solutions and to share mutual gain. Theory of Cooperation and Competition was initially developed by Morton Deutsch in 1949 [2] and much elaborated by Johnson, D. W. and Johnson, R. T. in 1989 [3] and in 2003 [4] who have provided the most extensive summary of the theory and the research bearing on it. The most important implication of cooperation-competition theory is that a cooperative or win-win orientation enormously facilitates constructive resolution, while a competitive or win-lose orientation hinders it [5].

### 2. Code sharing and airline alliances

Every year there are about 2000 new strategic alliances in the world and partnerships in the form of alliances have been increasing at 15 % annually [6].

In the airline industry, carriers enter into cooperative arrangements to generate greater revenue, to reduce unit costs from economies of size and to minimize or share risks by strengthening their position out of their domestic market. An airline alliance is an agreement between several airlines to establish cooperation on a substantial level in the global aviation industry. This cooperation helps the airlines improve their performance with respect to air transport and customer service, without having the disadvantage of irreversibility as in the case of acquisitions and mergers.

Tugores-Garcia (2012) presented in [7] the types of airline alliances as strategies for international network development. In this domain, cooperation has the form of tactical or strategic alliances.

Tactical alliances consist in bilateral agreements between airlines to gain access to the other airline's network. They began under

the form of interlining and code sharing and evolved in joint ventures. Interlining is a voluntary commercial agreement between individual airlines to handle passengers traveling on itineraries that require multiple airlines. The passenger pays a single fare and the airlines share the revenues by pro-rata. Code sharing is the most widely used form of alliance in the airline domain and represents the business arrangement where is shared the capacity between carriers on a given flight. The code refers to the two-letter International Air Transport Association (IATA) abbreviation that identifies the carrier in the Global Distribution System (GDS) used by travel agents. According to [8] two or more airlines in code sharing offer their passengers one-booking, one-ticket, and if there is no stopover, one check-in flight to a destination only one of them serves. The consumer acknowledges that the flight correspond to the carrier to whom the itinerary was purchased, even if the operating carrier airline that administrates the flight is different than the marketing carrier. Joint ventures are profit-sharing partnerships between carriers. In such arrangement, each airline sets joint price and gets profit portion regardless of who operates the actual aircraft [7]. Carriers may form tactical alliances to address a specific deficiency in their networks.

Strategic alliances are bilateral or multilateral agreements in which airlines share similar business objectives and coordinate their services to achieve common goals including: common brand and marketing, aircraft, terminal facilities, exclusive membership, coordinated reservation, sales, inventory management, frequent flyer reciprocity and other elements [7].

If we were to compare tactical alliance agreements with strategic alliances, we have to consider that typically, tactical alliances involve only two carriers and cover a limited number of routes, with the principal objective of providing connectivity to each carrier's respective networks. Tactical alliances often involve at least one independent carrier that is not a member of a larger strategic alliance. While tactical alliances are still rather common, many carriers providing international service increasingly prefer to join one of the three branded strategic

alliances – Star Alliance, SkyTeam, or Oneworld (they are also known as “global alliances.”) Membership in a global alliance usually does not prevent the members from also forming tactical alliances with non-allied carriers and in some limited cases with members of other global alliances. Members of the global alliances coordinate on a multilateral basis to create the largest possible worldwide joint network with much wider scope for revenue synergies [9].

### **3. The effects of airline alliances on market price**

In opinion of Bilotkach and Hüsichelrath [10], the most imminent effect of airline alliances is the effect on market price. Due to the cooperation between airlines the price for the interline trip is reduced as compared to the no cooperation scenario, given the removal of double marginalization. The double marginalization argument has also been used as a rationale for antitrust immunity, which involves allowing the alliance partners to jointly set the price for the interline trips.

Double marginalization appears when, for example, a firm with market power (monopol position) buys an input from another firm that also has market power (also monopol position), the input is being market up above marginal cost twice: once by the producer of the input, and once again by the firm that uses the input to make its final product [11]. In other words, double marginalization occurs when both the upstream and downstream firms have monopoly power and each firm reduces output from the competitive level to the monopoly level, creating two deadweight losses. Following a merger, the vertically integrated firm can collect one deadweight loss by setting the downstream firm's output to the competitive level. This increases profits and consumer surplus. A merger that creates a vertically integrated firm can be profitable [12] compared to mergers that integrates horizontally.

In the case of airline passengers, one major benefit is gained by interline passengers flying behind and beyond international hub airports to and from smaller cities, who need to fly on two alliance airlines to complete their trip. When the

airlines serving these interline passengers are not aligned, each airline individually (as distinctive monopolies) is setting the fare on the part of the route that they operate with their own aircraft so they are both maximizing their mark-ups based on demand in their segment, ignoring the negative impact on the other's segment. This is the situation of horizontal double marginalization, as they will both raise the fare for consumers and reduce profits for the airlines [13], [14], [15].

A report of the European Commission and the US Department of Transportation from 2010 summarizes the consumer benefits for interlining passengers that result from immunized alliance airline cooperation: when two firms engage in cooperative pricing of a complementary product each carrier can account for the effect of its pricing, and will establish price in order to satisfy demand for the entire itinerary. The effect is the following: fares are reduced and the output increase, because more interline passengers can be accommodated [9].

The argument of double marginalization removal for gaining antitrust immunity is widely contested. For example, Bilotkach and Hüscherlath [10] consider that lower prices due to removal of double marginalization following antitrust immunity are not obvious from the theoretical point of view, and can be realized within a partnership without such immunity. Though consumers benefit thanks to removal of double marginalization, economies of scope and traffic density, as soon as airline consolidation decreases competition, consumers may lose depending on the relative sizes of the cost-saving effect and the market power effect.

Although alliance members cooperate on many aspects, they may remain competitors, as the level of integration between the members of the alliance varies. The trend towards joining a global alliance may not necessarily represent consolidation or reduced competition in the aviation industry [9].

#### **4. EU Regulatory Framework regarding Airline Alliances**

Within the European Commission, the Directorate General for Competition is

directly responsible for competition matters at the level of the European Union. As the enforcer of the EU competition rules, the Commission may initiate an alliance investigation on its own initiative if there are concerns that the cooperation may infringe EU competition law or as a result of a complaint. The main EU competition rules are laid out in Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU) [9].

All agreements between undertakings and concerted practices which may affect trade between Member States and which prevent, restrict or distort competition within the internal market are prohibited. However, an agreement which restricts competition escapes the prohibition if it creates sufficient benefits meeting according to the following cumulative criteria:

(a) the agreements must contribute to improving the production or distribution of goods or promote technical or economic progress;

(b) consumers must receive a fair share of the resulting benefits;

(c) the restrictions imposed by the agreements must be indispensable to the attainment of these objectives, and

(d) the agreements must not afford the parties the possibility of eliminating competition in respect of a substantial part of the products or services in question [16].

Also, is prohibited the abuse of a dominant position within the internal market or a substantial part of it. However, a dominant company may be able to show that its conduct, which may appear abusive, is – given the particularities and circumstances of the case - objectively justified and proportionate [17].

On 1 May 2004, the European Commission obtained jurisdiction to investigate air transport services between EU and third countries in accordance with the generally applicable procedural framework [18].

#### **5. Conclusions**

Nevertheless, members of airline alliances gain many benefits from this form of cooperation: brand strengthening and exposure in new markets, network increase through alliance partnerships as code sharing,

cost savings as a result of sharing airport space or terminals, airport facilities optimization (co-location of check-in, reduction of ground handling costs), shared staff and equipment, exclusive lounges and, not least, knowledge sharing. From the point of view of the consumer, there are also several benefits: removal of double marginalization reflected in lower fares, improved passengers and luggage transfers between airlines, improved airport services etc.

All together, airline alliances provide multiple benefits than threats and, we can consider that they paradoxically improve the competitive environment to a certain extent. However, they do not escape the vigilant eye of the international and national regulators. In order to establish compatibility with a normal competitive environment, European and national regulators [19] constantly assess airlines alliances by the following criteria: the need to maintain and develop competition on the market, taking into account the structure of all the markets concerned and the actual or potential competition between economic operators located nationally or abroad; the market share held by economic agents concerned, their economic and financial power; alternatives available to suppliers and users, their access to markets and sources of supply, and any barriers imposed by legislation or otherwise to entry; trend of supply and demand for goods and services; the extent to which are affected the interest of the beneficiaries or consumers; contribution to technical and economic progress.

## 6. References

- [1] Qaqaya, H., Lipimile, G. (ed.), *The effects of anti-competitive business practices on developing countries and their development prospects*, UNCTAD, New York and Geneva, 2008, UNCTAD/DITC/CLP/2008/2, available at: [http://unctad.org/en/Docs/ditccp20082\\_en.pdf](http://unctad.org/en/Docs/ditccp20082_en.pdf), accessed on 9/11/2014
- [2] Deutsch, M., "A theory of cooperation and competition", *Human Relations*, nr. 2, 1949, 129–151.
- [3] Johnson, D. W., Johnson, R. T., *Cooperation and competition: Theory and research*. Edina, MN: Interaction, 1989.
- [4] Johnson, D. W., Johnson, R. T., *Social interdependence: The interrelationships among theory, research, and practice*, The Center for Cooperative Learning, University of Minnesota, 2003
- [5] Deutsch, M., "Cooperation and competition", in M. Deutsch, P. T. Coleman, & E. C. Marcus (Eds.), *The Handbook of Conflict Resolution: Theory and practice*, San Francisco: Jossey-Bass, Springer, 2006, pp. 23-42.
- [6] Cools, K., Roos, A., *The Role of Alliances in Corporate Strategy*, Boston, MA: Boston Consulting Group, 2005
- [7] Tugores-Garcia, A., *Analysis of Global Airline Alliances as a Strategy for International Network Development*, Massachusetts Institute of Technology, 2012
- [8] [www.businessdictionary.com](http://www.businessdictionary.com)
- [9] European Commission and US Department of Transportation, *Transatlantic Airline Alliances: Competitive Issues and Regulatory Approaches*, Report 2010, available at URL: [http://ec.europa.eu/competition/sectors/transport/reports/joint\\_alliance\\_report.pdf](http://ec.europa.eu/competition/sectors/transport/reports/joint_alliance_report.pdf), accessed: 1/11/2014, p.4.
- [10] Bilotkach, V., Hüscherlath, K., *Antitrust Immunity for Airline Alliances*, Discussion Paper No. 10-080, Centre for European Economic Research, p.4-9, available at <ftp://ftp.zew.de/pub/zew-docs/dp/dp10080.pdf>
- [11] Sanders, N.J., *Surplus Effects of Vertical Integration With and Without Double Marginalization –Examples*, College of William & Mary, 2008, p.1.
- [12] Maddigan, R., Zaima, J., "The Profitability of Vertical Integration", *Managerial and Decision Economics* 6 (3), 1985, pp.178–179.
- [13] Pearce, B., Doernhoefer, G., *The Economic Benefits of Airline Alliances and Joint Ventures*, IATA Economics, 2011, p.6.
- [14] Bruecknet, J.K., Whalen, W. T., "The Price Effects of International Airline Alliances", *Journal of Law and Economics*, Vol. 43, No.2, 2000, pp. 503-545.
- [15] Ito, H., Darin, L., "Domestic Code Sharing, Alliances, and Airfares in the US Airline Industry", *Journal of Law and Economics*, Vol 50, No.2, 2007, pp.355-380
- [16] Consolidated Version of the Treaty on the Functioning of the European Union (TFEU),

- art. [101], O.J. C 115/47, 2008
- [17] Consolidated Version of the Treaty on the Functioning of the European Union (TFEU), art. [102], O.J. C 115/47, 2008
- [18] Council Regulation (EC) No 411/2004 of 26 February 2004 repealing Regulation (EEC) No 3975/87 and amending Regulations (EEC) No 3976/87 and (EC) No 1/2003, in connection with air transport between the Community and third countries, Official Journal L 68, 06.03.2004, p. 1-2.
- [19] Competition Law no. 21 from 10 April 1996 with further revisions, Monitorul Oficial R.A., Part I, nr.88 from 30 April 1996

# Territorial Capital and Innovative Entrepreneurial Ecosystems – A Theoretical Approach

Voicu-Dorobanțu Roxana

The Bucharest University of Economic Studies, Bucharest, Romania

[rovodo@gmail.com](mailto:rovodo@gmail.com)

## Abstract

*The paper focuses on the concepts of territorial capital and entrepreneurial ecosystem, as pillars for development and growth. The main elements considered are the definitions of the two concepts, alongside the description of their components and mechanisms, as they appear in literature. The critical approach is related to the construct of growth as derived from both the ecosystem and the territorial capital.*

*This work has been supported by SNF and UEFISCDI within the Romanian-Swiss Joint Research Project IZERZO \_142306 / 1.*

**Key words:** territorial capital, entrepreneurial ecosystem, entrepreneurship

**J.E.L Classification.:** D78, L19, M13

## 1. Introduction

In economic literature, the concept of growth is long debated. Basically every development appears to be determined by this, 'organically' or not. Growth has been in the forefront of theoretical debate after World War I, and again after the collapse of the Berlin Wall. These two milestones in the development of the current global socio-economic and political system are marked by Stiglitz and Greenwald [1] as determinants for reconsidering the basic bricks of 'static efficiency' and the ever growing need to take into consideration elements such as learning and innovation.

Similarly, the concept of entrepreneurial ecosystem stems from the ever growing trend of comparing the business environment with ecological structures ([2], [3], [4]). The business environment becomes thus a living organism, protecting and nurturing the newest additions (start-ups), increasing efficiency in transfers and overall, learning

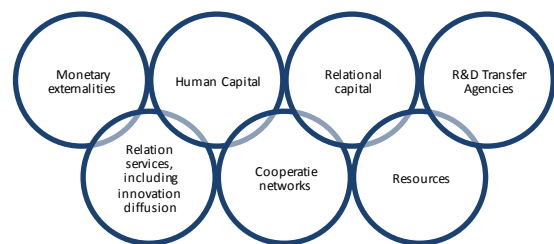
and improving its positioning in the larger environment.

This paper presents the two concepts and the possibility of linkage between them, in relation to development and growth.

## 2. Territorial capital – seeing the region in a different light

The greater flexibility provided by a regional, as opposed to a national, level, has led to an increase in the research oriented towards this specific area of interest. The level of development of a region is highly correlated to the level of education and concentration of human capital, even if the general concept of territorial capital is wider than just the classical three-pronged 'labor, land and people'. Grouped by Camagni in [5] in the categories, as presented in Figure 1, the components of territorial capital fit with the theory of endogenous growth and development ([6], [7]), and promote the importance of cultural characteristics and the drive of participant institutions.([8]).

Figure 1: Territorial capital components



Source: Camagni (2008)

Basically territorial capital relates to the potential of a region in generation and acquisition of knowledge, thus strictly related to entrepreneurship and innovative behavior, as the key processes to transform knowledge into value. Without this catalytic processes,

of integration of skills and competences, acquisition of all types of resources and addition of external and internal capabilities and knowledge elements, entrepreneurship may as well be a passive element of the environment and thus, unable to foster growth and development. ([9], [10]).

The sourcing of the resources relies however heavily on the characteristics of the region that is on the territorial capital available to the entrepreneur to harness. ([11]). The sourcing of knowledge resources may be both internal to the region or external and relies on “regional learning, university research, recruitment of of high-human capital personnel, mergers and acquisition, and alliances” ([12]).

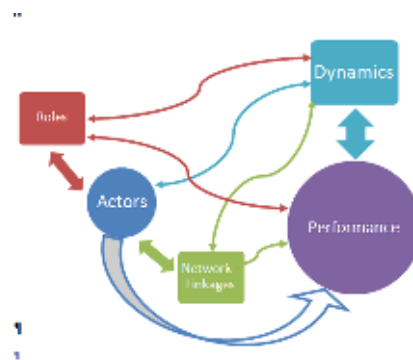
### 3. The entrepreneurial ecosystem – creating value from start-up to scale-up

Defined initially by Moore ([2], [3], [4]) as “An economic community supported by a foundation of interacting organizations and individuals—the organisms of the business world. The economic community produces goods and services of value to customers, who are themselves members of the ecosystem. The member organisms also include suppliers, lead producers, competitors, and other stakeholders. Over time, they coevolve their capabilities and roles, and tend to align themselves with the directions set by one or more central companies. Those companies holding leadership roles may change over time, but the function of ecosystem leader is valued by the community because it enables members to move toward shared visions to align their investments, and to find mutually supportive roles.”, the business ecosystem has emerged as more than a buzz word in the past years. The research of Levien and Iansiti ([13], [14], [15]) and later of Iansiti and Richards ([16], [17]) as added to the conceptual framework created by Moore ([2], [3], [4]).

The problematic of the ecosystem is not solely based on the components, as these have been rather clearly mapped in literature early on, see Figure 2 , but on the definition of the boundaries of the structure ([18]), [19]), as well as on the utility of a like structure, the meaning of its existence, which becomes, similar to the purpose of territorial capital, value creation and increase in welfare

to all participants, stemming from the overall definition of growth and development ([20]; [21]; [22]). The importance of the participants is crucial, as, in order to benefit fully from the value creation capabilities of the network, each participant must become ‘less replaceable’ ([23]).

Figure 2: Components of a business ecosystem



Source: provenmodels.net, 2013

The two elements considered when describing every structure with a similarity to biology are Nodes and Links, that is Participants and Flows between them. In case of a business ecosystem, we may also define the Outputs as separate element, in order to underline the importance of the goal.

The participants are the usual components of every business environment, easily identifiable. Which matters in a business, and even more in an entrepreneurial ecosystem are the flows: knowledge flow, output flow and financial flow. The output flow is less relevant however in relation to the territorial capital, as usually outputs are streamed outside the system. However, the knowledge and financial flow are increasingly crucial to the development of a viable ecosystem. Even more so, the two are closely interconnected, as financial flows, in particular, one of its carriers, Venture capital, is conducive to fostering innovation ([24], [25]).

### 4. Conclusions

Both territorial capital and entrepreneurial ecosystems are concepts worthy of attention in relation to the quest to create a more sustainable business environment. Focusing

on the potential of the regions, on scale up and start-up ([26]) on the flexibility of a biological-like structure, on the self-regulating capability of such a structure, in presence of a set of rules agreed upon by all participants, creates the premises for development and growth.

The literature on both these subjects is however in "its infancy" ([27]), and needs to be more streamlined and focused in order to foster the knowledge creation. Research about the ecosystem becomes part of the ecosystem itself, which learns, and further targeting of these two concepts may only be beneficial to the overall development and fostering of territorial capital.

*This work has been supported by SNF and UEFISCDI within the Romanian-Swiss Joint Research Project IZERZO \_142306 / 1.*

## 5. References

- [1] Stiglitz, Joseph & Bruce Greenwald (2014) "Creating a Learning Society – A New Approach to Growth, Development and Social Progress", Columbia University Press
- [2] Moore, J F. 1993. Predators and prey: A new ecology of competition. Harvard Business Review (May/June): 75–86.
- [3] Moore, J. F. 1996. The death of competition: leadership and strategy in the age of business ecosystems: HarperBusiness New York.
- [4] Moore, J. F. 2006. Business ecosystems and the view from the firm. Antitrust Bull., 51.
- [5] Camagni, R. (2008). "Regional competitiveness: towards a theory of territorial capital", in R. Capello, R. Camagni, P.
- [6] Lucas, R. (1988), 'On the mechanics of economic development', Journal of Monetary Economics, 22, 3–42.
- [7] Romer, P. (1990), 'Endogenous technological change', Journal of Political Economy, 98, S71–S102.
- [8] Capello, R. (2007), Regional Economics, London: Routledge.
- [9] Henderson, R., & Cockburn, I. 1994. Measuring competence? Exploring firm effects in pharmaceutical research. Strategic management journal, 15(S1), 63-84.
- [10] Teece, D. J., Pisano, G., & Shuen, A. 1997. Dynamic capabilities and strategic management. Strategic management journal, 18(7), 509-533.
- [11] Cohen, W. M., & Levinthal, D. A. 1990. Absorptive capacity: a new perspective on learning and innovation. Administrative science quarterly, 128-152.
- [12] Dushnitsky, G., & Lenox, M. J. 2005. When do firms undertake R&D by investing in new ventures?. Strategic Management Journal, 26(10), 947-965.
- [13] Iansiti, M., & Levien, R. 2002. The New Operational Dynamics of Business Ecosystems: Implications for Policy, Operations and Technology Strategy: Division of Research, Harvard Business School.
- [14] Iansiti, M., & Levien, R. 2004a. The keystone advantage: what the new dynamics of business ecosystems mean for strategy, innovation, and sustainability: Harvard Business Press.
- [15] Iansiti, M., & Levien, R. 2004b. Strategy as ecology. Harvard Business Review, 82(3).
- [16] Iansiti, M., & Richards, G. 2006. Information technology ecosystem health and performance: Division of Research, Harvard Business School.
- [17] Iansiti, M., & Richards, G. L. 2006. Information Technology Ecosystem: Structure, Health, and Performance. Antitrust Bull., Division of Research, Harvard Business School, 51, 77.
- [18] Kauffman, S. 1993. The Origins of Order: Self-Organization and Selection in Evolution. New York, Oxford University Press
- [19] Strogatz, S.H. 2001. Exploring complex networks. Nature. Vol. 410(8), pp. 268-276
- [20] Andriani, L. 2013. Social Capital: a Road Map of Theoretical Frameworks and Empirical Limitations, Working Papers in Management, Birkbeck University of London, <http://www.bbk.ac.uk/management/our-research/wp/WP1.pdf>
- [21] Battistella, C. ; Colucci, K & Nonino, F 2012. Methodology of Business Ecosystem Network Analysis: A Field Study in Telecom Italia Future Centre, <http://www.dis.uniroma1.it/~nonino/Publications/CI20.pdf>
- [22] Durlauf S & Fafchamps, M. 2004. Social Capital, <http://users.ox.ac.uk/~econ0087/soccaphandbook.pdf>
- [23] Jacobides, M. 2013. Creating and Capturing Value in Your Business Ecosystems – TedXTalks: [http://www.tedxthessaloniki.com/index.php/talk\\_video/creating-and-capturing-value-in-your-business-ecosystems/#sthash.wUfQjITZ.dpuf](http://www.tedxthessaloniki.com/index.php/talk_video/creating-and-capturing-value-in-your-business-ecosystems/#sthash.wUfQjITZ.dpuf)
- [24] Gans, J. S., & Stern, S. 2003. The product market and the market for "ideas": commercialization strategies for technology entrepreneurs. Research policy, 32(2), 333-



350.

- [25] Chesbrough, H., & Tucci, C. L. 2004. Corporate venture capital in the context of corporate innovation. DRUID Summer Conference (pp. 14-16).
- [26] Isenberg, D. 2011. The entrepreneurship ecosystem strategy as a new paradigm for economic policy: Principles for cultivating entrepreneurship. Institute of International European Affairs, Dublin, Ireland.
- [27] Anggraeni, E., Hartigh, E. d., & Zegveld, M. 2007. Business ecosystemas a perspective for studying the relations between firms and their business networks. presented at the ECCON 2007 Annual meeting, Bergen aan Zee, The Netherlands

**Section II**  
**Business Economy and Administration**

\*\*\*

**Subsection 3**  
**Finance and Accounting**

# The Double Tax Treaties Signed by the EU Member States With Tax Haven Jurisdictions

Afrăsinei Mihai-Bogdan

*Doctoral School of Economics and Business Administration, Alexandru Ioan Cuza*

*University of Iași, Romania*

[bogdan.afrasinei@yahoo.com](mailto:bogdan.afrasinei@yahoo.com)

## Abstract

*In the present financial globalisation context, the international tax optimisation has become a priority for multinational companies. Besides other factors, the double taxation treaties plays a key role for this purpose. By exploiting these agreements, the companies may divert financial capital from one country to another by paying lower taxes. Meanwhile, through such treaties the tax authorities also have access to certain information regarding the transactions concluded.*

*This paper is an exploratory study whose purpose is to analyse the double tax agreements(DTA) signed by the EU and EFTA member states with tax havens jurisdictions. To achieve this goal, we used a sample of 32 European countries.*

*The results emphasize that all the analysed countries have double tax treaties signed with tax havens. From these, UK has the most agreements signed. On the other hand, Luxembourg and Malta are the tax havens with the most DTA's signed with the analysed countries.*

**Keywords:** double tax treaties, tax havens, tax planning.

**J.E.L. Clasification:** F23, F31, F38, F53, M48.

## 1. Introduction

Opportunities to reduce taxes through tax havens and financial instruments such as offshore companies, transfer pricing, holding companies are only possible by exploiting the double taxation treaties.

By developing complex tax optimisation schemes, the capital can be transferred from

countries with high taxes to countries with low taxes [24].

Since most tax havens have the status of "colonial territories" and do not impose any taxes [9], over time only few double taxation agreements have been signed with other countries. Generally, the countries with high taxes have numerous double tax treaties to ensure the economic cooperation between them [18].

Double taxation treaties can help multinational companies to: (a) reduce withholding taxes on dividends, interests and royalties; (b) be exempt from tax in one of the countries and (c) be exempt of foreign tax credit from taxation [2].

The originality of this paper is derived from the fact that, until now, we have not identified any research on double tax agreements signed by the European Union member states with tax havens.

## 2. Literature Review

A double taxation treatment is a bilateral agreement signed between two states that aims to avoid double taxation on companies doing business in those countries [10]. Double taxation treaties encourage international investments and global economic growth [22] by removing the barriers in terms of taxes from the way of foreign investors.

Also, double taxation treaties provide a more stable economic framework for foreign investors. If national tax law can be changed often and easily, the process is more complex in the case of double taxation treaties [4].

The main purposes of double taxation agreements are both the avoidance of double taxation and the prevention of tax evasion [20]. If the first goal is achieved, there are some doubts regarding the second.

Until the present time, there are two

models of international agreements for preventing the double taxation. A model is provided by the Organization for Economic Cooperation and Development and the other model is provided by the United Nations [3].

Organization for Economic Cooperation and Development [14] proposes two methods for avoiding double taxation: the exemption method and the credit method. The exemption method involves exclusion from the tax base of income that is derived by a resident in another state.

Under the credit method, all revenue obtained (including those from abroad) is taken into account in the calculation of the tax payable by a resident. The country of residence will provide a tax credit for the tax paid abroad.

Double taxation agreements play a key role in international tax planning. Anthony Ginsberg [9] presents three financial-accounting techniques which are used to reduce taxes based on the existence of double taxation agreements. They are used by the multinational companies nowadays.

1. *Distributing post-tax profits* through jurisdictions with double taxation treaties. This method ensures reducing withholding taxes on dividends that are distributed to foreign shareholders and involves interposing one or more holding companies. The success of this technique is ensured only if the holding companies are registered in jurisdictions with favourable double taxation treaties with the other countries that are involved in the financial operations of capital distribution.

2. *Profit extraction* implies that profits earned in a jurisdiction with high tax are to be directed to low tax jurisdictions. The profits are extracted as royalties, interests and management charges by interposing one or more companies located in countries with numerous favorable double taxation treaties.

3. *Minimising taxes on executive remuneration* for executives that perform services in multiple locations (from different countries) can be achieved by establishing the residence in a tax haven and by exploiting the double taxation agreements between the countries concerned.

Regarding the definition of tax havens, there is no generally accepted definition although many authors have tried to define them [25].

The approaches taken can be viewed from two different perspectives: one belonging to the international/national organisations and one from the specialised authors in this field [5].

For our study, we will choose a definition provided by the Organisation for Economic Co-operation and Development. OECD [15] defines tax havens as countries or territories that meet the following criteria: (a) zero or nominal tax on the relevant income; (b) lack of effective exchange of information; (c) lack of transparency and (d) no substantial activities.

### 3. Research methodology

The purpose of this paper is to identify the double taxation treaties signed by the European Union member states with tax haven jurisdictions.

We also believe that it is necessary to include in our sample the European Free Economic Association (EFTA) member states (Iceland, Liechtenstein, Norway and Switzerland). The reason for this choice is that these countries can be considered partially adhered to the European Union because they have a lot of economic cooperation agreements with the EU. Moreover, Iceland, Liechtenstein and Norway are member states of European Economic Area (EEA) and Switzerland has a bilateral agreement with the European Union entitled "EU-Swiss Savings Agreement".

In this regard, we use a sample of 32 countries, comprising the 28 European Union member states and the 4 EFTA member states.

The data source for analysing the double tax agreements of most of the countries is the yearly profiles on the tax systems published by KPMG's European Tax Centre [13]. Because the list of Denmark and Liechtenstein double taxation treaties is missing from these reports, we collected this information from other sources. For Liechtenstein we collected data from the United Nations Conference on Trade and Development website [21] and for Denmark we collected data from the Ministry of Finance website [6].

Table 1. List of countries from the sample

No	Country	No	Country
1	Austria	17	Latvia
2	Belgium	18	Liechtenstein
3	Bulgaria	19	Lithuania
4	Croatia	20	Luxembourg
5	Cyprus	21	Malta
6	Czech Republic	22	Netherlands
7	Denmark	23	Norway
8	Estonia	24	Poland
9	Finland	25	Portugal
10	France	26	Romania
11	Germany	27	Slovakia
12	Greece	28	Slovenia
13	Hungary	29	Spain
14	Iceland	30	Sweden
15	Ireland	31	Switzerland
16	Italy	32	United Kingdom

Source: own processing

The first step of this analysis must be the delimitation of the jurisdictions that can be considered tax havens. As for defining the tax havens, things are not very clear when it comes to delimiting the tax haven jurisdictions. Thus, there are numerous delimitations made in this regard by national and international organizations such as: United States Government Accountability Office [23], Tax Justice Network [19], Dharmapala and Hines [7], Organisation for Economic Co-operation and Development [16], International Monetary Fund [11].

We will use a list compiled by the United States Government Accountability Office (2008) after other lists made by OECD, NBER and U.S. District Court. This list contains 50 tax havens to which we added the U.S. State of Delaware and the Netherlands, as in the study "Addicted to tax havens: The secret life of the FTSE 100" conducted by ActionAid [1]. Based on the literature review [12], [17], [8] we consider it necessary to also include Uruguay on the list of tax havens.

The full list of jurisdictions considered tax havens in our study includes: Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Delaware, Dominica, Gibraltar, Grenada, Guernsey, Hong Kong, Ireland, Isle of Man,

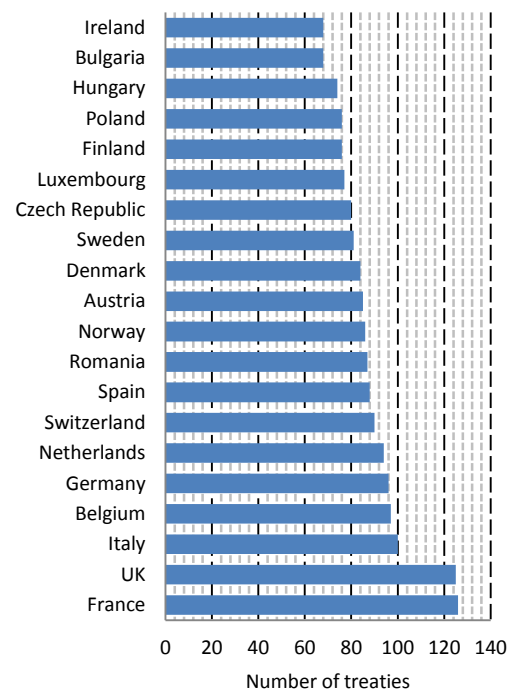
Jersey, Jordan, Latvia, Lebanon, Netherlands, Netherlands Antilles, Niue, Panama, Samoa, San Marino, Seychelles, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Switzerland, Turks and Caicos Islands, U.S. Virgin Islands, Uruguay, Vanuatu.

#### 4. Findings and results

Figure 1 emphasizes the top countries that have signed the most double taxation agreements. As we can observe, France (126) has the majority of such treaties signed, followed by the United Kingdom (125), Italy (100), Belgium (97), Germany (96), Netherlands (94) and Switzerland (92).

With 87 double taxation agreements signed, Romania is among the analysed countries and it is situated on the 9th position in the ranking.

Figure 1. The top countries with most double tax treaties signed

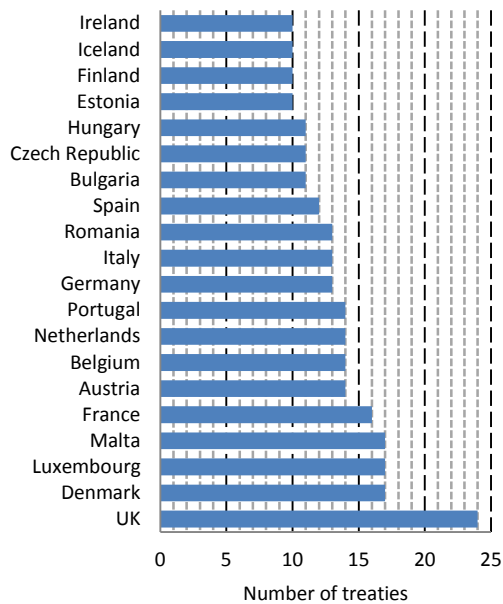


Source: own processing

Regarding the analysed countries that have signed the most double taxation agreements with tax havens, first we find United Kingdom (24), followed by Denmark (18), Luxembourg (17), Malta (17), France (16), Austria (14), Belgium (14), Netherlands (14) and Portugal (14). Romania is ranked on

12th position in the top with 13 double taxation agreements signed with tax haven countries (see figure 2).

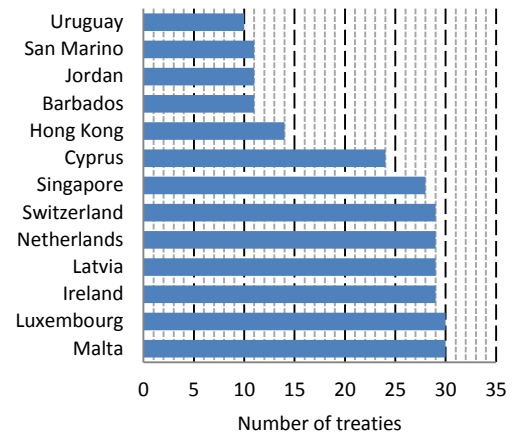
Figure 2. The top countries by number of double tax agreement signed with tax havens



Source: own processing

As shown in figure 3, tax havens with the most numerous double taxation agreements signed with the European countries analysed are almost all from Europe. Thus, we find that Malta and Luxembourg have 30 agreements with countries in the European Union, closely followed by Ireland (29), Latvia (29), Switzerland (29) and the Netherlands (29), Singapore (28) and Cyprus (24). We can observe that from the first eight tax havens, seven are from Europe and out of these, six are European Union Member States (Malta, Luxembourg, Ireland, Latvia, Netherland and Cyprus).

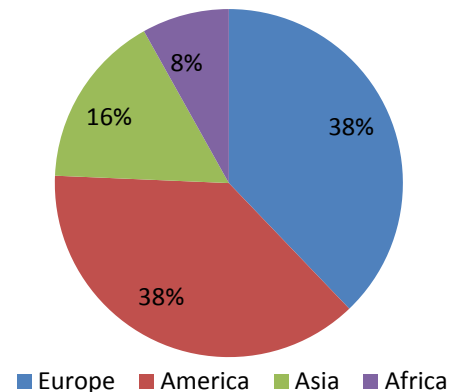
Figure 3. Top tax havens by double tax agreements signed with European countries



Source: own processing

Regarding the continents of which the analysed tax havens belong to, we can observe in figure 4 that most of them are in Europe (14 tax havens) and in America (14 tax havens), followed by Asia (6 tax havens) and Africa (3 tax havens). In our study we considered the American continent to be consisting of North America, South America and Central America.

Figure 4. Continents of the analysed tax havens



Source: own processing

## 5. Conclusions

The 32 European countries analysed have a total of 2389 agreements. On the average this means about 74 agreements per country. Out of the agreements concluded, a total of 369 refer only to agreements with tax havens (15,45%). This is a relatively small percentage considering the influence of tax havens on the companies financial performance. This may be a consequence of the fact that many tax havens still do not

want to share information with other countries.

It should be noted that France (126), United Kingdom (125) and Italy (100) have the majority of the agreements, while Lithuania (52), Iceland (42), Liechtenstein (7) have the fewest. In terms of the number of agreements signed with tax havens, United Kingdom have 24 treaties, followed by Luxembourg (17), Denmark (17), Malta (17), while on the opposite side there is Greece (7), Lithuania (7), Latvia (6) and Liechtenstein (5).

There are a total of 37 tax havens that have double taxation agreements signed with the European countries analyzed. These comprise of 369 double taxation agreements, which means on average about 10 double taxation agreements. Malta (30) and Luxembourg (30) have most of the agreements signed, while on the opposite side we find Belize (2), Bermuda (2), British Virgin Islands (2), Cayman Islands (2), Costa Rica (2), Montserrat (2), Macau (2), Monaco (2), Netherlands Antilles (2), Andorra (1), Antigua & Barbuda (1), Aruba (1), Grenada (1), Liberia (1) and St. Kitts and Nevis (1). We note that tax havens which have a tax system based on tax rates have more double taxation agreements signed than tax havens which does not levy any tax (except registration fees and annual renewal fees).

We intend to improve this study by including in the sample all countries in Europe, in order to make a comparison between the situation in the European Union and the countries which are not EU member states. Also, in this comparison we will include United States. As another future research direction we intend to analyse the correlation between the corporate tax rates and the number of double taxation agreements signed by the countries.

## 6. References

- [1] ActionAid, "Addicted to tax havens: The secret life of the FTSE 100", 2011, available online at [http://www.actionaid.org.uk/sites/default/files/doc\\_lib/addicted\\_to\\_tax\\_havens.pdf](http://www.actionaid.org.uk/sites/default/files/doc_lib/addicted_to_tax_havens.pdf)
- [2] Baker, P., "Improper Use of Tax Treaties, Tax Avoidance and Tax Evasion", United Nations, Paper No. 9-A, 2013, p.1-17.
- [3] Blonigen, B.A., Oldenski, L., Sly, N., "Separating the Opposing Effects of Bilateral

- Tax Treaties", *National Bureau of Economic Research*, Working Paper no. 17480, 2011, pp. 1-21.
- [4] Borrego, F.A.V., *Limitation on Benefits Clauses in Double Taxation Conventions*, Kluwer Law International, Haga, 2006.
- [5] Buzan, C.G., *Paradisurile fiscale și centrele financiare offshore în contextul economiei mondiale*, second edition, C.H. Beck, Bucharest, 2012.
- [6] Danish Ministry of Taxation, "Double tax agreements", available online at <http://www.skm.dk/love/internationalt/dobbeltskatningsoverenskomster/>
- [7] Dharmapala, D., Hines, J.R., "Which countries become tax havens?", *National Bureau of Economic Research*, Working Paper 12802, 2006, pp.1-48.
- [8] Fischer & Schickendantz, "Uruguay's Corporate Vehicles", March 2014, available online at <http://www.fs.com.uy/media/pdf/Uruguays-Offshore-Vehicles-2014.pdf>
- [9] Ginsberg, A.S., *Tax Havens*, New York Institute of Finance, New York, 1991.
- [10] Henn, M., "Tax Havens and the Taxation of Transnational Corporations", Friedrich-Ebert-Stiftung, *International Policy Analysis*, 2013, p.1-17.
- [11] International Monetary Fund, "Offshore Financial Centers", IMF Background Paper, 2000, available online at <http://www.imf.org/external/np/mae/oshore/2000/eng/back.htm>
- [12] Johannesen, N. and Zucman, G., "The end of bank secrecy? An evaluation of the G20 tax haven crackdown", *American Economic Journal: Economic Policy*, 6 (1), 2011, pp. 65-91.
- [13] KPMG, "EU country profiles", 2013, available online at <http://www.kpmg.com/Global/en/services/Tax/regional-tax-centers/european-union-tax-centre/Pages/EU-Country-Profiles.aspx>
- [14] OECD, "Articles of the OECD Model Tax Convention on Income and Capital", 22 July 2010.
- [15] OECD, "Harmful Tax Competition. An Emerging Global Issue", Organization for Economic Cooperation and Development, Paris, 1998.
- [16] OECD, "Economic Outlook", Volume 1998, Issue 1.
- [17] Price Waterhouse Coopers, "Tax Havens", 2014, available online at <http://www.pwc.pt/en/guia-fiscal/2014/paraisos-fiscais.jhtml>
- [18] Saunders, R., "Understanding double tax treaties", The International Tax Planning Association, available online at

- <https://www.itpa.org/?p=6733>
- [19] Tax Justice Network, "Identifying Tax Havens and Offshore Finance Centres", 2007 available online at [http://www.taxjustice.net/cms/upload/pdf/Identifying\\_Tax\\_Havens\\_Jul\\_07.pdf](http://www.taxjustice.net/cms/upload/pdf/Identifying_Tax_Havens_Jul_07.pdf)
- [20] Tsvaygenbaum, Y., "A tax treaty that doesn't tax? The unique history of the United States - Bermuda tax treaty and the subsequent problems facing the United States insurance industry", *Connecticut Insurance Law Journal*, Vol. 15 Issue. 1, 2011, pp. 267-294.
- [21] United Nations Conference on Trade and Development, "Liechtenstein total number of Double Taxation Agreements concluded", available online at [http://unctad.org/Sections/dite\\_pcbp/docs/dtt\\_Liechtenstein.PDF](http://unctad.org/Sections/dite_pcbp/docs/dtt_Liechtenstein.PDF)
- [22] United Nations, *United Nations Handbook on selected issues in Administration of Double Tax Treaties for developing countries*, New York, 2013.
- [23] United States Government Accountability Office, "International Taxation. Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions", December 2008.
- [24] Usmen, N., "Transfer prices: a financial perspective", *Journal of International Financial Management & Accounting*, Vol. 23. No.1, 2012, pp.1-22.
- [25] Zorome, A., "Concept of Offshore Financial Centers: In Search Of An Operational Definition", *International Monetary Fund*, Working Paper 87, 2007.

## Acknowledgments

This work was supported by the European Social Fund through Sectoral Operational Programme Human Resources Development 2007–2013, project number POSDRU/159/1.5/S/142115, project title "Performance and Excellence in Doctoral and Postdoctoral Research in Economic Sciences Domain in Romania".



# The Financial Crisis and its Implications on the Balance Indicators in the Banking System. Case Study

Asalos Nicoleta

*Ovidius University of Constanta, the Faculty of Economic Sciences*  
[nasalos20@gmail.com](mailto:nasalos20@gmail.com)

## Abstract

*Any country, including Romania, aspires to create a solid banking system, able to maintain its effectiveness in contingent situations and to enable the assurance of an organizational framework corresponding to the expansion of money relationships in the economy. Profitable and adequately capitalized banks are at the basis of a healthy banking system.*

*The fundamental objective of any bank is to maximize its profit under risk minimization conditions.*

*This paper aims to analyze the impact of the economic crisis on the development of bank performance indicators in Romania, the banking system being, in the economy, the main circulatory system.*

*The concept of bank performance expresses both the performance of the banking sector and of the economy, in general, which cannot exist without a profitable banking system. It shows us the stability of bank activities and its level is determined based on a system of indicators.*

**Keywords:** financial crisis, bad loans, income, expenses, performance indicators

**J.E.L. classification:** M41

## 1. Introduction

In Romania, one of the main causes that led to the crisis of October 2008 include the artificial increase in the real estate prices, the loosening of lending standards, credit expansion, and other specific factors, such as foreign capital volatility; internal economic and financial imbalances; the poor capital market development, which contributed to the domestic financing with a fund volume of more than 10 times lower than the banking

system, being unable to achieve the financing function, becoming thus an area favorable to speculation; the disparity between real and nominal economy; the shortage of highly qualified workforce; the prevalence of consumerism in relation to savings and investment; the orientation towards the sector of services and trade at the expense of production; the cornerstone of sustainable economic growth. Both the internal and external imbalances consisting in the defective management of public expenditure and the improper degree of public funds collection led to the decrease in the country rating, affecting the confidence of foreign investors.

## 2. The financial crisis and the banking system in Romania

In Romania, the crisis manifested itself by the collapse of stock listed security quotations, the restrictions regarding the access to credits through higher interest rates and the tightening of crediting conditions, the reduction of production, the decrease in the industrial demand, the rise of inflation, the exchange rate volatility, and the increase in the budget deficit. The consequences were strongly felt by the people with low incomes and by the weakly capitalized companies. During 2008 - 2009, the global financial crisis hit Romania, but our country managed to recover due to prudent macroeconomic management. This crisis involved the implementation of reforms, which were much needed, in health, education, finance, public finance administration, public administration, social insurance and social assistance [1].

In Romania, the structure of credit institutions, at the end of 2013, according to the Monthly Bulletin no. 12/2013 of the National Bank of Romania, is presented in Table 1.

Table 1. The structure of credit institutions on  
31.12.2013

Credit institutions	Number
Banks with an entirely or majority state-owned capital	2
Banks with a majority domestic private-owned capital	3
Banks with a majority foreign private-owned capital	25
Branches of foreign banks	9
<b>Total banking system</b>	<b>39</b>
Creditcoop	1
<b>Total credit institutions</b>	<b>40</b>

Source: Processing of the Monthly Bulletin no. 12/2013 of the National Bank of Romania  
<http://www.bnro.ro/PublicationDocuments.aspx?i cid=1182> [www.bnr.ro](http://www.bnr.ro)

The Romanian banking system, consisting of 31 banks - Romanian legal entities - and 9 branches of foreign banks, ended the year 2013 with a total profit of 497 million RON, compared to the total loss of 2.2 billion RON, recorded at the end of 2012.

### 3. Profitability - the bank management foundation

The pursuit of an economic activity in order to obtain a higher profit should be based on a coherent economic theory which has to guide the material, financial and human efforts of the company in a competitive environment. An increasing profit can be ensured by reducing uncertainty, the risk assumed in the economic activity. If there were no uncertainty, then we would know all the elements necessary to obtain profits; the companies would have the certainty that revenues are higher than expenses and there would be registered an increase in supply over demand, leading to a balance between revenues and expenses and the profits would be zero. However, in reality, uncertainty and risk lead to the existence of profits, without being reduced to zero by competition. Since, in a world without uncertainty, there would be no profits or losses, we might consider the profit or loss as a consequence of uncertainty.[2]

The elaboration of bank development strategies is one of the main objectives of bank management and it aims to achieve a satisfactory level of profit, especially on medium and long terms. The objectives of an effective bank management are to maximize profitability, minimize risk exposure and meet the banking regulations in force.

In developing long-term strategies, there are taken into account, as objectives, the development elements that lead to the balanced growth of profit and that are able to include adjustable developments in accordance with future circumstances. These elements focus on specific development directions of bank activities, improving tracking and communication systems, staff development, territorial network dimensioning, increasing the speed of operations, the effective and rapid promotion of new products and services and the development of customer relationships.

Large Romanian banks have developed their own concept of profitability applicable to territorial subunits. As a managerial concept, profitability aims to assess the banking results in terms of both overall efficiency and managerial components.

From a managerial perspective, one can speak of the profitability of a banking activity area, the profitability of the products and services advertised by the bank or customer profitability, which are defined as *profit centers*. The profit center is a component of the overall bank business, which, through its activity, directly generates profit, as opposed to *cost centers*, which consume income.

Based on results, profit centers are analyzed quarterly in terms of profitability. Regarding the unprofitable centers, which are deficient in resources, there are pursued the causes that generated this deficiency and there are taken the necessary steps to redress it: attracting resources, revenue growth opportunities, implementing strategies for attracting new customers, increasing the recovery actions of bank claims. The bank units that record a surplus of resources support those which register deficits.

The increase in bank profitability is closely related to the rapid adaptation to market needs and requirements, as well as to its permanent opening towards innovations.

### 4. The patrimonial analysis of BRD -

## **Groupe Société Générale**

*The structure of the assets* on components, recorded at BRD during the analyzed period, i.e. 2011-2013.

**The total assets** of BRD - Groupe Société Générale totaled 47,924 million RON on 31.12.2012, decreasing by 1.69% compared to 2011.

The bank liquidities, including the *Liquid assets and the receivables on the Central Bank*, decreased by 0.22% compared to 2011. At the end of 2013, liquidities represented 20.77% of the total balance sheet, increasing by 4.22% compared to 2012.

The largest share in total assets is held by the *Receivables on financial institutions*, which represent 58.97% of the total banking operations reflected in the balance sheet, decreasing by 11.80% compared to the previous year. This decrease was mainly due to the deterioration of the asset quality, which has led to the increase in the related provisions.

*The tangible and intangible assets* represent a share of 2.32% in total assets, the most important of these, i.e. over 70%, being represented by land and buildings.

*Other financial instruments* represented, in particular, by the securities issued by the Romanian Government, and which are accounted for as available for sale and trading instruments, recorded an increase of 42.65% compared to the previous year. They represent a share of 15.41% in total assets.

*The structure of the debts on components and equity*, recorded at BRD - Groupe Société Générale, in 2011-2013.

*The net banking income* reached the amount of 2,712 million RON by the end of 2013, decreasing by 6.87% compared to 2012, being affected by the decline in the net interest margin, but heroically sustained by the earnings from commissions, due to the substantial portfolio of clients.

*The net interest income* decreased by 11.15% compared to the previous year, reaching 1,649 million RON. The same decreasing trend also affected *the net income arising from commissions*, which decreased by 4.53% compared to 2012.

*The operating expenses* decreased by 2.24% in 2012, compared to the previous year, due to the reduction in the number of employees and to the adjustment of the

remuneration policy, resulting in a decrease by 5% in personnel expenses and in a decrease in other operating expenses; this was triggered by the implementation of a program of cost optimization measures, which shows an increased operational efficiency. However, on 31.12.2012, the decrease in operational costs could not resist the jump of 61.55% recorded by *the net cost of risk*, i.e. the cost of the provisions for bad loans, engendering loss, with a negative annual result of 331 million RON, after a net profit of 469 million RON, recorded in 2011. However, in 2013, the operating expenses decreased only by 5.54% compared to 2012, denoting an increased operational efficiency, and the net cost of the risk experienced a slight growth, by 7.54%, reaching 2,083 million RON.

Under the conditions of a gross operating result of 1,434 million RON, decreasing by 8.02% compared to 2012, the provisions for bad loans determined the reporting of a net loss of 385 million RON.

*The financial results* of BRD - Groupe Société Générale in 2013 reflect both the persistence of a difficult economic environment and the financial changes which occurred on the financial- banking market.

## **5. Conclusion**

For the Romanian banks, the financial crisis did not only imply the reduction of loans, the loss registered on the balance sheet or the decrease in the number of agents and employees; some credit institutions also succeeded, in the five years of economic recession, to take advantage of the unfavorable conjuncture and to substantially increase their market shares.

The negative results recorded by BRD in the last two years have been influenced by the high net cost of the risk, within a deteriorated macroeconomic environment. Strengthening the cover of bad loans by provisions has led to a loss of 385 million RON at the end of 2013.

Regarding the strategic orientation of BRD, it should focus on improving the monitoring systems, on risk adjustment to the appropriate strategies and on a better understanding of the customer.

Regarding legal persons, the strategic orientation should take into account the

strengthening of the leadership position for housing loans, the maintenance of the practical bank nature, accessible through a variety of channels (units, remote banks, and the internet) and the improvement of communication.

## 6. References

- [1] Moraru, C., Popovici, N., “*ECONOMIC GROWTH –AN ILLUSION ?STUDY CASE: ROMANIA*”, Cross-Cultural Management Journal Volume XV, Issue 2 (4) / 2013, PP.37-42
- [2] Trandafir, R.A., Truica, L.D., Spataru, E.C., „*The Performance Analysis*”, Ovidius” University Annals, Economic Sciences Series, Volume XII, Issue 1 /2012, pp. 697-700
- [3] Predescu, I., “*Activitatea bancară între performanță și risc*”, Editura Expert, 2005
- [4] Rotaru, C. „*Managementul performanței bancare*”, Editura Expert, 2001
- [5] Ordin BNR nr. 13 din 19 decembrie 2008 pentru aprobarea Reglementarilor contabile conforme cu directivele europene, aplicabile instituțiilor de credit, instituțiilor financiare nebancale și Fondului de garantare a depozitelor în sistemul bancar, publicat în M. Of. nr. 879 din 24 decembrie 2008

[http://www.bnro.ro/PublicationDocuments.aspx?i  
cid=1182](http://www.bnro.ro/PublicationDocuments.aspx?i<br/>cid=1182) [www.bnr.ro](http://www.bnr.ro)

[www.brd.ro](http://www.brd.ro)

[www.bnr.ro](http://www.bnr.ro)

## Fiscal and Monetary Policies' Impact on Investment in Romania

Avram Alexandru

*Faculty of Economics and Business Administration, West University of Timișoara*  
[alexlavram@gmail.com](mailto:alexlavram@gmail.com)

Heteș Roxana

*Faculty of Economics and Business Administration, West University of Timișoara*  
[roxana.hetes@e-uvt.ro](mailto:roxana.hetes@e-uvt.ro)

Crășneac Alexandru

*Faculty of Economics and Business Administration, West University of Timișoara*  
[alexandru.crasneac@e-uvt.ro](mailto:alexandru.crasneac@e-uvt.ro)

### Abstract

*In this paper we intend to analyze the effects of fiscal and monetary policies on investment in Romania using a Vector Autoregression (VAR) model. We used quarterly data provided by the National Statistics Institute and Eurostat. The independent variables that we included in our study are: private consumption, government debt, gross fixed capital formation, inflation, ROBOR interest rate, government consumption, government revenue and GDP. We analyzed the influence of fiscal and monetary policies both on the short term and on the long term. Using impulse function specific to Vector Autoregressive (VAR) model, we identified the effects of fiscal and monetary policies components in Romania on the investment by Cholesky impulse functions. Our findings suggest that introduction of the flat rate tax for both corporate income and personal income had a significant positive effect on investment. The increase in VAT standard rate had a negative impact on inflation, but is positively related to investment.*

**Keywords:** fiscal policy, monetary policy, VAR, gross fixed capital formation

**JEL classification:** E61, E62, E63

### 1. Introduction

The literature has not reached a general agreement about the effects of fiscal policy on investment, authors having different positions according to the doctrines which

they shared. Opinions range from overemphasis of tax neutrality and, hence, fiscal policy towards a recognition of the merits of automatic fiscal stabilizers and a denial of fiscal activism, but also to reveal the need for fiscal reforms and the impact they have on the economic recovery after severe recessions.

Monetary policy, however, has received more attention both in academics and among policy makers. Especially during the latest financial crisis has been observed, however, that countries in the Eurozone by transferring monetary policy prerogatives to the ECB were constrained to act only through the use of fiscal policy instruments. As a result, fiscal policy has started to get more attention from academics and both policy makers and people began to have more expectations from the fiscal policy measures.

In this paper we started from previous studies conducted by Afonso and Sousa (2009) [1], Blanchard and Perotti (2002) [2], Fatas and Mihov (2001) [3]. Perotti (2004) [4] uses a VAR with five variables, including GDP, GDP deflator, government consumption, net income and the interest rate. These studies conclude that a shock in government consumption will lead to a positive response of consumption, and hence GDP, while the effect of the shock on investment is not large.

In the study by Blanchard and Perotti (2002) [2], which examines the impact of fiscal policy in Australia, Canada, Germany and the UK, it is concluded that the effects of fiscal policy are relatively small. To study the impact of fiscal policy on economic growth in France, Biau and Girard (2005) [5] use a

VAR with five variables taking into account government consumption, net income, GDP, prices and interest rates. They concluded that fiscal policy has positive effects on consumption and investment but only for the first year. Other works that use similar VAR research methodology are those performed by Beetsma, Giuliodori, Klaassen (2006) [6], Favero and Giavazi (2007) [7] and Perotti (2004) [4].

This paper aims to analyze the impact of fiscal and monetary policies in Romania over a long enough timeframe (52 quarters), between the first quarter of 2000 and the fourth quarter of 2012 inclusively, period when fiscal policy in this country has undergone some substantial changes:

- In the first part of analyzed period (2000 - 2004), corporate profits were taxed at a 25% rate and personal income was taxed using progressive rates between 18% and 40%.
- Since the first quarter of 2005 the tax system changed to a flat rate tax of 16% for both corporate profits and for the most of personal income;
- Starting third quarter of 2010, the VAT standard rate has increased from 19% to 24%.

In addition, by different fiscal laws and legislation that changed the Tax Code, there were annual changes in the level and structure of deductible expenses, and, at the same time, the excise taxes have increased annually after Romania has joined the European Union on the 1<sup>st</sup> of January 2007.

In our study we aim to stress the impact of fiscal and monetary policies using the following variables: private consumption, government debt, gross fixed capital formation, inflation, interest rate ROBOR, government consumption and government revenue on the investment level. Moreover, in the final part we analyzed the influence of two dummy variables, the first for the introduction of the flat rate tax in the beginning of 2005 and the second for the VAT rate increase starting third quarter of 2010, to capture their potential impact on total investment in the economy.

## 2. Data

Through a Cholesky impulse function we aim to reveal the influence of the variables

described above on investment. Also, we intend to demonstrate, through the use of dummy variables, which were the consequences of introducing a flat rate tax of 16% in the first quarter of 2005, the consequences of the financial crisis in the second quarter of 2009 but also those of the increase in VAT from 19% to 24% in the third quarter of 2010.

Our research hypotheses with regard to the two dummy variables are:

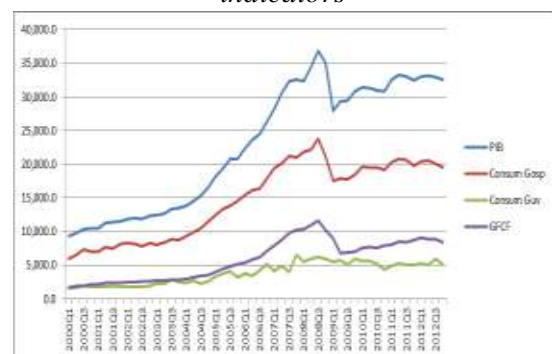
- Introduction of a flat rate tax of 16% had a positive influence on investment, due to the increase in aggregate demand;
- Increase in VAT standard rate from 19% to 24% had a negative impact on investment.

The main variables we used in this study are: GDP, private consumption, government debt, gross fixed capital formation, inflation, interest rate ROBOR, government consumption and government revenue. Data was collected from the National Institute of Statistics and Eurostat.

All data are seasonally adjusted, logarithmic transformed and lagged except for ROBOR rate and inflation rate.

The evolution of the variables used in our paper is presented in Figure 1 which captures the evolution of GDP and its main components in the period 2000-2012, revealing the upward trend until 2008 and then sharp reduction caused by the economic – financial crisis, followed by nearly flat evolution since 2010. Crisis first signal was given Gross fixed capital formation, which decreased by almost three quarters earlier, as shown in the evolution chart. Reduction in gross fixed capital formation, although not substantial, emerged in anticipation of a restrictive economic environment perceived by the business sector.

Figure 1. Evolution of main macroeconomic indicators



The inflation rate dropped substantially during the first four years of our analyzed period, from 50% to 10%, and subsequently with less magnitude and followed by short periods when it increased.

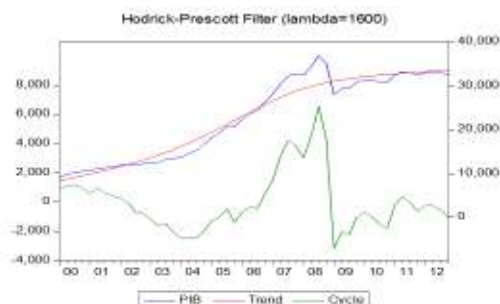
After the adoption of inflation targeting strategy by the central bank, although the targets were not at all excessive (a gradual reduction from 5% to 3% annual inflation over five years), the inflation rate was higher than the central bank target.

After the financial crisis emerged, the inflation rate continued to drop leaving the impression that it will be closer to the target set by the central bank. However, in the second semester of 2010, when the VAT rate was increased by five percentage points - from 19 to 24%, the inflation rate resumed its upward trend as a typical example of undesirable interaction between fiscal and monetary policy.

The interest rate for 12 months follows the pattern of inflation rate, which suggests that the central bank constantly targeted a positive real interest rate. Still, there were some gaps between inflation and interest rate. Thus, in the first quarter of 2000 inflation stood at 50% and interest rate was 30%, which forced banks to maintain an upward trend of interest rates at 12 months, while the inflation rate had followed a strong downward trend, reduction in interest rate occurring four quarters later, this time correlated with inflation rate.

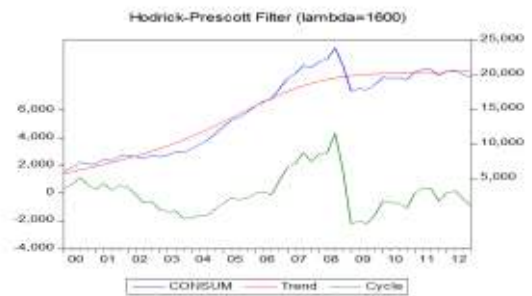
At the same time, using the Hodrick - Prescott, with a coefficient  $\lambda$  1600, frequently used in literature (Canova, 1998), to observe the trend of the country's GDP in period, we noticed that Romania's GDP is on a downward trend, with a significant decline in late 2007 and early 2008, a period that overlaps with the first conditions that created the economic crisis in this country.

Figure 2. GDP trend and its cycle



Source: own calculations based on data provided by NIS and EUROSTAT

Figure 3. Consumption trend and its cycle



Source: own calculations based on data provided by NIS and EUROSTAT

We note that the private consumption is on a linear trend without fluctuations, consumption remained relatively constant since 2009. Analyzing the cycle, it is revealed that during the 2<sup>nd</sup> Quarter of 2008 and 1<sup>st</sup> Quarter of 2009, there is a strong decrease in private consumption.

### 3. VAR model

The VAR model used in this study is an unrestricted VAR and the number of lags is 2. As shown in Table 4 in this case the VAR satisfies the stability condition.

$$\begin{aligned}
 I_{1,t} = & \alpha_1 + \Delta \sum_{j=1}^j \beta_{1j} I_{1,t-j} + \Delta \sum_{j=1}^j \delta_{1j} Y_{1,t-j} + \Delta \sum_{k=1}^k \varepsilon_{1j} C_{1,t-j} + \Delta \sum_{k=1}^k \theta_{1j} G_{1,t-j} \\
 & + \Delta \sum_{k=1}^k \varepsilon_{1j} R_{1,t-j} + \Delta \sum_{k=1}^k \mu_{1j} D_{1,t-j} + \Delta \sum_{k=1}^k \pi_{1j} p_{1,t-j} + \Delta \sum_{k=1}^k \sigma_{1j} i_{1,t-j} \\
 & + \Delta \sum_{k=1}^k \varphi_{1j} DT_{1,t-j} + \Delta \sum_{k=1}^k \omega_{1j} DV_{1,t-j} + u_{1,t}
 \end{aligned} \tag{1}$$

- Y = GDP;
- C = private consumption;
- G = Government consumption;
- R = government revenue;
- D = government debt;
- I = gross fixed capital formation;
- p = inflation rate;
- i = interest rate ROBOR 12 months;
- DT = Dummy for the flat rate tax 16%;
- DV = Dummy for increase in VAT rate.

After estimating the VAR model, we examined through a Cholesky impulse function the considered variables responses on net investment. Also, in order to have a more accurate estimation we have taken into account the dummy variables described above. Following this estimation, VAR's stability was assured. At the same time, we

noticed there is no autocorrelation and Heteroscedasticity.

The two dummy variables included in our model are time series variables related to private consumption, as calculated according to the methodology:

$$DT = C*(1+Dummy) \quad (2) \quad \text{and}$$

$$DV = C*(1+Dummy) \quad (3)$$

DT dummy variable (for the flat rate tax) was 0 until Q1 2005 and 1 until the end of the observation period. The DV dummy variable (corresponding VAT) took the value 0 until the 3<sup>rd</sup> quarter of 2010 and 1 until the end of the observation period.

Table 1. Augmented Dickey Fuller test

Variable	ADF results for level	ADF results for 1st order differences	Cointegration
L_PIB	-1.8357	-5.4475*	I
L_CONSUM	-1.1417	-5.5935*	I
L_GFCF	-1.5320	-3.933*	I
L_GOVEXP	-1.4270	-11.5035*	I
L_DI6	-1.4866	-5.9193*	I
L_DTVA	-0.6969	-7.2021*	I
INFLATIE_SA	-5.8949*	-2.4642	0
ROBOR12_SA	-1.8658	-7.0933*	I
L_GOVDEBT	1.1052	-6.4959*	I
GOVREV_SA	-1.0486	-5.2535*	I

\* Significant at 1%; \*\* Significant at 5%;  
\*\*\* Significant at 10%

In Table 2, we identified the optimal number of lags that should be selected. In this respect, the optimal number of lags chosen was two, since for both lag 1 and lag 4 we had autocorrelation and heteroscedasticity problems.

Table 2. Selection of number of lags

Lag	LogL	LR
0	167.37	NA
1	398.54	361.81
<b>2</b>	<b>504.13</b>	<b>123.96</b>
3	609.18	82.21
4	1042.74	169.65

Table 3. VAR stability conditions

Root	Modulus
0.839942 + 0.015899i	0.840092
0.839942 - 0.015899i	0.840092
-0.273633 + 0.758836i	0.806664
-0.273633 - 0.758836i	0.806664

-0.747792	0.747792
0.705012 - 0.162493i	0.723495
0.705012 + 0.162493i	0.723495
0.127553 - 0.651972i	0.664332
0.127553 + 0.651972i	0.664332
-0.544047 + 0.346810i	0.645185
-0.544047 - 0.346810i	0.645185
0.314170 - 0.501233i	0.591555
0.314170 + 0.501233i	0.591555
-0.166771 + 0.513015i	0.539441
-0.166771 - 0.513015i	0.539441
-0.485668 + 0.202738i	0.526285
-0.485668 - 0.202738i	0.526285
-0.152279	0.152279
No root lies outside the unit circle.	
VAR satisfies the stability condition.	

Table 4, which shows the Breusch-Godfrey LM autocorrelation, reveals that the null hypothesis, i.e. that there is no autocorrelation, is confirmed, so our data series are not autocorrelated, which is the expected result.

Table 4. LM autocorrelation test

Lag	LM Test	Probability
1	81.70	0.46
2	73.44	0.71
3	88.43	0.27
4	91.28	0.20
5	92.66	0.18
6	103.79	0.04
7	75.33	0.66
8	90.21	0.23
9	118.79	0.00
10	75.67	0.65
11	92.81	0.17
12	76.63	0.62

Table 5 reveals the heteroscedasticity test based on the null hypothesis that the data are homoskedastic, and thus confirms that our data are homoskedastic, which is desirable.

Table 5. Heteroskedasticity test

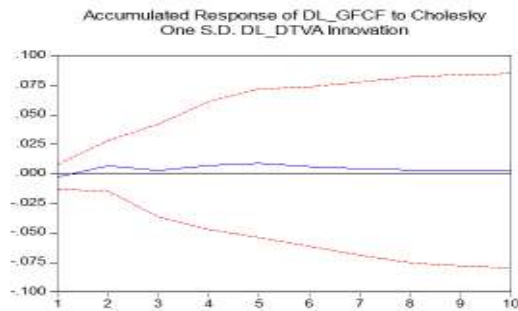
Joint test:		
Chi-sq	df	Prob.
1543.10	1530	0.40



#### 4. Investment response

In Figure 4 it can be noticed that the increase in the VAT rate had a positive impact on gross fixed capital formation. This may be explained by the conditions of deductibility of VAT on purchases of capital goods.

Figure 4. Investment response to the increase in VAT rate

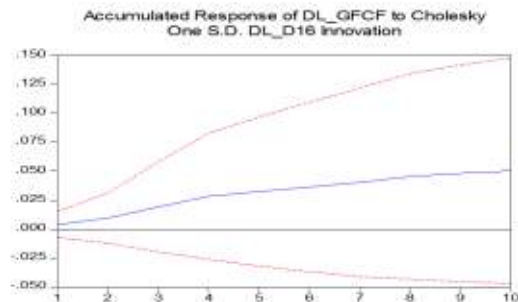


Source: own calculations

Figure 5 indicates that the introduction of the flat rate tax of 16% had a persistent positive impact on gross fixed capital formation. This may be explained, in our opinion, by the fact that the business sector was stimulated to increase the volume of investment, much of the remaining profit after profit tax reduction being invested with noticeable positive impact on GDP. Positive signal given by private consumption growth due to an increase in population's disposable income has led, at the same time, to an increase in gross fixed capital formation.

According to the results from Figures 6 and 7, both the interest rate and inflation rate had a negative impact on the volume of gross fixed capital formation.

Figure 5. Investment response to the introduction of the flat tax

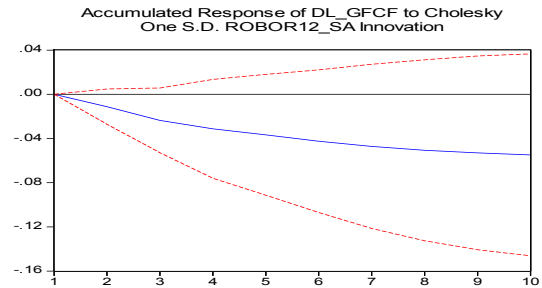


Source: own calculations

In our opinion, an increase in interest rates will decrease the investment since the

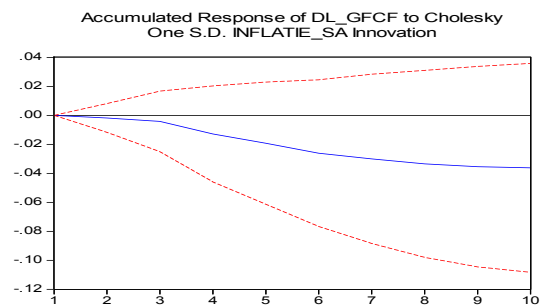
rate of return expected by the business environment will increase and thus the volume of new investments or new acquisitions of assets will decrease.

Figure 6. Investment response to interest rate



Source: own calculations

Figure 7. Investment response to inflation rate



Source: own calculations

From Table 6 we can conclude that both the flat rate tax and the VAT increase explains only 2% of the gross fixed capital variation, most of this variation being explained by the evolution of GDP (45%), private consumption (15%) and past performance of gross fixed capital formation (23%).

Table 6. Gross fixed capital formation variance decomposition

Period	S.E.	DL	PIB	DE_CONSUM	DL_D16	DE_DTVA	DL_GFCF	DL_CONVERT	DE_CONVERT	DL_CONVERT	INFLATIE_SA	ROBOR12_SA
1	0.0096	25.4128	14.6141	0.9656	0.3752	49.0234	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
2	0.0590	55.4498	6.3149	0.9036	2.2120	27.6427	0.0162	0.6970	0.0024	0.0075	0.0075	3.2155
3	0.0605	45.9613	14.6194	1.9176	1.7401	24.0944	3.4603	5.8412	0.0716	0.0061	0.0061	4.5196
4	0.0616	44.0119	15.0371	2.2942	2.0613	21.2903	3.6350	3.7979	0.1546	0.5942	0.7051	1.7051
5	0.0620	43.9750	14.4503	2.3635	2.1640	21.2310	3.5896	3.7660	0.1512	0.5875	0.7051	1.6951
6	0.0634	43.9750	14.5735	2.3574	2.2352	21.9312	3.7248	3.5742	0.2646	0.5736	0.7051	1.6977
7	0.0636	43.8220	14.1620	2.4031	2.2204	22.7330	3.7245	4.1149	0.2891	1.1132	0.9186	5.0186
8	0.0639	43.7118	14.4264	2.4034	2.2528	22.6887	3.7241	4.1489	0.3131	1.1748	0.9187	5.0887
9	0.0643	43.6445	14.4175	2.3635	2.2297	22.6384	3.7251	4.1399	0.3302	1.2247	0.9187	5.0787
10	0.0639	43.6230	14.1000	2.3636	2.2297	22.6310	3.7211	4.1345	0.3289	1.2201	0.9187	5.0701

Source: own calculations

## 5. Conclusions

The objective of our study was to determine whether or not the fiscal and monetary policies have had an impact on investment in Romania in the period 2000-2012 and what will be the effects of future changes in the variables used in the model on investment.

Our data show that GDP, private consumption, government consumption and gross fixed capital formation followed an upward trend from 2000 until 2008, when there has been a strong contraction of production and consumption under the impact international financial crisis, which has been "imported" in Romania. Yet, gross fixed capital formation started to decrease three quarters earlier, suggesting that investment, one of the engines of economic growth, slowed down just before the generalization of the crisis. After 2010 the economic growth resumed, but this growth is quite fragile and inconsistent.

The inflation rate was on a steep downward trend in the first part of the interval, but after the moment of reaching a single digit level (second quarter 2005), despite the inflation targeting strategy adopted by the central bank, inflation remained above the inflation target set by the central bank and oscillating. Interest rate ROBOR for 12 months resembled the effective inflation trend after being real negative for the first three quarters of 2000.

The impact of fiscal policy measures revealed by the VAR model results indicate:

- The impact of the introduction of a flat rate tax on companies' profits and most of the personal income, on 1<sup>st</sup> of January 2005, on gross fixed capital formation was strong, significant and persistent. Basically, our study supports the principle underlying the Laffer curve, i.e. a reduction in the tax rate can not only lead to better revenue collection, but also to an increase in GDP and thus, in government revenue.
- The increase in the VAT standard rate, starting 1<sup>st</sup> of July 2010 impact on gross fixed capital formation was also strong and significant. Thus, net investment had a positive effect as a result of the increase in VAT, mainly because of the VAT deductibility on purchases of capital goods. The effect of the VAT increase on the

inflation target set by the central bank consisted in a reversal of the inflation process after ten years of continuous reduction. Unfortunately, this is a typical example where uncorrelated public policies lead to additional costs and inefficiency of public policies.

## Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/140863, Competitive Researchers in Europe in the Field of Humanities and Socio-Economic Sciences. A Multi-regional Research Network.

## References

- [1] Afonso, A., Sousa R. (2009) "Fiscal policy and economic growth", *BCE Working papers series*, January.
- [2] Blanchard, O., Perotti, R. (2002) "An Empirical Characterization Of The Dynamic Effects Of Changes In Government Spending And Taxes On Output", *The Quarterly Journal of Economics*, MIT Press, vol. 117(4), pp. 1329-1368.
- [3] Fatás, A., Mihov, I. (2001) "The Effects of Fiscal Policy on Consumption and Employment: Theory and Evidence" *CEPR Discussion Papers 2760*.
- [4] Perotti, R. (2004) "Estimating the effects of fiscal policy in OECD countries" *Working Papers 276*, IGER (Innocenzo Gasparini Institute for Economic Research), Bocconi University.
- [5] Biau, O., Girard, E. (2005) "Politique budgétaire et dynamique économique en France: l'approche VAR structurel", *Economie et Prevision*, 2005
- [6] Beetsma R., Giuliodori M., Klaassen F. (2006) "Trade Spill-overs of Fiscal Policy in the European Union: A Panel Analysis", *Economic Policy*, vol. 21(48), pp. 639-687.
- [7] Favero, C., Giavazzi, F. (2007) "Debt and the Effects of Fiscal Policy" *NBER Working Papers*, no 12822, National Bureau of Economic Research.

## Interest Payments on Public Debt and the Quality of Public Finances

Bilan Irina

*Faculty of Economics and Business Administration  
„Alexandru Ioan Cuza” University of Iași*

[irina.bilan@uaic.ro](mailto:irina.bilan@uaic.ro)

Roman Angela

*Faculty of Economics and Business Administration  
„Alexandru Ioan Cuza” University of Iași*

[aboariu@uaic.ro](mailto:aboariu@uaic.ro)

### Abstract

*In this paper we aim to study the effects of interest spending on public debt on the quality of a country's public finances, in Romania and other developed and developing countries. Two different approaches have been taken into consideration. On the one hand, we showed that, when public indebtedness fails to promote economic growth and no compensatory measures are taken by governments, as budgetary expenditures raise and no additional ordinary revenue are available, government budget balances deteriorate and public debt further accumulates. On the other hand, it resulted that, when compensatory consolidation measures are undertaken in order to keep budget deficits and public debt under control, taxes are raised or public expenditures are reduced. As public capital expenditure is most often sacrificed, this alters the quality of public spending, due to the lower share of growth-enhancing expenditures.*

**Keywords:** public debt, budget balance, interest expenditure, capital expenditure, public policy

**JEL Codes:** H54, H62, H63

### 1. Introduction

As the practice of various countries has shown, the increase of one country's public debt may have many causes: the implementation of some reform and economic development programs, the economic recession, states' involvement in

rescuing banking and financial institutions in distress, the depreciation of the national currency when a large share of debt is denominated in foreign currency, etc. However, the growth of public debt may be, at its turn, a cause of its further accumulation (self-accumulation), depending on the amount of annual expenses with interest, generated by the existence of debt.

The interest burden on public debt thus directly influences the quality of one country's public finances. On the one hand, it affects public budget balances by exacerbating deficits and creates the preconditions for an uncontrolled growth of public debt, making stabilization efforts really hard. On the other hand, when public authorities adopt measures to prevent the above effects, either the budgetary revenues are growing or, more often, mutations in the structure of public expenditures may occur, in order to reduce other types of expenditure. When potentially more productive public expenditures are diminished, the quality of public finances is once again affected.

On such a background, the objective of our paper is to highlight the effects of interest spending on public debt on the quality of a country's public finances, respectively on the size of its public budget balance and public debt sustainability, on the one hand, and on the structure of public expenditures, on the other hand.

Our approach is mainly a theoretical one, supplemented by an analysis of some relevant statistical data (regarding indicators of public debt, budget balance and public expenditures) in order to ensure the relevance of the conclusions. The data refers to the situation of Romania and other developed

and developing countries and come from the databases of the IMF (World Economic Outlook), European Commission (Eurostat) and Romanian Ministry of Public Finance.

## 2. Theoretical fundamentals of the effects of interest payments on the quality of public finances

Regardless of how public indebtedness occurs, in the internal or foreign market, in national or foreign currency, it requires not only for financial resources to be available in the future to make debt repayments, but also leads to additional budgetary expenditure with interest payments, gains or other forms of counterperformance offered to state's creditors. Thus, the existence of public debt may lead to the increase of budgetary expenditures and exerts additional pressure towards raising deficits. It is produced in this way, through the interest expenditure, a feedback effect reflected in higher budgetary deficit and public debt increase, effect known in the literature as the "snowball effect" [7], [10].

In principle, this effect arises from the fact that, when a government accumulates public debt, it must pay, during each budgetary year, interest on the loans contracted in previous years and not reimbursed. If it does not raise sufficient (ordinary) revenues from taxes in order to cover all these interest payments and other financing options to cover the resulted budgetary deficit (such as procuring resources by monetary emission or sale of public assets) are not available, then the government must contract new loans to raise financial resources. Therefore, whenever a government records public debt, including as a result of practicing the budgetary deficit, this could lead to even higher deficits, due to public debt interest expenditure, which makes the public debt rise.

In this way, the accumulation of an excessive public debt is likely to determine the emergence of a vicious circle of indebtedness. The interest expenditure, constituting the so-called "cost" of public debt becomes, in the words of P. Belean, "a sort of "perpetuum mobile", and leads to the creation of new and important budgetary deficits, more burdensome from one year to

another" [2]. Some remarks are necessary regarding the circumstances of this effect.

First of all, the size of public debt does not grow or grows at a slower pace, even if the budgetary deficit increases due to the increase in public debt interest expenditure, when financing is realized using other extraordinary resources, as money issuing or public assets sale. Because the resources obtainable from the sale of public assets are limited in volume and new money issuing is often prohibited by the law in many countries due to the inflationary effects that it entails, the contracting of new loans is most often the solution used by public authorities.

Secondly, a relevant variable for this effect is the size of the interest rate on state's new loans, debt accumulation occurring faster when this is higher. From this point of view, it may be noticed that the size of the interest rate is, at its turn, influenced by the overall size of the debt. With the increase of public debt it decreases the confidence of potential investors and increases the risk premium demanded by them in relation to debtor countries [8], therefore the size of the interest rate at which they are willing to provide loans, and the pace of accumulation of public debt is becoming more alert.

*Figure 1. Forms of government budget balance*

*The primary budget balance (BBp) = the difference between ordinary budgetary revenues and total budgetary expenditures, excluding interest payments on public debt; indicates the size of the budget balance assuming a null public debt (public debt does not involve additional payments reflected within the budget).*

➤ if  $BBp > 0$  = primary budget surplus

➤ if  $BBp < 0$  = primary budget deficit

*Overall budget balance = primary budget balance – the interest expenses on public debt included in the budget.*

Finally, the pace at which public debt reinforces itself depends on the size of the primary budget balance (see Figure 1). On the background of promoting substantial primary surpluses, it is possible that the size of disposable resources is sufficient to cover

all interest expenditure on public debt and thus governments will not have to contract new loans, public debt will not increase over time and the quality of public finances will not be affected. On the contrary, public debt will grow at a more or less alert rate when governments promote small primary budget surpluses (relative to the interest expenses to be covered) or primary deficits, the latter contributing, even further, at the increase of public debt.

It therefore results the imperative need to promote primary surpluses in order to stop this vicious cycle of public debt. Naturally, they occur by themselves when through the promoted public indebtedness policy it is intended to ensure the necessary conditions for a further increase of the ordinary budgetary resources, for example by funding through borrowed resources public expenditures that may have a positive impact on the level of production, income and on the tax base. This is generally true for authorities that use borrowed resources only to finance public investment expenditure, as is the case of Romanian local governments [3].

Many times, however, on the background of some persistent budget deficits and of some substantial interest payments on public debt, governments are practically forced to implement fiscal consolidation measures [1], [4], by increasing tax revenues (either by introducing new taxes or by increasing the quotas for the existing ones) or, more often, by operating reductions of other categories of public expenditures. As previous practice shows, for reasons of ease of application potentially more productive expenditures are sometimes cut, primarily those for economic actions [12], [13]. Thus, the quality of public finances is negatively affected; as they may bring a smaller contribution to promoting long-term economic growth.

### 3. Analysis of the snowball effect of public debt

A revealing image of the amount of interest expenditure on public debt as well as their impact on the size of the budget balance and, thus, on the public debt for the case of Romania, results from the data summarized in Table 1.

Table 1. Interest expenditure on public debt and its impact on Romania's general government balance and debt (1996-2013)

Indicators	1996	1998	1999	2000	2002	2004	2006	2008	2009	2010	2011	2012	2013
General government debt (% of GDP)	10.6	16.7	21.6	22.4	24.8	18.6	12.3	13.2	23.2	29.9	34.2	37.3	37.9
Interest expenditure on public debt (billion RON)	0.2	1.5	2.8	3.2	3.7	3.7	3.0	3.7	7.7	8.0	9.1	10.4	11.1
Interest expenditure on public debt (% of GDP)	1.8	4.0	5.0	3.9	2.5	1.5	0.9	0.7	1.5	1.5	1.6	1.8	1.8
General government primary balance (% of GDP) <sup>1</sup>	-1.8	0.7	0.6	-0.7	0.5	0.3	-1.4	-5.0	-7.5	-5.3	-3.9	-1.2	-0.5
General government balance (% of GDP) <sup>1</sup>	-3.6	-3.2	-4.4	-4.7	-2.0	-1.2	-2.2	-5.7	-9.0	-6.8	-5.5	-3.0	-2.3

1. (+) indicates a budget surplus and (-) a budget deficit

Source: European Commission, Eurostat

It may be noted that, on the background of accumulation of significant public debt, the interest expenditure supported from the budget has recorded important dimensions registering, during 1996-2013, a general upward trend in nominal size. Expressed as a percentage of GDP, its size varied considerably over time, significantly increasing between 1995 and 1999 (from 1.6% of GDP in 1995 to 5% in 1999) and diminishing to 0.7% in 2007 and 2008.

Among the factors that have influenced these developments we can mention the dynamics of public debt and interest rates, the national currency instability or even the more or less favorable economic conditions, reflected in the increase or decrease in real GDP. During the global economic crisis, on the background of the severe economic contraction, significant budget balance deterioration and the public debt growth that it trained, interest expenditure has resumed

its upward trend, increasing significantly in the period 2009-2013 to 1.8% of GDP.

We can also observe that this category of budgetary expenditure had a profound negative impact on the sign and size of the general government balance, making it impossible to achieve balanced or in surplus budgets, even when the economic conditions were favorable or severe budget consolidation efforts were undertaken. There are noted, in this regard, the periods 1997-1999 and 2002-2005 when, although primary surpluses have been registered (it is true, however, that of relatively modest size), they were more than compensated by interests payments, so that the general government budget ended with deficit and contributed to further public debt accumulation.

This situation shows that, at least for the periods indicated, in the absence of a debt already accumulated from the past, there would have been good premises to maintain the equilibrium of the general government budget. Increasing public debt interest expenditure proved to be one of the important causes of permanent budget deficits in the post-revolutionary period of Romania. From another point of view, the reaction of Romanian public authorities is criticisable, as they have not shown real commitment to sound public financial management when economic conditions would have allowed for this, preferring to postpone fiscal consolidation efforts and to engage increased public expenditures, such as social transfers and public sector salaries.

*Table 2. Effects of interest expenditure on the general government balance in some developed and developing countries, in 2013*

Country	General government budget balance <sup>1</sup> (% of GDP)	General government primary balance <sup>1</sup> (% of GDP)	Interest expenditure on public debt (% of GDP)	Public debt (% of GDP)
Argentina	-2.8	-0.7	2.0	41.0
Australia	-3.5	-2.8	0.8	28.6
Austria	-1.5	0.6	2.1	74.5
Brazil	-3.3	1.9	5.1	66.2
Canada	-3.2	-2.7	0.6	88.8
Egypt	-14.1	-6.6	7.4	89.2
Germany	0.2	1.8	1.6	78.4
Greece	-3.2	0.8	4.0	175.1
Ireland	-6.7	-2.9	3.8	116.1
Italy	-3.0	2.0	5.1	132.5
United Kingdom	-5.8	-4.5	1.4	90.6
Peru	0.7	1.7	0.9	20.0
Poland	-4.3	-1.7	2.6	57.1
Russia	-1.3	-0.9	0.4	13.9
Spain	-7.1	-4.2	2.9	93.9
USA	-5.6	-3.6	2.1	104.2
Turkey	-1.5	1.3	2.8	36.3
Hungary	-2.4	1.8	4.2	79.0
Uruguay	-2.4	0.4	2.8	62.1

1. (+) indicates a budget surplus and (-) a budget deficit

**Source:** authors' calculations based on data from IMF, World Economic Outlook

The situation is not specific to Romania; even greater interest expenditure, of more than 5% of GDP, can be found in countries such as Egypt, Brazil or Italy, associated, however, to important public debts (see Table 2). On the contrary, some countries with lower public debt than the one of Romania, such as Australia, Peru and Russia, and others with much higher public debt,

such as Canada or the UK, record interest expenditures under 1.5% of GDP.

It is thus confirmed the hypothesis that, although the size of accumulated public debt directly influences the value of annual interest expenses to be covered, other factors, such as the interest rate, play a decisive role. From this point of view, the negative impact of a public debt of a certain size on the

budget balance is usually (taking into account, however, also the particular conditions of each country) lower in the case of developed countries compared to the least developed ones, because the former benefit from a greater credibility and may borrow at lower interest rates.

It can also be seen from the data in Table 2 that, in the absence of public debt and the specific expenditure that it involves, some of the countries included in our analysis recording budget deficits would know, in fact, budget surpluses. These both include developing countries, such as Brazil, Turkey, Hungary, Uruguay and developed ones, such as Austria, Greece and Italy. In other countries, interest expenses contribute, in varying proportions, either to the decrease of budget surpluses (Germany, Peru) or to worsening negative budget balances (Ireland, USA, Spain, etc.).

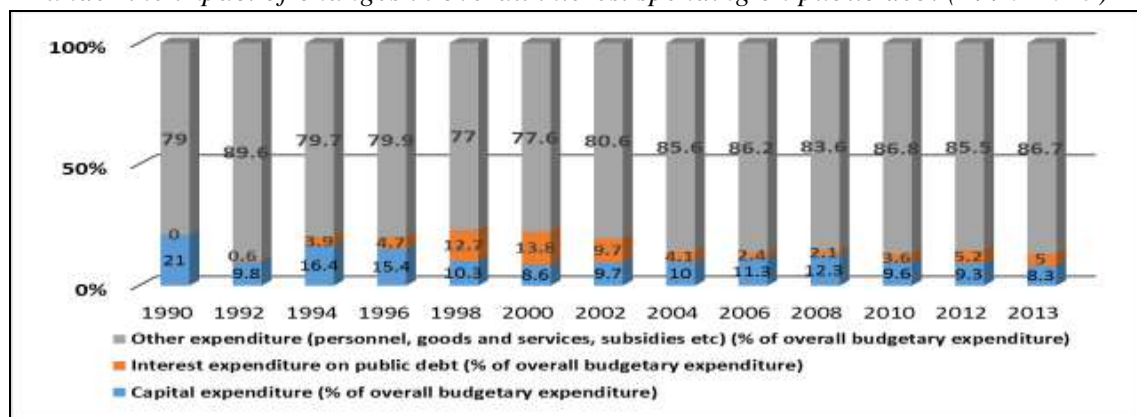
#### 4. Analysis of the effects of interest payments on public debt on the composition of budgetary expenditure

High interest expenditure, under the conditions of the impossibility to raise more ordinary resources or the existence of

objective limits regarding the size of the budget deficit to be financed (resulting either from the real access to borrowed resources from the internal and external market and other extraordinary resources, either from the existence of budget deficit thresholds, set by national laws or international treaties - as the one of 3% of GDP set for EU Member States by the Treaty of Maastricht and the Stability and Growth Pact) can lead to mutations in the the structure of public expenditure. The increase of interest payments on public debt may lead to diminishing the relative importance of other expenditure categories. In this way it could be explained (at least in part) the fact that in some countries registering a significant public debt, the budgetary allocations for essential public services such as education [9], health, national defense, public order, culture, etc. are lower, in real terms.

Moreover, given the difficulties encountered in reducing current expenditure, including as a result of various pressures (as social nature ones), the reduction often implies diminishing the share of capital expenditure, which is considered the best to support long-term economic growth.

Figure 2. Changes within the economic structure of Romania's general government expenditure under the impact of changes in overall interest spending on public debt (1990-2013)



Source: authors' calculations based on data from the Ministry of Public Finance

As regards Romania, it can be seen from the data in Figure 2 that, most often, the share of interest expenditure on public debt in total budgetary expenditure has registered an opposite dynamics to that of capital expenditure. In the period 1994-2000, interest expenses increased, the impact being attenuated by the reducing of the share of

capital spending. Afterwards, between 2000-2008, by reducing interest expenses it was created the room for maneuver necessary to increase capital expenditure, including those with investments in transport and environmental infrastructure, so necessary in terms of alignment with the requirements of EU integration. These mutations have been

also supported by the favorable economic conditions registered prior to 2009, which allowed for a substantial increase in both budgetary revenues and expenditures.

Once the crisis emerged and public debt resumed its upward trend, although the increase of public investment expenditure was assumed as main part of anti-crisis strategies, on the background of limited fiscal space, this desired increase did not materialize. In fact, in the context of increasing interest expenditure on public debt, capital expenditure showed a general downward trend of approximately equal proportions, decreasing from 12.3% of total general budget expenditures in 2008 to 8.3% in 2013.

## 5. Conclusions

Large public debts are generally seen as the result of the lack of public financial discipline. However, depending on public authorities' reaction to such a situation, they may also represent a major factor contributing to further deterioration of the quality of public finances, due to the higher budgetary expenditure with interest payments on public debt.

On the basis of the analysis of relevant indicators for Romania and other developing and developed countries, our paper emphasized that the existence of high public debt may affect the quality of a country's public finances through at least two channels. On the one hand, when public indebtedness fails to promote economic growth and no compensatory measures are undertaken by governments, as budgetary expenditures raise due to higher interest spending and no additional ordinary revenue are available, government budget balances deteriorate and public debt further accumulates, risking to become unsustainable. On the other hand, when compensatory consolidation measures are undertaken in order to keep budget deficits and public debt under control, taxes are raised and/or public expenditures are reduced. As public capital expenditure is most often sacrificed, this alters the quality of public spending, due to the lower share of growth-enhancing expenditures.

It therefore results that public indebtedness policies should aim at keeping public debt at acceptable levels, to prevent

negative effects as the above mentioned ones. The quality of public expenditures financed by means of borrowed resources is crucial, as productive spending may lead to higher future tax revenue and thus put an end to the vicious circle of debt. An active public debt management may also help keeping interest expenditure low, while also assuming reasonable levels of risks.

## Acknowledgement

This work was supported by the European Social Fund through Sectoral Operational Programme Human Resources Development 2007–2013, project number POSDRU/159/1.5/S/142115, project title “Performance and Excellence in Doctoral and Postdoctoral Research in Economic Sciences Domain in Romania”.

## References

- [1] Alesina, A., Ardagna, S., „Large Changes in Fiscal Policy: Taxes versus Spending”, *NBER Working Paper* no. 15438/2009.
- [2] Belean, P., *Metode și proceduri ale contabilității și controlului trezoreriei statului*, „Vasile Goldiș” University Publishing House, Arad, 2000.
- [3] Cigu, E., “The situation of local public finances in the EU – Correlations with local sustainable development”, *Journal of Public Administration, Finance and Law*, Issue 5, 2014, pp. 84-89.
- [4] Debrun, X., Kinda, T., “That Squeezing Feeling: The Interest Burden and Public Debt Stabilization”, *IMF Working Paper* no 125/2013.
- [5] European Commission, Eurostat database, available at [http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search\\_database](http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database).
- [6] International Monetary Fund, World Economic Outlook Database, October 2014, available at <http://www.imf.org/external/pubs/ft/weo/2014/02/weodata/download.aspx>.
- [7] Muzellec, R., *Finances publiques*, 12e édition, Sirey, Paris, 2002.
- [8] Nautet, M., Van Meensel, L., „Economic impact of the public debt”, *Economic Review*, National Bank of Belgium, 2011.
- [9] Petrisor, M. B., “Current trends in public expenditure on education”, *Journal of Public Administration, Finance and Law*, Issue 5, 2014, pp. 207-212.
- [10] Radulescu, A., „The Public Debt of Countries from Euro Zone. The Snowball



- Effect", *Financial Studies*, Centre of Financial and Monetary Research "Victor Slavescu", 2012, pp. 95-103.
- [11] Romanian Ministry of Public Finance, Bulletin of the Ministry of Public Finance, available at <http://www.mfinante.ro/execbug.html?pagina=buletin>.
- [12] Văilă, T., Kozluk, T., Mehrotra, A., "Roads on a downhill? Trends in EU infrastructure investment", *EIB Papers*, vol. 10, no. 1, 2005, pp. 19-38.
- [13] Wagenvoort, R., de Nicola, C., Kappeler, A., "Infrastructure finance in Europe: Composition, evolution and crisis impact", *EIB Papers*, vol. 15, no. 1, 2010, pp. 16-39.

## SMEs Financial Reporting in European Union: Steps towards a More Harmonized Reporting

Buculescu (Costică) Maria Mădălina,

*The University of Economic Studies, Faculty of Accounting, Bucharest*

[buculescumadalina@yahoo.com](mailto:buculescumadalina@yahoo.com)

Stoica Anamaria

*The University of Economic Studies, Faculty of Accounting, Bucharest*

[stoica.anamaria20@yahoo.com](mailto:stoica.anamaria20@yahoo.com)

### Abstract

*Recognizing the increasingly importance of SMEs in the economy, European Commission attempts to develop an "economic friendly" environment for SMEs business and further to create a harmonized accounting framework for SMEs financial reporting. Therefore, in 2013, European Commission issued a new Accounting Directive 2013/34/EU, to which the member states have to comply until July 2015, representing an important effort undertaken to reduce the administrative burden of SMEs financial reporting, which set accounting differential reporting requirements for all SMEs category size.*

*Finally, through this paper we try to review and analyze the European SMEs financial reporting framework, highlighting the SMEs latest financial reporting directions through a more and more harmonized accounting framework.*

**Keywords:** accounting directive, financial reporting, SMEs, IFRS for SMEs

**JEL Classification:** M40

### 1. Introduction

On the one hand, for a considerable period of the last century the attention of regulatory institutions (or European Commission) was predominantly focused on large enterprises. On the other hand, there were contrary opinions arguing that SMEs and entrepreneurship need more attention due to their increased importance in economy, given the number of person employed and generating value added.

Under these circumstances, in the last decade, the perspective changed in the favor of SMEs.

The latest European Commission report regarding SMEs revealed that 99 businesses out of 100 are SMEs, as are 2 in every 3 employees and 58 cents in every euro of value added, which means that SMEs are hereinafter regarded as the backbone of the European Union [1].

Since 2008, European Commission recognized the central role of SMEs in the European Union economy and created premises for developing SMEs through the promotion of a comprehensive SME policy framework - the EU's Small Business Act (SBA) which gathered together actions like: think small first principle, simplifying start-up procedures, internationalization of SMEs, education and entrepreneurship, bankruptcy and fresh start, reducing administrative burden. The main aim was to support SMEs and entrepreneurship and required Member States implementing SBA alongside the European Commission with the purpose to make business SMEs environment friendlier [2].

To develop a more harmonized framework for SMEs and also to create the premises for international comparability, European Commission had to improve SMEs accounting by reducing the administrative burden and forward the accounting systems to meet the needs of the owners/managers of small enterprises. As a consequence, in 2013 European Commission issued a new Accounting Directive 2013/34/EU that member states have to comply until July 2015, which repeal the former Fourth and Seventh European Accounting Directives [3].

## 2. Trends in SMEs financial reporting for European limited liabilities entities

Fourth Accounting Directive (for individual accounts) and Seventh Accounting Directive (for consolidated accounts) represent the European Union legislation for governing limited liabilities company accounts. Fourth Accounting Directive establishes recommended guidelines for the presentation and content of the annual accounts and financial statements that member states should respect in order to provide a harmonized European accounting framework [4].

Since 2005 listed groups from European Union have to comply with International Accounting Standards (IAS) using European Commission IAS Regulation no. 1606/2002.

According to European Commission Recommendation 2003/361/EC, small and medium sized entities (SME) are defined as entities which have less than 250 employees, an annual turnover less than 50 million Euro and/or total assets less than 43 million Euro [5]. However, the definition of the Recommendation 2003/361/EC is an economic purpose definition and does not set accounting thresholds for classifying SMEs into category of micro, small and medium sized entities.

The former Fourth Accounting Directive did not specify differential reporting or accounting definition for each SMEs category such as: micro, small and medium size. It only specifies the thresholds according to which an entity should or should not prepare the abridged financial statements.

Fourth Accounting Directive stipulated balance sheet, profit and loss account and notes to the accounts as main financial statements an entity should draw. Also it provides recommended layouts for drawing financial statements together with general principles for the valuation of the items in the annual accounts and others [4].

The threshold limits for preparation of the abridged financial statements for those companies that on their balance sheet dates do not exceed the limits of two of the following three criteria are:

- balance sheet total: 4.4 million Euro (until 2006, balance sheet threshold was 3.65 million Euro);

- net turnover: 8.8 million Euro (until 2006, net turnover threshold was 7.3 million Euro);

- number of employees: 50

However, member states adopted different threshold required values for SMEs in order to prepare the abridged financial.

Within European Union, SMEs requirements for preparing financial statements varies given each Member State provisions. Therefore, medium unlisted limited liability entities from Austria, Belgium, Czech Republic, Denmark, France, Germany, Greece, Italy and the Netherlands are required to prepare balance sheet, profit and loss account and notes to the balance sheet. By contrast, in Estonia, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and UK entities besides the three financial statements should prepare also statement of changes in equity and cash flow statement for those SMEs that exceed specified thresholds of their legislation [6].

In Estonia, Czech Republic, Greece, France, Italy, Lithuania, Poland, Romania, Portugal, Slovakia there is no definition for classifying the entities into specific categories of small and medium enterprises in the accounting legislation. But, Portugal, Spain and UK have implemented national differential accounting regulations specific to small enterprises[6].

There were made continuously efforts for simplifying the SMEs financial reporting and finally, in 2013, the European Commission issued a new Accounting Directive 2013/34/EU that member states have to comply until July 2015, which repeal European Accounting Directives Fourth and Seventh. Fourth Accounting Directives aims at reducing administrative burden for small companies and improving quality and comparability of disclosed information [3].

Lately, financial reporting of micro, small and medium sized entities benefits of a special attention coming from European Commission, given their increasing importance within European Union economy. The new directive supports SMEs by simplifying the preparation of SMEs financial statements and specifying the thresholds for SMEs classification into each type of the following categories: micro, small and medium sized.

Under the new accounting directives, small companies are defined as entities which do not exceed a balance sheet in total of 4 million Euro, net turnover of 8 million euro and average number of employees during the financial year less than 50 [3].

Also, the new Accounting Directives impose limit values to the threshold of micro entities like: less than 10 employees, a turnover of not more than 0.7 million Euro and/or a balance sheet total of not more than 0.35 million Euro [3].

The adoption of the new Accounting Directive will reduce the information provided by small entities in their notes to the financial statements and micro entities will be required to prepare only a simplified balance sheet and profit and loss account.

**In Romania**, according to the national accounting legislation [7] an entity should draw: abridged balance sheet, abridged profit and loss account and notes to the accounts if do not exceed two of the following criteria: balance sheet total less than 3.65 million Euro, net turnover less than 7.3 million Euro and number of employees less than 50.

For those entities which exceed two of the above criteria the entity should draw balance sheet, profit and loss account and notes to the

accounts and additionally: statements of changes in equity and cash flow statements [7].

Until now, Romanian entities which reported in the previous financial year a net turnover of less than 35,000 Euro and total assets of less than 35,000 Euro could choose between the simplified accounting system Order 2239/2011 and OMFP 3055/2009 as presented in the Table no. 1.

Considering the future imminent adoption of the new Accounting Directive 2013/34/EU starting with 2015, the criteria for micro entities will become larger and will be aligned with the new Accounting Directive 2013/34/EU. As a result, in Romania, the number of entities which will prepare simplified financial statements is expected to grow from an estimated of 12,900 entities (preparing financial statements in line with the Order 2239/2011[8]) to 608,300 entities. Also, by raising the threshold values from: 3.65 million Euro to 4 million Euro (for a balance sheet total) and from 7.3 million euro to 8 million Euro (for net turnover), the number of entities which will prepare abridged financial statements instead of the five components financial statements will grow [9].

*Table no.1 Romanian Accounting regulation and financial statement requirements for limited liabilities entities*

<i>Threshold criteria</i>	<i>Accounting regulation</i>	<i>Mandatory financial statements</i>
Turnover < 35.000€ and Total Assets < 35.000 €	Alternatively, between: - Order 2239/2011 (optional) and - Order 3055/2009	- Simplified/abridged balance sheet; - Simplified/abridged profit and loss account; - Notes to the accounts (only in the case of OMFP 3055/2009)
At least two of the conditions: Average person employed < 50 Turnover < 7,300,000 € or Total assets < 3,650,000 €	- Order 3055/2009	- Abridged balance sheet; - Abridged profit and loss account; - Notes to the accounts;
Exceeding at least two of the following conditions: Average person employed > 50 Turnover > 7,300,000 € Total assets > 3,650,000 €	- Order 3055/2009; - For listed enterprises, it is required the application of OMFP no. 1286/ 2012 and the use of IAS / IFRS and thus drawing another additional set of financial statements under IAS / IFRS	- According to Order no 3055/2009: Balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the annual accounts ; - According to Order no 1286/2012, the entities submitted financial statements following accordance with IAS 1: a statement of financial position, a statement of profit or loss and other comprehensive income for the period, a statement of changes in equity for the period, a statement of cash flows for the period notes, comprising a summary of significant accounting policies and other explanatory notes

Source: authors projection using Romanian accounting legislation

### **3. Accounting framework of the SMEs financial reporting which are not subject to European directives**

Each European Union member state implemented the Fourth Accounting Directive and the Seventh Accounting Directive with the purpose to create a European harmonized framework for financial reporting, but the accounting directives address only to certain limited liability companies.

Sole proprietorship is not subject to the European directives, that is why within the European countries, accounting records and principles for sole proprietorship vary a lot.

In 2008, European Commission through the Enterprise and Industry Directorate-General published a final report regarding recommendations and good practices for small enterprises accounting systems for promoting SMEs' competitiveness. The report is addressed to those enterprises whose accounting legislation is not regulated at EU level, non-regulated enterprises (sole proprietorships/traders and partnerships with unlimited liability) with the purpose to improve the accounting systems of small enterprise [10].

European Commission recommend as good practices: keeping the most important financial records, applying double-entry bookkeeping, using simplified formats for financial statements, preparing projected cash flow statements on a regular basis, applying accrual basis accounting, applying the matching principle, applying the true and fair view principle, using a standardized chart of accounts and applying the "only once" principle meaning an administrative simplification in the supplying of financial information to different or the same authorities. However, European Commissions argue that in some cases a single-entry bookkeeping is justified when the enterprise is a micro-sized and the transactions are not many or complex [10].

Generally, sole proprietorships were defined for accounting purposes only by Slovenia, Spain and Sweden. In Denmark, Lithuania, Slovakia, Spain, Sweden, Portugal, and Slovenia, the double entry accounting methods is required to be used for sole proprietorship. Forward, medium-

sized sole proprietorship from Czech Republic, Denmark, France, Lithuania, Poland, Portugal, Slovakia, Slovenia, Spain and Sweden are required to produce balance sheet, profit and loss account and notes to the accounts, but there are also countries where the cash flow is also commonly required: Lithuania, Poland, Portugal, Slovenia and Spain. In Austria, Germany and Italy cash accounting is allowed if some thresholds are not exceeded [6].

Micro sized sole proprietorships from Denmark, France, Lithuania, Slovakia, Spain and Sweden are also required double entry-accounting method. There are countries like Belgium, France, Romania and the UK where regardless the size, accounting is prepared only for tax purposes or on cash basis like Estonia. Greece and Poland permit accounting for tax purpose only if are not exceeded their national required thresholds [6].

Anyway **in Romania**, for the sole proprietorship financial reporting there are several discrepancies, compared to the recommended practices of the European Commissions. Romanian sole proprietorship has to comply with the Order of the Ministry of Public Finance no. 1040/2004 for approval of application norms for organization and conduct single entry accounting. This means that the sole proprietorships do not have to prepare financial statements, but have to draw inventory of assets ledger and ledger of receipts and payments, the reporting being done only for tax purposes [11].

### **4. IFRS for SMEs - an alternative to European SMEs financial reporting?**

On 9 July 2009, the International Accounting Standard Board (IASB) published final version of a reporting standard specially designed for SMEs, entitled International Financial Reporting Standards for Small and Medium Sized Entities (IFRS for SMEs). The standard was designed by extracting fundamental concepts from the IASB Accounting Conceptual Framework and IFRS principles and recommendations and was particularly addressed to non-publicly accountable companies which publish general purpose

financial statements for external users and do not define SMEs

IFRS argues that IFRS for SMEs is a set of high quality financial reporting principles, designed to meet the needs and capabilities of small and medium-sized entities, which account more than 95% of all companies around the world [12].

The complete set of financial statements a SME should prepare according to IFRS for SMEs are: statement of financial position, either a single statement of comprehensive income, or two statements: an income statement and a statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the accounts [13].

Given the challenges represented by the application of an international accounting standard for small and medium enterprises (IFRS for SMEs) and the intention of IFRS for SMEs adoption by many African, Asian and South American jurisdiction, even since its earlier form of an Exposure Draft, the European Commission considered the possible implementation of IFRS for SMEs within European Union legislation, by analyzing the compatibility of the IFRS for SMEs with European Directives content. Moreover, in 2009, European Commission launched the study entitled "Consultation on the International Financial Reporting Standard for Small and Medium sized Entities". The results of the study were disseminated within the European Commission Summary Report published in May 2010. The report reflected divergent opinions of the respondents with regard to the potential application of the IFRS for SMEs in Europe [14]. Further European Commission considered IFRS for SMEs may be available only as a voluntary option for SMEs, in countries where the standard will be used [15].

However, currently, United Kingdom and Ireland decided to adopt IFRS for SMEs as FRS 102, considering the significant changes made in order to comply with the European accounting directives.

European Commission argue that the New Accounting Directive 2013/34/EU is better suited for SMEs financial reporting because introducing IFRS for SMEs would not appropriately serve the objectives of simplification and reduction of administrative

burden, one reason being that IFRS for SMEs requires cash flow statement whereas Accounting Directive 2013/34/EU does not require this financial statement [14].

## 5. Conclusion

Regardless of the juridical organization of the enterprises and their country specific mandatory reporting requirements, under which SMEs must prepare their financial reporting, it became obviously the efforts undertaken in the last years by the European Commission and IASB to simplify SMEs financial reporting and create an accounting harmonized framework for SMEs.

Through the new Accounting Directive 2013/34/EU, European Commission set SMEs accounting threshold for classification SMEs into categories size of micro, small and medium sized entities with the purpose to harmonize accounting definition within European Union. Moreover, there are set specific reporting requirements in accordance with the category size of the SMEs. This aims the main goal of reducing the administrative burden of SMEs and simplifying SMEs financial reporting within European Union.

## Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”

## 6. References

- [1] European Commission, A Partial and Fragile Recovery, Annual Report on European SMEs 2013/2014, 2014
- [2] European Commission, A Small Business Act for Europe, 2008
- [3] European Commission, Directive 2013/34/EU of the European Parliament and of the Council, 2013: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF>
- [4] Official Journal of the European Communities, Fourth Council Directives (78/660/EEC), 1978
- [5] Official Journal of the European

- Communities, Commission Recommendation concerning the definition of micro, small and medium-sized enterprises (2003/361/EC), 2003
- [6] European Commission, Study on Accounting requirements for SMEs, Final Report submitted by Cna Interpreta, 2011
- [7] Order of the Ministry of Public Finance no. 3055/2009 for approving accounting legislation with European directives: [http://static.anaf.ro/static/10/Anaf/legislatie/OMFP\\_3055\\_2009.pdf](http://static.anaf.ro/static/10/Anaf/legislatie/OMFP_3055_2009.pdf)
- [8] Order no. 2239/2011 for approving the simplified accounting reporting systems
- [9] Ministry of Public Finance, Report for approving the new European directive, 2014: <http://discutii.mfinante.ro/static/10/Mfp/transparenta/ReferataprobareD34.pdf>
- [10] European Commission, Enterprise and Industry Directorate- General, Promotion of SMEs' competitiveness, Final Report of the Expert Group, Accounting systems for small enterprises – recommendations and good practices, 2008: [http://ec.europa.eu/enterprise/policies/sme/files/craft/accounting/doc/accounting\\_systems\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/files/craft/accounting/doc/accounting_systems_report_en.pdf)
- [11] Order of the Ministry of Public Finance no. 1040/2004 for approval of application norms for organization and conduct single entry accounting
- [12] IFRS, About the IFRS for SMEs, 2013: <http://www.ifrs.org/ifrs-for-smes/Pages/ifrs-for-smes.aspx>
- [13] IFRS for Small and Medium-Sized Entities (IFRS for SMEs), 2009: <http://www.iasplus.com/en/standards/other/ifrs-for-smes>
- [14] European Commission, Directorate-General for The Internal Market and Services, Summary report of the responses received to the Commission consultation on the International Financial Reporting Standard for Small and Medium Sized Entities, 2010: [http://ec.europa.eu/internal\\_market/accounting/docs/ifrs/2010-05-31\\_ifrs\\_sme\\_consultation\\_summary\\_en.pdf](http://ec.europa.eu/internal_market/accounting/docs/ifrs/2010-05-31_ifrs_sme_consultation_summary_en.pdf)
- [15] European Commission, Financial reporting obligations for limited liability companies (Accounting Directive) – frequently asked questions, 2013: [http://europa.eu/rapid/press-release MEMO-13-540\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-540_en.htm).

## Innovative Techniques in Internal audit

Carataş Maria Alina

*Bucharest University of Economic Studies*

[maria.caratas@me.com](mailto:maria.caratas@me.com)

Spătariu Elena Cerasela

*Ovidius University of Economic Studies, Constanța*

[ebarbu2001@yahoo.com](mailto:ebarbu2001@yahoo.com)

### Abstract

*With this paper, we are aiming to bring to an attention the need of change in the internal audit function within companies activities and to raise an exclamation mark in the importance accorded to this function.*

*We made an analysis of the current role of internal audit and how this changed over the time, adapting on the economic changes.*

*Also, we highlighted the changing relations between IA and committee, which are the characteristics used to add value for organizations using internal audit function and contouring solutions for transforming the internal audit into a more productive function.*

*All the information is useful for practitioners and academicians in the internal audit field and can be used for further research to analyze how these changes impact the performance of the organizations.*

**Keywords:** internal audit, internal control, risk management, continuous audit, continuous monitoring.

**J.E.L. Classification:** M40, M42, M48.

### 1. Introduction

This research reflects results of a more extended study; work performed with the aim to develop a doctoral thesis.

Nowadays, economic environment passes through many changes and challenges, which generate an increased need for controlling risks. Due to this issue, there is a closer focus on internal audit, from where it's claiming more than an ordinary review of its activities.

This function grows and evolves in accordance with the expectations regarding

it.

Therefore, regulators all over the world expect companies to anticipate risk, to prevent and detect fraud and to identify optimized trends in control field.

### 2. The role of internal audit

Internal Audit represents an independent activity, objective, neutral, of insurance and consultancy having as objective the improvement of the companies' operations and creating value-added for them.

Internal audit role emerges and attracts the attention of management over the potential risks, establishing the accepted risks limits and offering operational support.

Through their activities, the internal auditors have the responsibility to evaluate the internal control system of the organizations.

Meanwhile, they have to be in the measure to offer reasonable assurance to managers regarding the functionality of this system.

Currently, after studying the developing steps of the audit profession, we found out that auditors and managers have to establish partnership relations.

They cannot be opponents, regardless the organization; the expectations regarding the subject are for mutual support with the aim to reach the general objectives of the company.

It's the time for the auditors to grant a higher attention to risks, to notify them when in case, to evaluate them and to bring them to the managers' attention. The managers have a professional obligation to listen the auditors' recommendations made with the opportunity of drafting the reports.

One expanded role of the internal audit is to operate efficiently in the entity's processes, offering operational support and taking



strategic decisions.

Internal audit has the task to establish the risk appetite for the company's board.

Another function of IA is to evaluate the limits of the permitted risks in the company, the activities and the reporting that is going to be made.

Meanwhile, another role is to check if „taking decisions and the processes are accordingly with the ethics, entity's politics and the allowed risk level”. [1]

### 3. Internal Audit evolving through the organizations

According to a PwC 2012 study, new risks are developing within organizations, like:

- Cloud computing
- Social media
- Customs import/export
- Cyber security
- Mobile devices
- IT governance
- Software asset management
- Spreadsheet management
- ERM
- New regulations [2]

Thereafter, the abilities required from internal auditors in order to repel these emergents risks, in the IIA opinion are:

- Analytical and critical thinking (77%)
- Communication skills (66%)
- Data mining and analytics (47%)
- Business acumen (41%)
- General IT knowledge (39%). [3]

Internal audit has to show attention to the organizations, especially with:

Financial and nonfinancial reporting: both in national and international regulations we can find that the auditor is the one who checks and certifies the correctness of the financial and nonfinancial reporting. Also, another acknowledged a task of the auditor is validating all that information.

Internal control: internal audit is

responsible for checking the activity of internal control and with the help from the Audit Committee, and the external auditors are usually accomplishing.

According to the 2120 Standard for Control „the internal audit activity should help the organization to maintain effective controls by evaluating their effectiveness and efficiency and by promoting their continuous improvement.” [1]

Risk management: Internal audit also has the role to identify potential events that may affect organizations, as well as risk management. That should lead auditors in providing reasonable assurance to management in order to accomplish the objectives and strategic plans for the entity.

The IIA 220 Standard on Risk Management says, „internal audit activity should help the organization by identifying and evaluating major exposures to risk and contributing to the improvement of risk management control systems” [1].

### 4. New approach over the relation between Internal Audit and Audit Committee

Analyzing some of the results of the studies made by PricewaterhouseCoopers in 2008-2012, we could identify the hierarchic order of the characteristics that are appreciated by the audit committees in the internal audit teams:

- Capacity of ensure the efficiency of the internal controls;
- Communication and efficient reporting;
- Capacity for managing the financial risks;
- Capacity of managing the conformity risks;
- The quality of audit teams and the members' skills;
- Capacity of managing the operational risks;
- Closing the audit plan on time
- Internal Audit provides assurance over the efficiency of risk management process.

Figure 1 – Standards of reference studied during the research

Country	Standards of reference
SUA	COSO-Report, Sarbanes & Oxley Act

Marea Britanie	UK Corporate Governance Code
Franța	Raport Vienot, Nouvelles Regulations Economiques, Loi sur Securite Financiere
Germania	German Corporate Governance Code
Italia	Codul de Autodisciplina (Bursa Italia)
Spania	Riuz Code/Reforma legislativă a organizațiilor
Belgia	Belgian Corporate Governance Code
România	Codul de Guvernanță al BVB

During the research, we could notice that at the European level, we are witnessing nowadays to a real "process sharing" between the internal auditors and audit committees.

In practice, these committee members are supposed to have unlimited access to concerned economic information. Meanwhile, they use to share their experience with board members from other countries, forming a real professional community, able to define directory action lines.

In the case of Romania audit committees extended after 2008s and even rose in 2010.

Notwithstanding Romania continues to offer summary information regarding the independence of committee members comparing with the other more experienced countries in Europe. Latest studies emphasize an augmentation in the number of committees members. Most of the organizations operating in Romania bring expats in order to improve the financial expertise.

Concluding, in Romania, is aiming the extent of using good practices from the experience of other countries regarding internal audit, so the importance of this function tends to grow within organizations.

This approach aims improvement and efficiency of the governance processes, such as a profound knowledge of the business and activities at all operational levels:

- Careful monitoring of the Enterprise Risk Management (ERM);
- Increasing the efficiency of the

operational costs;

- Extended operative control
- Evaluation of risks through the creation of perfectly adapted instruments, aiming to protect the interests of stakeholders and shareholders.

### **5. Internal Audit needs for change in companies**

We discovered some essential characteristics of a better functioning internal audit within companies.

The 2010 Standard: The chief audit executive must establish risk-based plans to determine the priorities of the internal audit department, consistent with the organization's goals.

1. One of the most important characteristics is aligning Internal Audit objectives with the company's strategic objectives.

Trying to align IA contribution with the strategic goals will generate value added for the enterprise.

- Complying with corporate governance, sharing the company's crisis and the auditor's fears, the result will be managing the crisis and managing compliance.

- Reducing business incertitude by applying best practices, accepting and assessing the risks of the enterprise in accordance with business environment risks.

- developing opportunities through value-based management approach in order to grow returns, improve capital assignment and protect company's reputation.

The expectations regarding internal audit are higher and higher, going from the traditional emphasis to a strategical one.

Classic focus deals with operational, financial reporting, compliance, and fraud risks, as long as strategic focus goes on auditing risks aiming to reach strategic objectives and evaluate the risk management efficiency.

2. A solution to bringing more added value in companies is using a continuous monitoring and data analytics as instruments to improve efficiency and reducing risks.
3. Maintaining and developing core competencies, required by auditors.
4. Growing leadership abilities, helpful in the company.
5. Measuring the performance of the enterprise and report to Audit Committee and other stakeholders essential information. [2]

KPMG realised a study on transforming Internal Audit affirming that „The audit plan should be reflective of stakeholder expectations, a risk-based prioritization, and the appropriate coverage of financial, compliance, and operational needs of the business”. [3]

Internal auditors need to come in anticipation of the new approach, creating increased value and acumen to the companies and not just examining past activity. For doing this, IA leaders should develop their abilities and skills.

KPMG purposes a way to transform IA through critical thinking. Change the primary finding, observation and recommendation reports and use data analytics and make cost-benefit considerations" .[3]

The audit function has to be directed to finding revenue leads, cost redeeming, looking for ways to reduce costs, evaluating the efficiency, direct redistribution of savings, measuring and identifying unexploited growth potential or decreasing risks.

One of the main activities should be the compliance ones and by critical thinking the internal audit will create more value for the organization.[3]

Companies' risks continue to develop and spread, internal audit and management search for new methods to get information for counter risks and performance

amelioration.

One way of succeeding is by using continuous auditing and continuous monitoring of organizational processes, activities, systems.

Continuous auditing is represented by all the audit proofs and guiding of the internal audit about IT systems, processes, transactions and controls made oftenly or continuously.

CA helps IA team to detect in real time control crashes by tracking business and transactions.

Organizations adopt continuous auditing for an improved image of the company, evaluating control efficiency, helping compliance struggles and improving resources of internal audit.

Using continuous auditing along with continuous monitoring lead to a successful recipe, synchronizing the efforts for managing risks and against waste of resources. [4]

## 6. Discussions and Results of the Research

The general reference offers greater legitimacy to the internal audit at European Union level, so there auditing starts to win the field in the economic professions.

Internal auditors have the job to pay higher attention to averting illegal behaviors and frauds, to grant transparency and reliability in internal communication, comply with regulations and working laws.

Although the internal audit is relatively new, it has a dynamic and rapid evolution.

Nowadays we are assisting in a change of the audit's objective, from detecting frauds and evaluating risks to provide assistance and consultancy to management.

## Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

## 7. References

- [1] Institute of Internal Auditors Standards
- [2] McCurry D., Brohi H., „Emerging Risks and the Impact on Your Audit Plan” PWC, October 2012, [www.pwc.com](http://www.pwc.com)
- [3] Institute of Internal Auditors, The pulse of the profession. „2013: Time to seize the opportunity”, Global Report – April 2013
- [4] Arons A. & Popanz T., “Top 5 Characteristics of a High-Functioning Internal Audit Organization”, [www.experis.us/materials](http://www.experis.us/materials), May 16, 2012
- [5] Holt E., Bassman J., Kramer M., O’Neill I., „Transform Internal Audit and Critical Thinking study” KPMG LLP, 2014.
- [6] Minaar D., Littley J., Farineau D. „Continuous Auditing / Continuous Monitoring Using Technology to Drive Value by Managing Risk and Improving Performance” KPMG, 2008  
[www.us.kpmg.com](http://www.us.kpmg.com)

## Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

# What's the main role of the Internal Audit in the Corporate Governance of a firm?

Carataş Maria Alina

*Bucharest University of Economic Studies*

[maria.caratas@me.com](mailto:maria.caratas@me.com)

Spătariu Elena Cerasela

*Ovidius University of Economic Studies, Constanța*

[ebarbu2001@yahoo.com](mailto:ebarbu2001@yahoo.com)

## Abstract

*The purpose of this study consists in highlighting the role and responsibilities of the internal audit function and the way a firm approaches corporate governance. We drew up some directory lines recommended by IIA in order to touch the general scope of internal audit. The value of this paper resides in identifying the areas in need of improvement in order to be in compliance with the global requirements.*

**Keywords:** internal audit, corporate governance, reporting, corporate social responsibility, internal audit charter.

**J.E.L. Classification:** M140, M40, M42, M48.

## 1. Introduction

Nowadays audit plays a crucial role in corporate governance. It is supposed to provide independent assurance to stakeholders; investors and other third parties involved that financial statements are drawn in accordance with accepted accounting standards. Internal audit has derived from managers' desire and that of a large public to know the reality and relevance of information received.

At present, we are witnessing a legitimate interest for corporate governance in general at all levels: the corporate one, the political as well as the academic one. In the case of the emerging countries, corporate governance appears as the main challenge for companies in order to enter the globalised economy and to surpass the economic disparities. Romania seems to be at the beginning of a long

process concerning corporate governance implementation especially within private companies.

Internal audit was adopted in Romania, as a component of financial control, but now, internal audit involves all the activities concerning internal control within an entity together with the associated risks.

Internal audit will achieve its objectives in our country only under the conditions of an organised, effective and efficient internal control, functioning in accordance with regulation and norms, procedural guides and deontological codes.

Our research emphasizes the increased need for the development of internal audit function within the private companies in Romania.

## 2. Role and duties of internal audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. According to the Institute of Internal Auditors (IIA, 2009), internal audit "helps an organization accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process".

Audit services include financial, performance, compliance, systems security and due dialogue engagements. (Riley, 2012)

In practice, the internal audit function continues to play only a minor role in many organizations all over the world (Julien and Rieger, 2011).

As we have mentioned above, internal audit's role needs to be well understood.

The main responsibilities of internal audit,

as the Institute of Internal Auditors, presents them, are:

- The assessment of risk exposure;
- The evaluation of information's reliability and integrity;
- Compliance with laws and regulations;
- The safeguarding of the assets;
- The evaluation and monitoring of governance processes;
- Consultancy and advisory services related to risk management, internal control and corporate governance.

It is recommended for auditors to write their report as a conclusion of each internal audit engagement, which might involve the necessary corrective actions in regard to auditors' recommendations. At this point, we highlight the importance of the audit charter, being used as "raison d'être" of the internal audit function.

### 3. Corporate Governance

Sir Adrian Cadbury presented corporate governance as the way organizations are directed and controlled. Effective corporate governance can increase companies' performance.

The Organization for Economic Cooperation and Development (OECD) settled some key elements concerning corporate governance and they are known in the literature under the name of Corporate Governance Principles. However, during our research study, we have been interested in the ways corporate governance could be made to work in practice, within private companies in Romania.

The main issues, which attracted our attention, were:

- Stakeholders' control of the business as a whole;
- A clear division of responsibilities at the top of the business;
- A balanced board cooperation (executive and non-executive directors)
- The independence of a minimum number of board's members;
- Risk management and internal control;
- Internal audit presence; its role and responsibilities.

However, corporate governance could not be taken into account, without understanding

the notion of risk. Effective Corporate Governance Codes require the boards of directors to establish a risk management system. The capacity to manage risk is "a key element of energy that drives the economic systems forward". (Bernstein, 1996)

### 4. Comparative Analysis

We chose to make a comparative analysis of the way by which two private companies are used to implementing corporate governance and internal auditing functions. Therefore, we analyzed the Annual Reports for 2012 of one of the top Romanian market player – PETROM and GSK Group, an international pharmaceutical performer.

Petrom is the largest oil and gas group in Southeastern Europe, being part of the OMV Group that holds a 51.01% share in Petrom, and that is one of Austria's largest listed industrial companies. Petrom's strategy involves sustainable performance for growth.

Our research findings highlight the stakeholders' engagement as a key part of company's work. In this respect, the entity makes all its best for understanding stakeholders' views and interests for meeting both its sustainability objectives and future development challenges.

GlaxoSmithKline Plc was incorporated as an English public limited company, being formed by a merger between Glaxo Wellcome plc and SmithKline Beecham plc. The Group's shares are listed on the London Stock Exchange and the New York Stock Exchange. The Group's strategy is designed to deliver sustainable growth, reduce risk and improve long-term performance and return to its shareholders.

During our research work, we have noticed GSK's commitment to good governance and transparent reporting. In this respect, the Group has a clear governance organizational structure able to ensure its accountability.

<b>UK Governance Recommendation</b>	<b>Corporate Code</b>	<b>PETROM</b>	<b>GSK Group</b>
The Board is expected to establish an Audit Committee, consisting of a minimum three independent non-executive directors.		The Board established an Audit Committee, formed of four members that met three times in 2012.	The Audit Committee meets at least four times a year and is formed only of non-executive members and a sufficient number of independent members, according to the law.
The UK Code recommends that the Audit Committee include members that have the necessary financial, audit and accounting expertise.		Petrom takes into account the UK recommendations concerning the Audit Committee's expertise.	GSK's Audit and Risk Committees' members possess financial, accounting and scientific experience, as it is noted within company's Annual Report for 2012.
The directors are supposed to explain their responsibility for preparing the accounts next to auditors' statement concerning the reporting responsibilities.		The Supervisory Board approved the Directors' Report, which includes the Corporate Governance Report.	The Report of the Directors has been drawn up in accordance with and in reliance upon English Company Law. The liabilities of the Directors have been subject to the restrictions provided by such law.
The board is supposed to maintain a sound system of internal control. This will safeguard shareholders investment and the assets of the organization.		The Group has implemented an internal control system whose purpose consists in preventing and detecting undesirable events such as: fraud, damages, errors, non-compliance and misstatements in financial reporting. The Supervisory Board is assisted by the Audit Committee in the area of internal control and financial reporting.	The Board has delegated responsibility for reviewing and approving the adequacy and effectiveness of internal control to the Audit Committee.
The annual review of internal control's effectiveness should cover all controls, financial, operational, compliance and risk management.		Management and internal audit evaluate periodically the effective implementation of the internal control system. Internal audit assesses the effectiveness and efficiency of company's policies, procedures and systems at all levels.	The Group's internal auditors review the operational, financial and regulatory controls, procedures and risk activities.
In the case of companies that do not have an internal audit function, they should review their need for this periodically.		Petrom does have an internal audit function. Internal audit carries out regular audits and informs the Audit Committee about the results of audits performed.	GSK has also an internal audit function.
The Board has to run an effective control of risk management at least once a year and report to shareholders.		The Supervisory Board adopts strict rules concerning the effectiveness of the risk management system within the company. The Executive Board is directly involved and monitors company's risk management. The effectiveness of the risk management system is	The Board is responsible for corporate governance, strategy, risk management and financial performance. The Board is responsible for GSK's long-term success and is accountable to shareholders for ensuring that the Group is effectively managed and governed.

	<p>monitored by the Audit Committee. In 2012, the consolidated risk profile was reported for two times by Petrom Executive Board in accordance with company's risk appetite.</p>	<p>The responsibility for risk management and control is delegated to local business units supported by the management structure.</p>
--	--	---

*Source: Author's analysis of Annual Reports and Corporate Responsibility Reports of the two companies compared with the UK Corporate Governance Code's Recommendations*

During our research, we have noticed that Petrom confer great importance to the corporate governance's principles laid down in the Bucharest Stock Exchange Code that is a simplified version of the UK Corporate Code. Effective since 2010, the "Comply or Explain Statement" is included in the Corporate Governance chapter of Petrom Annual Report for 2012. Moreover, the Executive Board as well as the Supervisory Board, they have passed their resolutions for company's general welfare, taking namely into consideration stakeholders' interests.

GSK also complies with the UK Corporate Governance Code recommendations. For 2012, a new provision of the mentioned Code is the requirement for all directors to retire each year at the Annual General Meeting and, if they wish to continue their activity, to be elected or re-elected by shareholders. Throughout 2012, the Group complied with about all the provisions of the above-mentioned Code.

## 5. Research Discussions and Conclusions

In order to remain competitive in a changing world, we have noticed that the two analyzed companies try to develop and update their corporate governance practices, especially the GSK Group that has a greater experience on corporate governance.

However, by analyzing how the mentioned private companies implemented the requirements of corporate governance code we have arrived to highlight some gaps and limitations that they should consider analyzing.

Although the directors are expected to review internal control effectiveness, they are not forced to report on this effectiveness. Meanwhile, internal audit is not mandatory. Therefore, the organizations have to review each year the need for internal audit function.

The UK Corporate Governance Code recommends that listed companies should report on internal control but limits this responsibility to internal financial controls.

We found out that the existence of an internal audit function depends on a number of factors, such as company's size and complexity, employees' number and the rapport between audit's cost and benefits.

In practice, there is an increasing number of internal audit functions where internal audit service is provided by external bodies. (Pickett, 2005)

External audit is a legal requirement for listed companies and a series of public bodies. However, internal audit is not mandatory for private entities. Public sector requires it partially. We assume that this comes in contradiction with the fact that internal auditors are expected to cover all the operations within an entity while external auditors deal with financial systems. In addition, we add that, in practice, internal auditors work throughout the year for and on behalf of the company.

From our research work, we have noticed that there are some gaps in the way by which the studied entities use to implement corporate governance.

Therefore, we consider that Romania needs round business practice whereby internal audit is embedded in the business process. Moreover, an internal audit charter could support companies in reviewing audit's effectiveness. We believe that governance processes could incorporate it.

Our findings sustain that:

- The non-executive directors represent the key element for the future of the corporate accountability. Together with the internal auditor, the non-executive director could ensure that risk management is effectively implemented at the level of the entire organization.
- The non-executive director represents



an important element of corporate governance because of his role in improving the quality of board's decision-making process.

From our research, we have noticed that up to now, in private companies in Romania, there are not used these charters, as it happens at the public level.

However, we sustain that this tool will be able to increase the effectiveness of internal audit at the private level. This instrument could be designed for:

- Assessing the way by which employee's actions are in compliance with laws and regulations, such as: policies and procedures, standards;
- Measuring the resources;
- Evaluating the effectiveness of risk management and internal control;
- Observing that plans and programs are achieved;
- Evaluating the potential occurrence of fraud;
- Noticing the coordination between different governance participants.

The purpose of the Internal Audit Charter is to set out the nature, role, responsibilities, as well as the status and the authority of the Internal Audit Department within the private companies.

The economic entities will increase their chance to a better risk management and to a more effective internal control if they create strong audit departments.

Our findings show that, as a general rule, the charter should establish the authority and responsibility conferred by management. Moreover, an adequate internal audit department within the private companies should assist managers to meet their objectives and to discharge their responsibilities. The Board is expected to approve the internal audit charter.

Companies in Romania do have the possibility to choose between the most suitable structures for charters in accordance with their specificity and needs. However, we assume that each company should know the parameters offered by the professional standards before they establish the internal audit charter, while the context is given by such criteria that are set by the entity.

A key element of internal audit charter concerns auditor's independence and objectivity. IIA suggests that the internal

audit should not interfere in any element of the organization. In the meantime, internal auditors should prove the highest level of objectivity, as a human condition of correctness and fair play.

We expect that international codes form together a unique understanding of how corporate governance should be conducted within companies all over the world.

In addition, we recommend a few critical factors for the success of internal audit in strengthening corporate governance:

- Internal audit charter, audit's mission and role should be clearly defined within governance framework.
- Internal audit should promote objectivity and consistency.
- Internal audit should increase the value of a business.

The present study gives us the opportunity to draw up some general conclusions concerning corporate governance as a whole, as well as the place of internal audit within the governance process.

Nowadays, internal audit is a fully developed profession at the international level. It appears as an extension of the external audit role in testing the reliability of the accounting information disclosed.

The use of internal audit charter within private companies in Romania could become effective and efficient tools for supporting managers in the discharge of their oversight, management and operating responsibilities, having a series of other benefits.

A well-defined internal audit charter could establish the directory lines for auditors in order to proactively address risks that impede the achieving of objectives and goals. The charter is a major point that could support managers in making good decisions and finding effective solutions.

The charter could fix the adequate actions for performing audits in order to improve operations within the organization.

Meantime, the charter could become an important resource for providing practical, business-oriented advice.

We consider that, within the private companies in Romania, internal audit and audit committee should work together towards common goals and purposes.

Companies that publish annual reports should have detailed comments on internal control systems for a good management of

risks.

- Managers' reports transmitted to the boards should provide a balanced assessment of the significant risks. We believe that any significant internal control weakness should be detailed within those reports for a good management.

- Companies are expected to build effective control mechanisms for monitoring the extent to which control is being used in practice.

As a general conclusion of our research study, we assume that the internal audit should be seen as a catalyst for change, advising the Supervisory and the Executive Board on needed improvements in corporate structure and design. This is because, as noticed by Julien and Rieger (2011), the biggest challenge for companies and their internal auditors is the lack of a one-size-fits-all method to improve governance.

Meanwhile, by providing assurance on company's risk management and control, internal audit becomes a leading cornerstone for effective governance processes. However, for Romanian private companies, internal audit represents nowadays a big challenge, this profession requiring appropriate business knowledge, insight and a deep judgment.

## 6. References

- [1] Bernstein, P.L., "Against the Gods", *New York Sons Inc.*, 1996, p. 3
- [2] GlaxoSmithKline „Annual Report 2012, interactive version”, available on-line at: <http://www.gsk.com/investors/corporate-reporting/corporate-reporting-archive.html>
- [3] "GSK Corporate Responsibility Report 2013", available on-line at: <http://www.gsk.com/responsibility/responsibility-reports-and-resources.html>
- [4] Institute of Internal Auditors "Professional standards", available on-line at: <https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx> 2009, [last accessed on 6th November 2014]
- [5] Julien, R. and Rieger, L. "Strengthening Corporate Governance with Internal Audit", A Crowe White Paper, available on-line at: [http://www.crowehorwath.com/folio-pdf/RISK12911\\_CorpGovWP\\_lo.pdf](http://www.crowehorwath.com/folio-pdf/RISK12911_CorpGovWP_lo.pdf), 2011
- [6] Petrom Sustainability Report 2012, available on-line at: <http://www.petrom.com/portal/01/petromcom>

[/petromcom/Petrom/Sustainability/Sustainability\\_Report](http://www.petrom.com/portal/01/petromcom/petromcom/Petrom/Sustainability/Sustainability_Report)

- [7] Petrom Annual Report 2012, available on-line at: [http://www.petrom.com/portal/01/petromcom/petromcom/Petrom/Annual\\_Report](http://www.petrom.com/portal/01/petromcom/petromcom/Petrom/Annual_Report)
- [8] Pickett, K.H.S. and Pickett, J.M. (2001) "Internal Control: A Manager's Journey", New York, John Wiley and Sons Inc.
- [9] Riley, W.L. "The role of Internal Audit in the Control Environment", University of California, Business Officer Institute, available on-line at: [http://www.ucop.edu/ucophome/businit/boi/presentations/2012/04%20-%20Role%20of%20Auditor\\_W%20Riley.pdf](http://www.ucop.edu/ucophome/businit/boi/presentations/2012/04%20-%20Role%20of%20Auditor_W%20Riley.pdf) 2012 [last accessed on 5th November 2014]
- [10] Spencer Pickett, K.H. "The Essential Handbook of Internal Auditing", *John Wiley & Sons Ltd.*, The Atrium, Southern Gate, Chichester, West Sussex, England, 2005.

## Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

# The Balanced Scorecard and its Importance for the Assessment of the Global Performance

Caruntu Constantin

“Constantin Brancusi” University of Tirgu Jiu  
Faculty of Economics and Business Administration  
[caruntu\\_ctin@yahoo.com](mailto:caruntu_ctin@yahoo.com)

## Abstract

*The Balanced Scorecard method has become one of the most used methods in the measurement of performance by the management of companies. As we have noticed, the economic environment continues to have changes in the demand and supply so it is necessary for companies to know exactly what happens with their financial figures and with everything related to what provides value to customers, here we include the processes and the stakeholders.*

*The aim of the paper is to introduce the method to the reader and to help him decide if he could use such a method in the future.*

*Managers have the tendency to believe that only the sale of goods and services can lead to the performance of a company, but a company that want to compete on the long term must be able to take into consideration all the other aspects mentioned by the balanced scorecard.*

**Keywords:** performance, the balanced scorecard, employees, financial figures.

**J.E.L Classification:** G32, M21

## 1. Introduction

Businesses around the world have to perform in a new business environment since the appearance of the world economic crisis. Yet, there have passes several years since the crisis has started, companies seem to have fluctuations in what regards their performance.

Unfortunately, not many managers try to understand the concept of performance and how performance can be measured. The belief that performance relates only to money is absolute because in order for a company to be successful it is necessary that all the

stakeholders are taken into consideration.

Along the years, many economists have tried to define the concept of „performance” and to identify the necessary measures to evaluate the performance obtained. One of the measures used is the Balanced Scorecard, method brought into our attention by Robert Kaplan and David Norton.

## 2. The concept of performance

The concept of performance can be defined in different ways. “The dictionary definition of performance, again, is the act of performing; what people, machines, or, for that matter, firms do. The economic definition of performance is future revenues discounted to present value. [1].

There exist different assumptions of famous economists in what regards the concept of performance.”Performance can be only expressed as a set of parameters or indicators that are complementary, and sometimes contradictory, that describe the process through which the various types of outcomes and results are achieved” [1]

Moving further, we must concentrate also on the evaluation system of performance. If companies want to be successful in their domain, they must be able to assess their performance.

“Any system of evaluation of the performance must answer the following requirements:

- to be strategic, so that the following the evolution of the performance will be realized in accordance with strategic objectives;
- to be complete, meaning to cover all the dimensions of the global performance and to satisfy the demands of all the parties involved;
- to be relevant, in the way of realizing some important information not only for

managers but also for other parties interested;

- to be consequent, so that it will offer coherence at the level of the terms used in the description and definition of the performance objectives;
- to be correct and precise, so that those that analyze the information delivered to be able to evaluate appropriately the performance realized;
- to be prompt so that the measures regarding the performance to be adopted in time [2].

Now that we have established this point we must also take into regard another element of discussion related to measurement.

"Ideally, the performance measures of choice would meet the following requirements:

- parsimony: there would be relatively few measures to keep track of, perhaps as few three financial measures and three non-financial measures. (I have chosen three plus three arbitrarily, but I think these numbers are realistic.). Cognitive limits would be exceeded and information would actually be lost were there many more measures.
- predictive ability: the non-financial measures would predict subsequent financial performance, in other words, the non- financials would serve as leading performance indicators and the financials as lagging indicators, as measures summarizing performance after it occurred. Non-financial measures not demonstrated to be leading indicators would be discarded unless, of course, they were tracked as matters of regulation, ethics, and security – "must-dos" for firms.
- pervasiveness: these measures would pervade the organization- the same measures would apply everywhere. Measures pervading the organization have three key advantages over highly specific measures"[3]

Companies have the possibility to choose among different measures that best appropriate them. Each of these measures meets some of the requirements mentioned above.

In what regards our subject of discussion, the balanced scorecard, it" imposes only the two requirements on measures, parsimony and predictive ability: in principles, scorecard measures are more parsimonious than the measures tracked by most large firms, and non-financial scorecard measures predict financial results" [3].

### 3. The Balanced scorecard

In order for a business to have success it is necessary that the management of the company knows exactly how the business performs in its area of interest. The method we shall present it is a useful tool for managers interested in the future of their company and it is considered to be one of the most efficient ones. It may not solve all the issues taken into account, but it will surely come up with a general view of the situation.

„The balanced scorecard provides executives with a comprehensive framework that translates a company's vision and strategy into a coherent set of performance measures. Many companies have adopted mission statements to communicate fundamental values and beliefs to all employees. The mission statements address core beliefs and identify target markets and core products.”[4]

When companies create mission statements that are understood and taken into consideration by employees, we can say it will be easier for them to create an organizational culture that in the end will lead to performance. Employees can be motivated to do their job not only by receiving incentives but also through considering themselves as a part of the company.

„The balanced scorecard has emerged as a proven and effective tool in our quest to capture, describe, and translate intangible assets into real value for all of an organization's stakeholders and, in the process, to allow organizations to implement their differentiating strategies successfully.”[5]

Nowadays, it has become more and more obvious that in order to be successful a company needs to pay great attention not only to their turnover and costs with

employees but also to the relationship with their stakeholders, which have a great interest, on the long run, to contribute to the companies' profitability. The method takes into consideration the figures obtained before using the measures to evaluate the performance of the company.

The implementation of strategies is closely related to the concept of performance.

"While retaining financial measures of past performance, the balanced scorecard introduces the drivers of future financial performance. The drivers, encompassing customer, internal-business-process, and learning and growth perspectives, are derived from an explicit and rigorous translation of the organization's strategy into tangible objectives and measures." [4].

Performance can be measured by having strategies implemented and by accomplishing and measuring objectives.

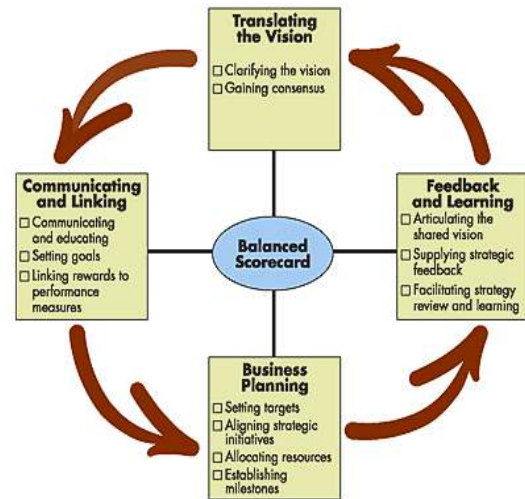
"The four-perspective framework of a business unit's balanced scorecard describes how the unit creates shareholder value through enhanced customer relationships driven by excellence in internal processes. These processes are continually improved by aligning people, systems, and culture. The four perspectives are as follows:

- Financial: What are our shareholder expectations for financial performance?
- Customer: To reach our financial objectives, how do we create value for customers?
- Internal process: What processes must we excel at to satisfy our customers and shareholders?
- Learning and growth: How do we align our intangible assets- people, systems, and culture- to improve the critical processes? [6].

It is more than clear that the four processes take into consideration all the relationships created by companies and their shareholders and that the products of the company must deliver value to the customer so that the financial objectives will be obtained. In order for any relationship to function it is necessary that there exists a strong communication between the parties, that the objectives are clear and that they can be implemented so that they can be measured in the end. In order to obtain performance all of these processes must be understood correctly by management.

It is taken into account the fact that investments are necessary if companies want to have good products and to satisfy the stakeholders.

Figure 1. The four perspectives



Source: Kaplan, Robert S., and David Norton. "Using the Balanced Scorecard as a Strategic Management System." *Harvard Business Review* 74, no. 1 (January–February 1996): 75–85.

As we can notice from the figure we have different relationships between the four processes and the data obtained is divided into financial data and non-financial data. The figure shows us that the creation of the scorecard implies the work of all the employees of the company. So, the measurement of the performance of the company is done from top to down and this gives all employees the feeling that they are important for the performance of the company.

### 3.1 The importance of the Balanced Scorecard for the assessment of the global performance

As we have mentioned above, companies that want to survive the economic environment must be able to measure their performance so that they can continue their business on long-term. The balanced scorecard is considered to be one of the most efficient measures used by management in measuring performance. Along the years the

method has been used by different companies from different countries.

The four processes contained by the balanced scorecard have shown that managers take into consideration not only the financial figures but also non-financial measures.

It has been demonstrated along the years that successful companies invest in their employees and in the processes that help them deliver value to customers.

Customer relationship management has demonstrated that satisfied employees represent one of the most important assets of the company and that on the long term they can help the company increase its profitability.

Also, the relationship between the company and its stakeholders must be one of cause-effect because all of the parties are interested in a win- win situation.

When companies reach maturity it is important that they either decide to quit their line of production or reinvest in the process so that they come up with a better product. Not many companies nowadays invest in processes and that is way they fail and go bankrupt.

These things show us that the elements of the Balances Scorecard can help a company measure its performance and even increase it with the help of the method.

#### 4. Conclusions

The demand of services and products has increased in the several years so that the competition between companies has become more and more fierce. Companies are now obliged to check twice all their objectives so that they are clear and understood by employees.

Many companies have had problems with implementing the objectives correctly because employees did not understand exactly what they have been asked to do.

That is why the measurement of the performance has become a must for companies. As we have explained the Balanced Scorecard is one of the most used measurement methods and it does offer support to management. The novelty about the method, by that meaning it does not use only financial figures, offers managers the

possibility of having an overall view of the company.

#### 5. References

- [1] Neely, A., *Business Performance Measurement*, Press Syndicate of the University of CambridgeCambridge,2002
- [2] Boulescu, M., Ghita M., Mares V. *Auditul performantei: tehnici de culegere, analiza si interpretare a probelor de audit*, Tribuna Economica, Bucuresti;2002
- [3] Marshall, W Mayer, *Rethinking perfomance measurement. Beyond the balanced scorecard*, Cambridge University Press, Cambridge, 2002
- [4] Robert S Kaplan, David P. Norton, *The Balanced Scorecard*, [http://books.google.ro/books?id=0tjRLqFH830C&printsec=frontcover&dq=kaplan+si+norton&hl=ro&sa=X&ei=p55YVKKpIsvPaJv3geAG&redir\\_esc=y#v=onepage&q=provides%20executives&f=false](http://books.google.ro/books?id=0tjRLqFH830C&printsec=frontcover&dq=kaplan+si+norton&hl=ro&sa=X&ei=p55YVKKpIsvPaJv3geAG&redir_esc=y#v=onepage&q=provides%20executives&f=false)
- [5] Paul R Niven, *Balanced Scorecard.Step by step*, John Wiley& Sons, New Jersey,2006
- [6] Robert S Kaplan, David P. Norton, *Using the Balanced Scorecard to create corporate synergies*, Harvard Business School Publishing Corporation,Boston, 2006 [http://books.google.ro/books?id=bIliUrbN77sC&printsec=frontcover&dq=kaplan+si+norton&hl=ro&sa=X&ei=p55YVKKpIsvPaJv3geAG&redir\\_esc=y#v=onepage&q&f=false](http://books.google.ro/books?id=bIliUrbN77sC&printsec=frontcover&dq=kaplan+si+norton&hl=ro&sa=X&ei=p55YVKKpIsvPaJv3geAG&redir_esc=y#v=onepage&q&f=false)

# Conceptualization of Public Policy on Employment Stimulation in Romania

Cibotariu Irina-Ştefana,  
Stefan cel Mare University, Suceava, Romania  
Faculty of Economics and Public Administration  
[irinac@seap.usv.ro](mailto:irinac@seap.usv.ro)

## Abstract

*This paper presents the public policy on employment boost that must help people looking for a job in order to strengthen individual capacity occupation (by providing outreach programs and personalized career counseling, professional training and fostering individual entrepreneurship initiative) based on a legal framework recast regarding unemployment insurance system and employment promotion.*

*The measures envisaged by the amending Agreement legislation are consistent with the priorities of EU policy on labor market flexibility, reducing youth unemployment and labor market segmentation, facilitating the transition from education system to employment system, and strengthening dialogue with social partners in order to increase employment rate and achieve the target of 70% through the National Reform Program 2011-2013 in the context of the Europe 2020 Strategy.*

**Keywords:** Labor productivity, Professional development, Youth unemployment;  
**JEL Classification:** J71, J78, I38, H53

## 1. Introduction

State's reform involves changes in the substance of its major components, both at the central government and the local government generally, a long-term vision on the management of public expenditure, but also of how the process implementation of public policies is assumed. Public administration must continuously strengthen the capacity to improve results [7], to incorporate change and to continuously improve the vision and way of working. One

of the key points of this challenge is the strengthening of mechanisms for formulation, implementation and evaluation of public policies. At the level [4] of governmental institutions, the significance of this effect must be carefully examined, understood, developed and effectively implemented.

## 2. Concrete measures approved by the Government

Currently, at European level, in the European Council of March 2011 it was undertaken by 23 EU member states, including Romania, the Euro Plus Pact (EPP) which is a political commitment aimed at financial strengthening and support of economic competitiveness of the Union[8] .

The four pillars of the Euro Plus Pact are: promoting competitiveness, **promoting employment**, strengthening the sustainability of public finances and reinforcing financial stability [2] .

To achieve these objectives, Romania has drafted a list of concrete measures, approved by the Government, by memorandum in 29 April 2011. The measures to promote employment were included in the National Reform Program 2011-2013.

Amid concern of achieving in the EU, record levels of unemployment and while the economic outlook for the coming months were not encouraging, the European Commission presented on 18 April 2012 the employment package [10] that includes a number of concrete measures to boost job creation.

Within these measures were proposed: tax reduction measures on wages and promotion of entrepreneurship. Also, there were identified areas with potential to create jobs

for the future, namely: green economy, health services, ICT.

The employment package paves the way for better coordination and monitoring of employment policies at EU level in accordance with the principles of EU of economic governance.

Also, in the Communication on strengthening the social dimension of EMU, the European Commission proposed a new scoreboard to allow a better and earlier identification of the main social and employment issues in the European Semester, the annual cycle of EU of elaborating economic policies. The aim is to provide a comparative/benchmarking assessment system which will highlight examples of good practice and enable monitoring of key elements in the social and employment field [5] in the EMU (Economic and Monetary Union), in a systematic manner to ensure that when there are detected discrepancies / issues the policy response is prompt and easy to implement.

For the period 2014-2016, in employment, Romania continues to consider achieving the national target of increasing the employment rate to 70% of the population in the age group 20-64 years by 2020 in the context of Europe Strategy 2020. As indicated by the most relevant statistical indicators, the slight economic growth recorded in 2012 resulted in an increase in the employment rate of people aged 20-64 years to 63.8% in 2012, at a distance of 6.2 percentage points compared to the national target of 70% assumed for 2020. According to the latest data for 2013, namely the second quarter of 2013, the employment rate of people aged 20-64 years was 64.4%, in slight growth from the second quarter of 2012 when it was recorded value of 64.3%. According to gender, higher differences are kept of more than 15 percentage points between the employment rate for men (71.4% in 2012) and for women (56.3% in 2012). In terms of residence, the employment rate was higher in rural areas (65.7% in 2012) than in urban areas (62.5% in 2012). High employment in rural areas is explained through the fact that many people are employed in agriculture as self-employed and unpaid family workers.

Regarding the unemployment situation, in 2012 the unemployment rate according to the criteria of the International Labor

Organization (ILO) was 7%, down from 2011, when the unemployment rate was 7.4%. In the second quarter of 2013 the unemployment rate reached 7.5% value equal to the previous quarter (first quarter of 2013), but in increase over the corresponding quarter of the previous year (6.9%).

Unemployment among young people (according to the latest data from the National Statistics Institute communication) remains pretty high - 23.3% in the second quarter of 2013, with 1.8 percentage points compared to the same quarter of 2012, but much lower than the level recorded in some EU member states such as Greece and Spain (where more than half of young people aged 15-24 are unemployed).

In the period 2014-2016, employment will increase in particular on increasing the number of employees. Labor productivity will improve as a result of faster growth in gross domestic product compared to employment growth. The main lines of action are:

- Implementing measures that take into account both segments of the labor market (employer and people looking for a job), developing personalized relationships with employers;
- Intensification of legislative process and application of institutional measures implemented to reduce undeclared work;
- aligning legislation in the field of labor relations to European standards and ensuring enforcement;
- reducing conditionality for companies that hire unemployed and people belonging to vulnerable groups.

The measures provided [6] in the Law No.250 / 2013 amending and supplementing Law No.76 / 2002 on the unemployment insurance system and employment stimulation, as amended and supplemented, and to amend Law No. 116/2002 on preventing and combating social exclusion aim[10] :

- Providing free services to assess the competences acquired in other ways than the formal in order to facilitate and speed up the obtaining of a certificate of professional competence; from this measure *will benefit annually at least 400 people*;
- Providing mobility bonus including to long-term unemployed, measure aiming to boost local employment mobility by



providing mobility bonus (2 X the value of the social indicator of reference) and of the installation bonus (7 X the value of the social indicator of reference); [1] from this measure *will benefit annually about 2,000 people*;

- reducing conditionality to implement active measures by reducing from 3 to 1.5 years, respectively from 2 to 1.5 years, the obligation to maintain the labor or service rates for employers who employ graduates in terms of art. 80 and unemployed people aged over 45, unemployed single parent of single parent families and people with disabilities in terms of art. 85; from these measures *will benefit annually, about 20,000 people*;

- promoting the measure by which employers employing according to labor law, unemployed who within 5 years from the date of employment meet by law the conditions to request early partial retirement pension or to be granted retirement pension due to age limit, unless they do not meet the conditions to early require partial retirement pension, benefit monthly, during employment, until the fulfillment of these conditions, of an amount equal to the value of the social indicator of reference in place, given from the unemployment insurance budget, to set the term of 3 years in the current law; from this measure *will benefit annually, about 9,500 people*;

- promoting labor market participation of young people at risk of social exclusion by encouraging employers who hire young people in this category, measure through which these employers appointed by the insertion benefit from each young employee in this category, monthly, on request, from unemployment insurance budget, an amount equal to the basic salary set on hiring the young, but not more than twice the social indicator reference in force on the date of employment, for a period equal to the solidarity contract concluded between NEA and young person for a period up to three years, but not less than one year. Also, these insertion employers can receive for a period not exceeding two years from granting of a monthly sum amounting to 50% of unemployment benefits due under the law, that the young man would have received if he had been dismissed at the expiry date of the contract, if, after this date signs and individual undetermined contract with the

young at risk of social exclusion; from this measure *will benefit annually, about 2,300 people*;

- removing exemptions from the contribution to the unemployment insurance for persons employed in certain vulnerable groups, of employers.

### **3. National plan to stimulate youth employment**

In order to address the difficult situation faced by young people in the labor market, aggravated by the consequences of the economic and financial crisis, in the context of the European Council Declaration of members "Towards a favorable consolidation of growth and a favorable employment growth" of 30 January 2012 which recommends the implementation of concrete measures on employment, education and training, as well as other documents and European initiatives addressing the issue of youth (Youth on the Move, Youth opportunities Initiative, Youth employment Package) was developed the National plan to stimulate youth employment in 2013, which contains a series of measures to facilitate the program implementation in Romania of *youth guarantee* with the following objectives:

- developing employment opportunities for youth in 2013 through the adoption of specific measures to stimulate the labor market;

- continuous adaptation of education and training of young people in the labor market requirements.

The Government Program envisages providing a flexible legislative framework for increasing the employment rate, including:

- increasing the employment rate of the labor force, with a focus on the following target groups: young people aged between 15 and 25 years; workers aged between 50 and 64 years; women; unskilled workers; persons with disabilities; people with complex family responsibilities; ethnic minorities, including the gypsy minority;

- stimulating investment bound to improve the working conditions of employees with emphasis on green jobs;

- supporting the third sector, social economy and social enterprises aimed at improving cohesion and social inclusion of

persons from vulnerable groups by setting in the local interest of new jobs and/or social services;

- introduction of short unemployment procedure which allows for a limited period, aggregating income from part-time work with part of unemployment benefits;
- introducing social record in relation to access to public acquisitions/contracts;
- reducing undeclared work and strengthening fiscal discipline while reducing administrative barriers and costs for the employer, up to 18%, by creating an insured card in the social system;
- limit the phenomenon of "brain migration";
- stimulating and extending measures to encourage youth employment in the labor market, particularly those from orphanages and disabled;
- promoting integrated programs for social inclusion of gipsy.

National Agency for Employment, through the *Employment program of labor*, implements an integrated set of measures to stimulate employment in accordance with labor market opportunities and requirements of people looking for a job[10] .

The general objectives of the *Employment program of labor* aims:

- increasing employment and promoting social inclusion;
- increasing the employment of young people and gipsy;
- facilitate the transition from unemployment to employment;
- improving and strengthening the professional skills of persons seeking employment

Viewed from another perspective, the specific objectives of the Employment program of labor are:

- combating unemployment effects through specific activities of Public Employment Service offered to people looking for a job;
- facilitating access to the labor market of persons belonging to vulnerable groups and guiding them towards appropriate training level of education in order to obtain a qualification;
- linking training needs of the workforce with labor market requirements;
- ensuring equal opportunities on the labor market by facilitating non-discriminatory

access of all persons, regardless of their social environment, gender, religion, ethnicity, etc., at a job place;

- maintaining a low level of unemployment even in the economic stagnation, by increasing quality employment and job security, simultaneously with the creation of training opportunities adapted to labor market needs.

In the Managerial Performance Contract for 2013 signed between NEA (National Agency for Employment) and MLFSPE (Ministry of Labor, Family, Social Protection and the Elderly) it was provided among others, a specific target regarding the integration actions on the labor market of youth registered in the public employment service.

This requires [3] providing opportunities for employment and professional development of young unemployed up to 25 years in the first four months of registration, by integrating into training programs, including apprenticeship programs in the workplace, providing jobs and placement on subsidized employment.

Measures [9] to be implemented by the *Employment program of labor*:

1. providing free information and counseling services to persons seeking employment;
2. stimulating re-employment by providing grants for the unemployed falling before the expiration of unemployment;
3. stimulating labor mobility through employment or installation bonuses, including for the long-term unemployed;
4. organizing training courses for people looking for a job;
5. free provision of consultancy services and support to start an independent activity or a new business;
6. grants for employers to hire persons belonging to disadvantaged groups or groups with difficult access to the labor market;
7. providing custom accompaniment to young people at risk of social marginalization.

Through the measures that will be implemented it was foreseen the employment, in 2013, of at least 345,000 people.

For the next period, the Ministry of Labor, Family, Social Protection and the Elderly aims to boost efforts to achieve the target

with the scope of employment established by Romania for 2020 by elaborating the National Strategy for Employment 2013-2020.

The National Strategy for Employment 2013-2020 is a programmatic document, subject to public consultation, social and institutional dialogue, proposed to be enacted by Government Decree and still at the design stage. The document provides a correct diagnosis of the risks of this sector today and in the medium term and, without offering a cure comes with an action plan developed in the context in which it will work at all levels of government: employment, education, tax policy, policies to support the family. The specific objectives are developed in the period 2013-2020 Action Plan for the implementation of the strategy and aims [9]:

*Objective 1.* Increase youth employment and longer working lives of older people.

*Objective 2.* Improving occupational structure and labor market participation of women and persons belonging to vulnerable groups.

*Objective 3:* Developing a human resource with a high level of qualification and skills suited to the labor market requirements.

*Objective 4:* Improve the mechanism of justification, implementation, monitoring and evaluation of policies affecting the labor market.

The funding of the Strategy will be achieved by absorbing EU funds and providing financial resources for co-financing projects made with them, and also within the limits of funds approved to involved public institutions by the state budget law.

#### 4. Conclusions

Also, given the high level of youth unemployment, it will be promoted the application since 2014 of integrated programs such as Youth Guarantee oriented to youth who are neither employed nor in education or training (NEETs) . The concept of *youth guarantee* refers to a situation where young people are provided within four months of becoming unemployed or when they no longer participate in formal education, a good quality offer for occupancy employment, to continue education, entry

into apprenticeship or completion of an internship. Schemes of *Youth Guarantee* aim to prevent early school abandonment, increasing the chances of obtaining a job and removing practical barriers to achieving employment in accordance with EU Council Recommendation.

Ministry of Labor, Family, Social Protection and the Elderly has the task of developing the *National Guarantee Scheme for Young People* whose implementation will be based on available funding from YEI, Youth Employment Initiative and the national funds. In this context, it is important to understand the consciousness of financial support from the national level that may have on the successful implementation of the Scheme and the need to allocate adequate financial resources to support this approach which lies in the quality of Romania as member state of the European Union.

#### 5. References

- [1] Bistriceanu, Gh., *Finanțele publice ale României*, vol. I, vol. II, Editura Universul Juridic, București, 2006;
- [2] Chirleşan, D., *Metodele acțiunii bancare și gestiunea finanțelor publice*, Vol. II, Editura Univ. „Al. I. Cuza”, Iași, 2008, p.153-160;
- [3] Cioponea, M.C., *Finanțe publice și teorie fiscală*, Editura Fundației „România de mâine”, , București, 2007;
- [4] Hoanță, N., *Economie și finanțe publice*, Editura Polirom, Iași, 2000;
- [5] Jackson, J., *Politics and the budgetary process*, Social Science Research, Volume I, Issue 1, 1997, p.35-60;
- [6] Manolescu, Gh., *Buget, abordare economică și financiară*, Editura Economică, București, 1997;
- [7] Moșteanu, T., *Politici și tehnici bugetare*, Editura Universitară, București, 2004;
- [8] Ștefură., G., *Proces bugetar public*, Editura Universității „Al. I. Cuza”, Iași, 2007;
- [9] [http://ec.europa.eu/europe2020/index\\_ro.htm](http://ec.europa.eu/europe2020/index_ro.htm)
- [10] [http://discutii.mfinante.ro/static/10/Mfp/strategia/STRATEGIA\\_2013\\_2015revizuita.pdf](http://discutii.mfinante.ro/static/10/Mfp/strategia/STRATEGIA_2013_2015revizuita.pdf)

# The Financial Analysis of Citizens Financial Group, Inc.<sup>TM</sup>

Condrea Andrei

EDC Paris Business School, Financial Economics and Markets  
[condrea.andrei.traian@gmail.com](mailto:condrea.andrei.traian@gmail.com)

Mouriès Alexandre

EDC Paris Business School, Financial Economics and Markets

## Abstract

*Citizens Financial Group, an American subsidiary of the Royal Bank of Scotland, has recently launched an IPO on the New York Stock Exchange. Given the heavy competition of the sector, as well as its uniqueness, we have chosen to conduct an analysis and to provide an advice on whether an investor should or should not invest in Citizens Financial Group.*

**Key words:** Citizens Financial Group (CFG); initial public offering (IPO); balance sheet; analyse

**J.E.L. Classification:** G150, G210, G320

## 1. Introduction

On the 24<sup>th</sup> of September 2014, Citizens Financial Group, Inc. decided to launch itself on the New York Stock Exchange, through an IPO. This paper serves to provide an advice on the course of action regarding the possible investment in CFG, as the banking sector sets itself apart from any other sector of activity, be it manufacturing or provision of services. Thus, we shall conduct an analysis on CFG's balance sheet and income statement.

Moreover, we shall analyse the performance of CFG's stock in the 2 months since its IPO, in terms of key financial ratios as well as the volatility of the stock.

## 2. Company Description [1]

Citizens Financial Group, Inc. is a British-owned American bank. It has its headquarters in Providence, Rhode Island. It also owns subsidiaries in the states of Connecticut, Delaware, Illinois, Massachusetts, Michigan, New Hampshire, New Jersey, New York,

Ohio, Pennsylvania, Rhode Island and Vermont.

It also is, in itself, a subsidiary of The Royal Bank of Scotland Group (RBS), which has its headquarters in Scotland's capital, Edinburgh. After the 2008 financial rescue of RBS, the government of Great Britain has become the company's controlling shareholder. However, in 2011, Citizens Financial Group becomes the 15<sup>th</sup> largest bank operating in the US.

In 1828, Citizens Financial Group was created under the name of the High Street Bank, in Providence, Rhode Island. In 1871, following a second charter, given by the Rhode Island legislature, Citizens Savings Bank was created which would eventually buy its parent company, becoming the Citizens Trust Company. Over time, the bank expanded throughout Rhode Island, opening a total of 29 branches. Citizens Financial Group was established as a holding company, when the bank acquired The Greenville Trust Company in 1954.

In 1985, Citizens Financial Group changed its status to a federal stock savings bank. In 1986, it began its expansion into other states, starting with Massachusetts.

In 1988, Royal Bank of Scotland (RBS) acquired Citizens Financial Group through a takeover bid and then used Citizens Bank as an entry point into the US market. In the following 16 years, under RBS' ownership, Citizens acquired several banks in New England, thus becoming the second largest bank in the territory. In 1996, after buying First NH Bank, the Bank of Ireland gained a 23.5% stake in Citizens Financial Group, which RBS repurchased in two years.

As of 2014, Citizens Financial Group, Inc. is the 23<sup>rd</sup> largest bank in the United States. It is a \$127 billion commercial bank holding company, with 18,400 employees. Through its subsidiaries, RBS Citizens, N.A. and

Citizens Bank of Pennsylvania, it operates more than 1,300 branches and around 3,500 ATMs in 12 states under the names of Citizens Bank and Charter One Bank.

### 3. IPO Analysis

On the 24<sup>th</sup> of September 2014, Citizens Financial Group launched its IPO, on the New York Stock Exchange, under the ticker symbol "CFG". The IPO consisted of 140 million shares, or 25% of its common stock at a price of \$21.50 per share.

The offering was carried out by Morgan Stanley and Goldman, Sachs & Co. banks, and employed J.P. Morgan as a joint book running manager. Moreover, J.P.Morgan is working together with Barclays, Citigroup, Deutsche Bank Securities, RBS and Wells Fargo Securities, as to efficiently run Citizens Financial Group's stock. [2]

On the 12<sup>th</sup> May 2014, CFG filed for an IPO with the Securities and Exchange Commission. This is one of Bruce Winfield van Saun's most important decisions since his establishment as the acting Chairman and CEO of Citizens Financial Group in October 2013. Together with Van Saun came a new Head-Corporate Strategist, position taken by Ms. Beth Johnson.

The reasons behind CFG's IPO are based on its poor performance in 2013, when it incurred losses of \$3.5 billion, its debt reaching a critical mass, a danger that could only be managed through the acquisition of new capital from shareholders. In addition to this, the IPO will help CFG to attract new employees, through increased visibility, as well as to diversify its shareholder base.

### 4. Balance Sheet Analysis

Given Citizens Financial Group field of activity, its balance sheet over the past 2 year is typical for such a company. Its main assets lie in "Net Loans", consisting of roughly 75% of their total assets.

Figure 1 CFG Balance Sheet

CITIZENS FINANCIAL GROUP INC (CFG) CashFlowFlag  
BALANCE SHEET

	2012-12	2013-12
<b>Assets</b>		
Cash and due from banks	3063	2757
Deposits with banks	126	233
Federal funds sold	1100	
Derivative assets	1155	650
Debt securities	19417	21245
Loans	87894	87113
Allowance for loan losses	-1255	-1221
Net loans	86639	85892
Receivables	4	446
Premises and equipment	643	592
Goodwill	11311	6876
Other assets	3595	3463
<b>Total assets</b>	<b>127053</b>	<b>122154</b>
<b>Liabilities</b>		
Deposits	95148	86903
Federal funds purchased	3601	4791
Derivative liabilities	1318	939
Short-term borrowing	501	2251
Long-term debt	694	1405
Other liabilities	1662	6669
<b>Total liabilities</b>	<b>102924</b>	<b>102958</b>
<b>Stockholders' equity</b>		
Common stock	6	6
Additional paid-in capital	18589	18603
Retained earnings	5846	1235
Accumulated other comprehensive income	-312	-648
<b>Total stockholders' equity</b>	<b>24129</b>	<b>19196</b>
<b>Total liabilities and stockholders' equity</b>	<b>127053</b>	<b>122154</b>

Source:

<https://www.nyse.com/quote/XNYS:CFG>

While observing the "Total Assets" and "Total Liabilities" of CFG, we can deduct that they have a good financial situation and a decent performance, TA being greater than TL by roughly 20%.

- ROA (Return on Assets):
  - 2012
    - $NI_{2012} / TA_{2012} = 0.5\%$
  - 2013
    - $NI_{2013} / TA_{2013} = -2\%$
- Goodwill:
  - Given its steep decrease in only one year, we can deduct that CFG's reputation and general image towards its competitors and clients has

been damaged by its past course of action, as its other assets have remained approximatively constant.

- Debt-to-Equity Ratio:
  - 2012:
    - $D_{2012} / E_{2012} = 4.26$
  - 2013:
    - $D_{2013} / E_{2013} = 5.36$
  - Given their high D/E ratio, CFG have acquired in 2013 such debt that they are unable to repay it through their current level of equity, thus the need for an increase of shareholders' equity, through an IPO.
- Debt:
  - 2012:
    - $TD_{2012} / TA_{2012} = 81\%$
  - 2013:
    - $TD_{2013} / TA_{2013} = 84\%$
- Overall, CFG's Balance Sheet shows us CFG's need for launching an IPO, as their debt is far greater than their equity, as well as the fact that their reputation in the industry is damaged, thus their "price".

## 5. Income Statement Analysis

- Profit Margin:
  - 2012:
    - $NI_{2012} / Rev_{2012} = 13.13\%$
  - TTM:
    - $NI_{TTM} / Rev_{TTM} = 15.65\%$

This difference is due to CFG's preparation for an IPO, which imposes great costs more than 6 months before the actual IPO. However, if we look at TTM, it is clearly visible that the loss of 2013 was an isolated incident, further reinforcing the IPO cost theory.

Figure 2. CFG Income Statement

USD in Million except per share data	2009-12	2010-12	2011-12	2012-12	2013-12	TTM
<b>Revenue</b>						
Interest income	-	-	4,204	3,846	3,501	3,559
Interest expense	-	-	884	619	443	369
Net interest income	-	-	3,320	3,227	3,058	3,190
<b>Noninterest revenue</b>						
Noninterest revenue	-	-	1,711	1,667	1,632	1,760
<b>Total net revenue</b>	-	-	<b>5,031</b>	<b>4,894</b>	<b>4,690</b>	<b>4,950</b>
Provisions for credit ...	-	-	882	413	479	447
<b>Noninterest expenses</b>						
Noninterest expenses	-	-	3,371	3,457	7,679	3,364
Income (loss) from con...	-	-	778	1,024	(3,468)	1,139
Provision (benefit) fo...	-	-	272	381	(42)	364
Net income	-	-	506	643	(3,426)	775
Net income available t...	-	-	506	643	(3,426)	775
EBITDA	-	-	1,212	1,491	(3,064)	1,534

Source:

<http://www.nyse.com/quote/XNYS:CFG>

- Net Interest Margin
  - 2012:
    - $(II_{2012} - IE_{2012}) / Loans_{2012} = 3.6\%$
  - 2013:
    - $(II_{2013} - IE_{2013}) / Loans_{2013} = 3.5\%$

This ratio determines CFG's margin based only on the interest it receives and pays for its loans. This leads us to believe that CFG has adopted a sound strategy as far as borrowing and lending goes, thus yielding rather constant gains from its actions.

Given the 2 ratios analysed above, it is clear that Citizens' Financial Group is obtaining a steady stream of profits, which is increasing from one year to another, disregarding 2013 when CFG prepared its IPO launching, thus incurring heavy expenses, unrelated to its normal activity.

## 6. Stock Analysis

Being a newly launched IPO, we cannot use the financial data of 2013, the company having only launched itself on the New York Stock Exchange on the 24<sup>th</sup> of September 2014. Thus, the data used for the following calculations shall be those TTM (Trailing 12 Months).

- Number of Shares Outstanding: 545.70 m
- Estimated EPS: 1.42
- Stock Price (14<sup>th</sup> Nov. 2014): \$23.96
- Market Cap: \$13,074.99m
- Estimated PER: 16.87
- Volatility of stock: 20.19%
- Banking Industry PER: 15.24 [3]
  - Given this comparison, between CFG's PER and the banking industry's PER, we can assume that CFG's stock price is risking a slight decrease in the near future. This risk is attributed to the natural behaviour of a stock, it always trying to converge with the industry's PER.
- Estimated EPS Growth: 14% [4]
- Trailing EPS Growth: 23.5% [5]
- Estimated PEG: 2.4 [4]
- Trailing PEG: 0.71 [6]
  - By calculating CFG's PEG ratios, both Estimated and Trailing, we are unable to come to a concrete conclusion whether investing in CFG is a wise course of action or not.

Based on the data above, we conclude that investing in CFG is an unwise course of action, as it's PER and Estimated PEG are above the ideal values of 15.24, respectively 1. However, by using a Trailing PEG instead of an Estimated PEG, an investment in CFG would result be favourable for the investor's equity.

Figure 3. CFG Stock Evolution



Source:

<https://www.nyse.com/quote/XNYS:CFG>

## 7. Report Conclusion

Currently, Citizens Financial Group is on an overall dangerous position, as its balance sheet and income statement indicate a major downward shift in assets and revenues, due to their recent IPO, on the 24<sup>th</sup> of September.

Its Goodwill suffered losses of 6 billion USD, probably due to its very high Debt to Equity ratio, ratio which clearly signalled CFG's inability to properly cover their debts towards its customers. Moreover, when looking at CFG's debt ratios, we can see that ~82% of their assets are financed through debt, which on the long-run bears great risk for the company. However, given the insufficient data currently available, we cannot make a clear-cut conclusion on CFG's currently situation, given its recent IPO.

Revenue-wise, despite heavy spending in 2013, CFG has presented itself with a constant growth in earnings, increasing its profit margin by 2% between 2012 and TTM, and maintaining a constant net interest margin of ~3.5%.

However, when analysing their stocks, we cannot clearly say whether CFG's stocks will decrease or increase in price, their earnings growth (estimated and trailing) leading to opposite conclusions.

In conclusion, we cannot determine whether CFG stocks make for a good investment or not, a final balance sheet and income statement for 2014 being a much needed component for such an advice. Thus, the only advice we can give is to hold on to the stock

until new data arrives, data which can shed light on CFG's post-IPO situation.

## 8. References

- [1] [http://en.wikipedia.org/wiki/Citizens\\_Financial\\_Group](http://en.wikipedia.org/wiki/Citizens_Financial_Group)
- [2] <https://www.citizensbank.com/about-us/news/citizens/2014/9-23-14-IPO-stock-pricing.aspx>
- [3] [http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/pedata.html](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/pedata.html)
- [4] <http://www.bloomberg.com/quote/CFG:US>
- [5] Average of Earnings Growth (2011, 2012, TTM)
- [6] Calculation based on Trailing EPS Growth
- [7] <https://www.nyse.com/quote/XNYS:CFG>



# Online Disclosing Information on the Catastrophe Bonds Transactions – a European Perspective

Constantin Laura-Gabriela  
*The Bucharest University of Economic Studies*  
[constantinlauragabriela@gmail.com](mailto:constantinlauragabriela@gmail.com)

## Abstract

*The current paper aims at presenting several insights regarding the catastrophe (cat) bonds market from the perspective of investigating the online disclosure of a series of information related to the transactions developed by EU based sponsor companies. Through an empirical and comparative approach, while employing parametric and non-parametric dependence measures, the research also focuses on studying the association between the involvement of the cedent companies on the insurance-linked securities market and their performance in terms of disseminating online cat bonds information aspects. In order to advance the analysis, we develop a composite index reflecting the online disclosure of cat bonds related evidences.*

*The core results highlight the connection between higher commitment to accessing the capital markets through cat bonds and good development of online disclosure practices related to the cat bonds transactions.*

**Keywords:** catastrophe (cat) bonds, European reinsurance industry, composite disclosure index

**JEL Classification:** G10, G22, C43

## 1. Introduction

The development of the catastrophe (cat) bond market within the reinsurance and financial sector is acknowledged in the specialised literature as related to crucial benefits such as hedging catastrophe risk, reducing costs or portfolio diversification purposes [1] [2], while the current climate change challenges could also constitute a further enhancement rationale. However, the relatively scarce revealed information [3] could stand as an impediment for the further

evolution of this market, and, from an academic perspective, advancing research studies. This assertion is based on the belief that a low level of disclosed firm evidences is associated with asymmetric information that generally affects the corporate stakeholders' company and products related decisions.

In this respect, on the realm of disclosing information and addressing asymmetric information, the literature generally recognizes the importance of (web-based) dissemination (both regarding the financial and the non-financial related practices) for transparency and corporate value creation. Additionally, there is also an interest in empirically determining associations between online disclosure and various corporate variables, through considering various dissemination criteria and/or scores and indices. Deller et al. (1999), summarising the internet disclosure-corporate stakeholders connection as presented in previous papers, state that online dissemination serves as a tool for knowledgeable investment choices [4]. Cormier et al. (2010) consider web reporting as a monitoring mechanism in the corporate governance shape, with no marginal dissemination costs for further disclosure [5]. Following other similar studies (Ashbaugh et al., 1999 [6]; Pirchegger & Wagenhofer, 1999 [7], Craven & Marston, 1999 [8] or Ettredge et al., 2002 [9]), Marston & Polei (2004) [10] examine a series of variables and also find a link between web disclosure and firm size. Chang et al. (2008) acknowledge a negative link between the internet-oriented investor relations procedures' quality and information asymmetry [11]. Cormier et al. (2012) show that web-based dissemination is related to reduced information asymmetry [12]. Andrikopoulos et al. (2013) also find a positive link between good online disclosure practices and corporate performance within the international shipping industry [13].

Considering these research premises our original contribution consists in comparing a sample of EU based reinsurance companies from the perspective of disseminating cat bond information on their websites, while also examining the connection between these activities and the historical overall size of cat bond deals.

## 2. Data and methodology

The sample of the selected companies comprises: Allianz Re, Amlin plc, AXA, Catlin, Groupama, Hannover Re, Munich Re, and SCOR – reinsurance firms that developed more than one cat bond deal in the last five years. For analysing the dissemination practices the paper is considering a methodology presented in Rodríguez Bolívar et al. (2013) [14], and procedures from previously developed composite indices [15]. For analysing the involvement in the cat bond market, there is employed the overall cat bonds volume [16] [17]. In order to assess the cat bond online disclosed information there were analysed mainly the companies' websites. Following this subjective analysis, there was developed a composite disclosure index (Online Disclosure of Cat Bonds Aspects Index – *OnDis-CatBond Index*) determined as an average of the following constituents: **I1 - Means of disclosure index**. This component encompasses the following elements: dedicated pages (pages on the companies' websites that present information related to cat bonds), dedicated reports (reports that focus exclusively on the insurance-linked/cat bond deals), press releases (that announce or present the cat bond deals, on the companies' websites); **I2 - Company & Society disclosure related aspects index**. The component reflects how the company relates the development of cat bonds with company and society related issues (in their annual or CSR reports etc.) and comprises these elements: economic /financial performance related issues. general strategy related issues (risk management / corporate governance / corporate social responsibility), and current challenges of the society related aspects (such as climate change or natural catastrophes risk management); **I3 - Qualitative related aspects index**. This constituent is directly developed from the

research of Rodríguez Bolívar et al. (2013, 570) [14] by including three qualitative elements from those proposed by these authors: completeness (the availability of checking the information online), timeliness (the frequency of updating information related to cat bonds), comparability (the possibility of structurally/easily comparing the information related to cat bonds from one transaction to another). All the three constituents are determined as averages of their respective elements that are scored on a scale from 0 to 1 (with a 0.25 increment, as a (subjective) reflection of the complexity in approaching the indicator).

The historical overall volume of the catastrophe bonds deals was collected from an industry recognized website [18].

In terms of methodology, firstly, there is employed a comparative analysis through which there are paralleled both the three components of the *OnDis-CatBond Index* at the level of each company and, within an overall approach, the *OnDis-CatBond Index* values recorded by each company. Secondly, there is run a correlation analysis by using both parametric and non-parametric tests (Pearson Correlation coefficient, Kendall's tau\_b correlation coefficient, and Spearman's rho correlation coefficient).

The analysis revolves around the following hypothesis: (H1) Companies that developed a higher volume of cat bond deals as cedents more complexly disclose information regarding these financial innovations and (H2) There is a positive link between the degree and the complexity of the cat bond website disclosed information and the overall volume of developed cat bonds by the considered companies (as sponsors).

## 3. Discussion of main findings

### Comparative analysis results

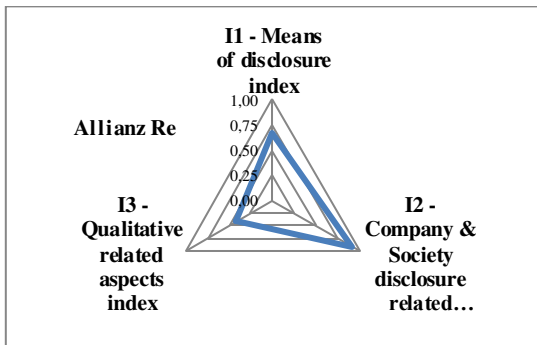
The results that reflect the online disclosure of the cat bonds information on the firms' websites are reflected in Figures 1- Figures 8 that encompass the blueprint of the *OnDis-CatBond Index* constituents at the level of each analysed company.

For Allianz Re (Figure 1) the results show that the company mostly performs with regard to the second component of the index (I2 - Company & Society disclosure related

aspects index – value close to 1), while the third element displays the lowest value (I3 - Qualitative related aspects index).

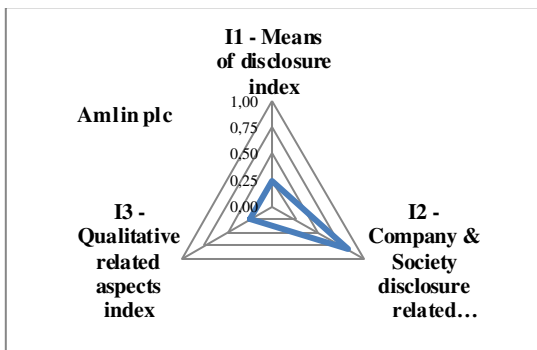
Figure 2 shows that on the Amlin’s website the company and society cat bond related aspects (I2) are well disclosed, while the other two indices have the same low value.

Figure 1. OnDis-CatBond Index Constituents – Allianz-Re



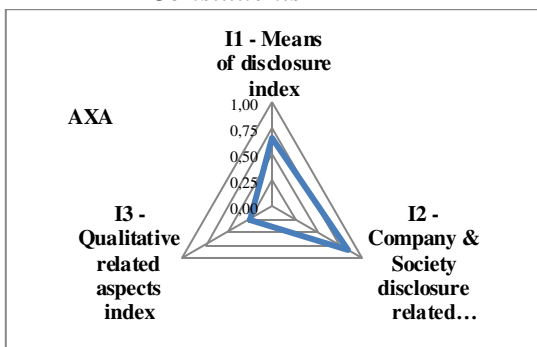
Source: author’s contribution

Figure 2. OnDis-CatBond Index Constituents – Amlin



Source: author’s contribution

Figure 3. OnDis-CatBond Index Constituents – AXA



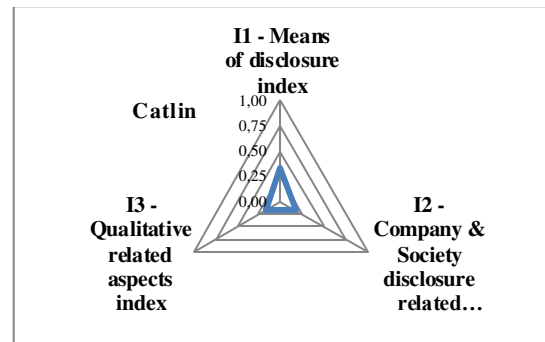
Source: author’s contribution

As displayed in Figure 3, AXA also discloses the I2 aspects at a higher score in comparison with I1 and I3. However, the qualitative related aspects have the lowest value.

Catlin’s online disclosure cat bond information level is reflected in Figure 4 and exhibits a higher value in terms of I2. Generally, the levels of all the three cat bonds disclosure constituents are quite low.

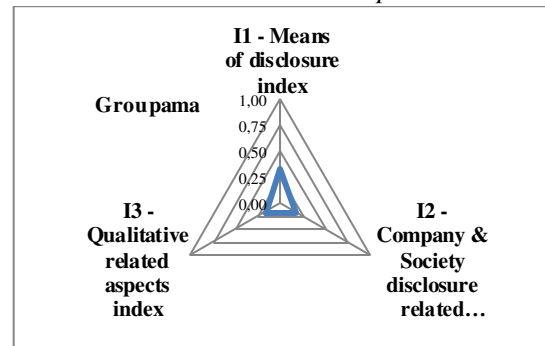
In addition, for Groupama, Figure 5 reflects a similar situation, with a higher value for the means of disclosure index and lower but equal values for the company & society disclosure related aspects index and for the qualitative disclosure related aspects index.

Figure 4. OnDis-CatBond Index Constituents – Catlin



Source: author’s contribution

Figure 5. OnDis-CatBond Index Constituents – Groupama

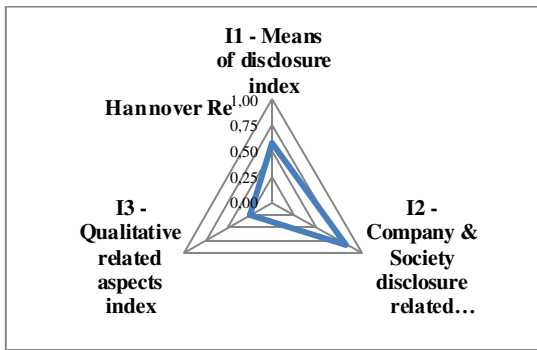


Source: author’s contribution

In Figure 6, for Hannover Re, the company & society disclosure related aspects index has the highest value, the means of disclosure index a value over the average of 0.5, while the qualitative disclosure related aspects index below the 0.5 average.

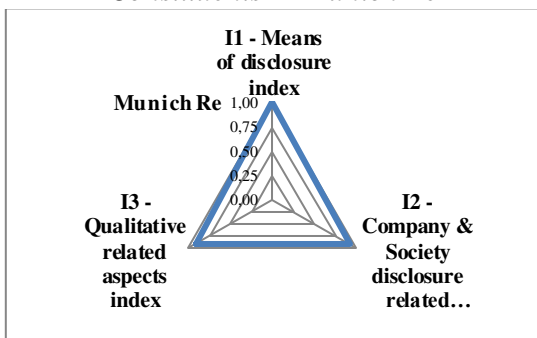
Munich Re (Figure 7) proves to have online disclosure indices with values close to 1, reflecting very good performance in terms of disseminating the information regarding the cat bonds deals.

Figure 6. OnDis-CatBond Index Constituents – HannoverRe



Source: author's contribution

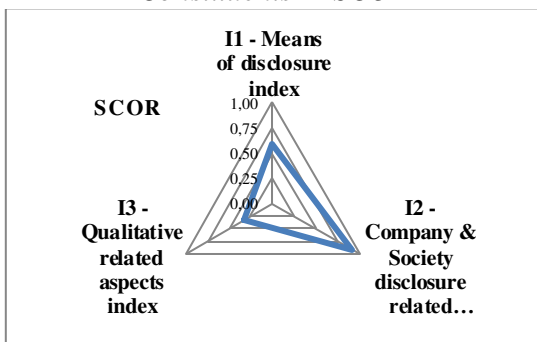
Figure 7. OnDis-CatBond Index Constituents – Munich Re



Source: author's contribution

As Figures 8 exposes, SCOR displays the highest value for the I2 - Company & Society disclosure related aspects index, with a value close to 1. I1 - Means of disclosure index has a value higher than the 0.5 average, while the I3 - Qualitative disclosure related aspects index a lower than the 0.5 average.

Figure 8. OnDis-CatBond Index Constituents – SCOR

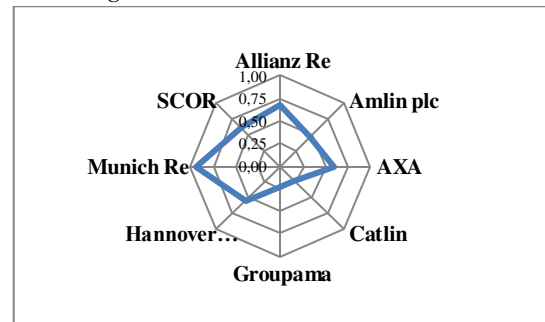


Source: author's contribution

Overall (Figure 9), the analysis shows that the most performant company in terms of online disclosing the cat bond information from the perspective of the analysed elements is Munich Re. All the companies (except three of them that have also a rather weaker involvement on the cat bond market – Amlin,

Catlin, and Groupama) record a score higher than the average value of 0.5.

Figure 9. OnDis-CatBond Index



Source: author's contribution

In addition, on average, at the level of each of the three components, the highest value is recorded by the second element (I2 - Company & Society disclosure related aspects index – 0.7), while the lowest pertains to the third component (I3 - Qualitative related aspects index – 0.55). The average value of the OnDis-CatBond Index is 0.55, which reflects that overall, the analysed companies perform well in terms of disseminating the cat bonds information on their websites.

### Correlation analysis results

The correlation analysis results are displayed in Table 1 to Table 4. The first three tables reflect the association between the historical overall volume and each of the three cat bonds disclosure constituent indices and the last one shows the correlation with the Online Disclosure of Cat Bonds Aspects.

Table 1. Volume – I1 - Means of disclosure index correlation analysis

<i>Correlation Coefficient</i>		<i>I1 - Means of disclosure index</i>
<i>Volume</i>	<i>Pearson</i>	<b>.886**</b>
	<i>Sig. (2-tailed)</i>	.003
	<i>Kendall's tau_b</i>	<b>.718*</b>
	<i>Sig. (2-tailed)</i>	.016
	<i>Spearman's rho</i>	<b>.837**</b>
	<i>Sig. (2-tailed)</i>	.010
<i>N</i>		8

Source: author's contribution (developed in

SPSS IBM)

Table 2. Volume – I2 - Company & Society disclosure related aspects index

<b>Correlation Coefficient</b>		<b>I2 - Company &amp; Society disclosure related aspects index</b>
<b>Volume</b>	<b>Pearson</b>	.405
	<i>Sig. (2-tailed)</i>	.319
	<b>Kendall's tau_b</b>	<b>.701*</b>
	<i>Sig. (2-tailed)</i>	.024
	<b>Spearman's rho</b>	<b>.819*</b>
	<i>Sig. (2-tailed)</i>	.013
	<i>N</i>	8

Source: author's contribution (developed in SPSS IBM)

Table 3. Volume – I3 - Qualitative related aspects index

<b>Correlation Coefficient</b>		<b>I3 - Qualitative related aspects index</b>
<b>Volume</b>	<b>Pearson</b>	<b>.753*</b>
	<i>Sig. (2-tailed)</i>	.031
	<b>Kendall's tau_b</b>	<b>.694*</b>
	<i>Sig. (2-tailed)</i>	.021
	<b>Spearman's rho</b>	<b>.822*</b>
	<i>Sig. (2-tailed)</i>	.012
	<i>N</i>	8

Source: author's contribution (developed in SPSS IBM)

All the correlation coefficients are positive (and statistically significant, except for the Pearson correlation coefficient between Volume and I2 - Company & Society disclosure related aspects index,) as a reflection of the association between a higher of participation on the cat bond market and the level of complexity of the procedures of disclosing information about these transactions.

Table 4. Volume – Online Disclosure of Cat Bonds Aspects Index

<b>Correlation Coefficient</b>		<b>Online Disclosure of Cat Bonds Aspects Index</b>
<b>Volume</b>	<b>Pearson</b>	<b>.748*</b>
	<i>Sig. (2-tailed)</i>	.033
	<b>Kendall's tau_b</b>	<b>.691*</b>
	<i>Sig. (2-tailed)</i>	.018
	<b>Spearman's rho</b>	<b>.874**</b>
	<i>Sig. (2-tailed)</i>	.005
	<i>N</i>	8

Source: author's contribution (developed in SPSS IBM)

#### 4. Conclusions and recommendations

The first formulated hypothesis was confirmed as the comparative analysis conclusions reflected that reinsurance companies that developed a higher volume of cat bond deals as sponsors manage to disclose at a more complex level the information associated to the catastrophe bonds deals.

Furthermore, the correlation analysis reflected a positive association between catastrophe bond information disclosed through the companies' website and the degree of involvement of the reinsurance firms on the insurance-linked securities market through cat bonds transactions. Thus, the research confirmed the second conveyed hypothesis.

The research results reflect that the E.U. based companies that access the catastrophe bond market disclose (online) the information regarding these deals at a quite good level, on average. In this sense, the society and company issues are quite well related to the catastrophe bonds issuance. However, the means of disclosure and especially the overall quality of the disclosure aspects are situated at a lower, and, respectively, at a much lower level.

On the recommendation side, further steps should be done in order to increase the visibility of this market. There is advisable

that reinsurance companies develop more complex techniques of online disclosing cat bonds information (for example, more developed dedicated webpages or reports), while also increasing its quality, especially in terms of visibility and updating. These actions could translate into achieving more corporate competitiveness through financial innovations employment.

## 5. Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”

## 6. References

- [1] Hagendorff, B., Hagendorff, J. & Keasey, K. “The Shareholder Wealth Effects of Insurance Securitization: Preliminary Evidence from the Catastrophe Bond Market”, *Journal of Financial Services Research*, 4 (3), SpringerLink, 2013, pp. 281-301.
- [2] Cummins, J.D. & Barrieu, P., “Innovations in Insurance Markets: Hybrid and Securitized Risk-Transfer Solutions”. In Dionne, G. (Ed.), *Handbook of Insurance* (pp. 547-602), 2nd Edition, Springer New York Heidelberg Dordrecht London, Springer Science+Business Media New York 2013
- [3]. Hofman, D., Brukoff, P., “Insuring Public Finances against Natural Disasters-A Survey of Options and Recent Initiatives“, *IMF Working Paper, WP/06/199*, 2006, Retrieved August 25, 2014, available at the author, on demand.
- [4]. Deller, D., Stubenrath, M. & Weber C., “A survey on the use of the Internet for investor relations in the USA, the UK and Germany”, *European Accounting Review* 8(2), Routledge, 1999, pp. 351-364.  
[5]. Cormier, D., Aerts, W., Ledoux, M.-J., Magnan, M., “Web-Based Disclosure About Value Creation Processes: A Monitoring Perspective”. *Abacus*, 46 (3), 2010, pp. 320–347
- [6]. Ashbaugh H, Johnstone K, Warfield T., “Corporate reporting on the Internet”, *Accounting Horizons* 13, 1999, pp. 241– 57.
- [7]. Pirchegger B, Wagenhofer A., “Financial information on the internet: a survey of the homepages of Austrian companies”, *European Accounting Review* 8(2), Routledge, USA/UK, 1999, pp. 383–3 95.
- [8]. Craven BM, Marston CL., “Financial reporting on the internet by leading UK companies”, *European Accounting Review* 8(2), Routledge, USA/UK, 1999, pp. 321 – 333.
- [9]. Ettredge M, Richardson VJ, Scholz S., “Determinants of information for investors at corporate Web sites”, *Journal of Accounting and Public Policy* 21, 2002, pp. 21:357– 69.
- [10]. Marston, C., Annika Polei, A. “Corporate reporting on the Internet by German companies”. *International Journal of Accounting Information Systems* 5, Elsevier, 2004, pp. 285– 311
- [11]. Chang, M., D’Anna, G., Watson, I., Wee, M., “Does disclosure quality via investor relations affect information asymmetry?”, *Australian Journal of Management*, 33 (2), 2008, pp.375–390.
- [12]. Cormier, D., Ledoux, M.J., Magnan, M., “The moderating effect of voluntary disclosure on the relation between earnings quality and information asymmetry: some Canadian evidence. *International Journal of Accounting, Auditing and Performance Evaluation* 8(2), 2012, 157-183
- [13] Andrikopoulos, A., Merika, A.A., Triantafyllou, A., Merikas, A.G. “Internet disclosure and corporate performance: A case study of the international shipping industry”, *Transportation Research Part A: Policy and Practice*, 47, Elsevier, 2013, pp. 141–152
- [14]. Rodríguez Bolívar, M.P., Garde Sánchez, R., López Hernández, A.M., “Online Disclosure of Corporate Social Responsibility Information in Leading Anglo-American Universities”, *Journal of Environmental Policy & Planning*, 15:4, Routledge, USA/UK, 2013, pp. 551-575.
- [15] Iamandi. I.E., Constantin, L.G., “Quantifying Corporate Social Responsibility Involvement in Art and Culture Projects in Romania and Bulgaria”, *Procedia Economics and Finance*, Volume 3, Elsevier, 2012, pp 1122–1127.
- [16] Bouriaux, S. & MacMinn, R. Securitization of Catastrophe Risk: New Developments in Insurance-Linked Securities and Derivatives, *Journal of Insurance Issues*, 32 (1), 2009, pp. 1–34.
- [17] McGhee, C., Clarke, R., Fugit, J., Hathawayajor, J., “The Catastrophe Bond Market at Year-End 2007: The Market Goes Mainstream”, New York: Guy Carpenter &Company, LLC, Retrieved August 25, 2014, available at the author, on demand.
- [18] [http://www.artemis.bm/deal\\_directory/](http://www.artemis.bm/deal_directory/)

## Considerations on VAT Efficiency and VAT Evasion

Cuceu Ionuț - Constantin

„Babeș-Bolyai” University Cluj-Napoca

Faculty of Economics and Business Administration, Finance Department

[ionut.cuceu@econ.ubbcluj.ro](mailto:ionut.cuceu@econ.ubbcluj.ro)

Văidean Viorela-Ligia

„Babeș-Bolyai” University Cluj-Napoca

Faculty of Economics and Business Administration, Finance Department

[viorela.vaidean@econ.ubbcluj.ro](mailto:viorela.vaidean@econ.ubbcluj.ro)

### Abstract

*The purpose of this paper is to comment on VAT theoretical and real tax base, to discuss the indicators that are applied in order to determine VAT efficiency and their correlation with VAT evasion. The study also evaluates VAT efficiency and VAT evasion for Romania within the European context, using the most recent available data.*

**Keywords:** value added tax, efficiency, VAT gap, evasion.

**JEL Classification:** H21, H26.

### 1. Introduction

As part of budgetary revenues, the value added tax (VAT) receipts play an extremely important role for the fiscal policy of any country.

According to OECD 2012 “a VAT system should be considered, in absolute terms, *efficient* when it covers the whole of the potential tax base at a single rate and where all the tax due is collected by the tax administrations.”[1]. As such, full efficiency is attained when the real tax base perfectly covers the potential tax base, a uniform single VAT rate is applied and the entire due VAT is collected by the fiscal public administrations.

Specialists have determined significantly different revenue performance as measured by the ration of VAT revenue within the gross domestic product (GDP) of countries, due to differing designs, behaviours and/or enforcements between countries’ VATs [2]. Furthermore, an *efficiency ratio* may be

determined as the ratio of VAT revenues to GDP divided by the standard rate (expressed as a percentage). This indicator is used as a diagnostic tool for evaluating VATs on a huge basis, but its limitations are significant according to [2], especially because of the measurements errors of GDP.

A better indicator is the so called *C-efficiency*, originally defined as the ratio of the share of VAT revenues in consumption to the standard rate. If all consumption were taxed at a standard VAT rate in an evasion-free environment, then the C-efficiency ratio would be of 100%. A lighter rating of some consumption items would result in a C-efficiency ratio below 100%. A C-efficiency ratio above 100% may be due to the inclusion of investment in the VAT base or the taxation of both final consumption and intermediate goods because of a break in the VAT chain [2].

VAT revenues of countries are significantly affected by VAT fiscal evasion, one of the main forms of evasion prevalent within world economies. For the particular case of Romania, officials report that about three quarters of the entire tax evasion of the country is generated by VAT fraud, which reached a maximum of 12.34% of GDP in 2012, followed by a slightly decrease to 12.21% of GDP in 2013. An important increase of tax evasion was registered in 2010, when the standard VAT rate was increased from 19% to 24% in the second half of the year, thus determining tax evasion to quickly rise from 8% of GDP to 9.6% of GDP in 2010, maintaining this unfortunate upward trend in the following years [3].

## 2. Indicators regarding the Value-Added Tax

One method for determining the performance of value-added tax is by computing VAT efficiency based on consumption, also known as *c-efficiency*, as determined by [2].

The efficiency of VAT ( $E_{VAT}$ ) may be determined as a ratio between the effectively collected VAT ( $VAT_e$ ) and the theoretical VAT ( $VAT_t$ ):

$$E_{VAT} = \frac{VAT_e}{VAT_t}$$

The theoretical value-added tax may be obtained by applying the standard value added tax rate ( $t$ ) to the theoretical tax base ( $B_t$ ):

$$VAT_t = B_t \times t$$

Thus, the efficiency of the value-added tax may be determined as the ratio of the implicit tax rate (the weight of effectively collected VAT within the theoretical tax base) and the standard VAT rate:

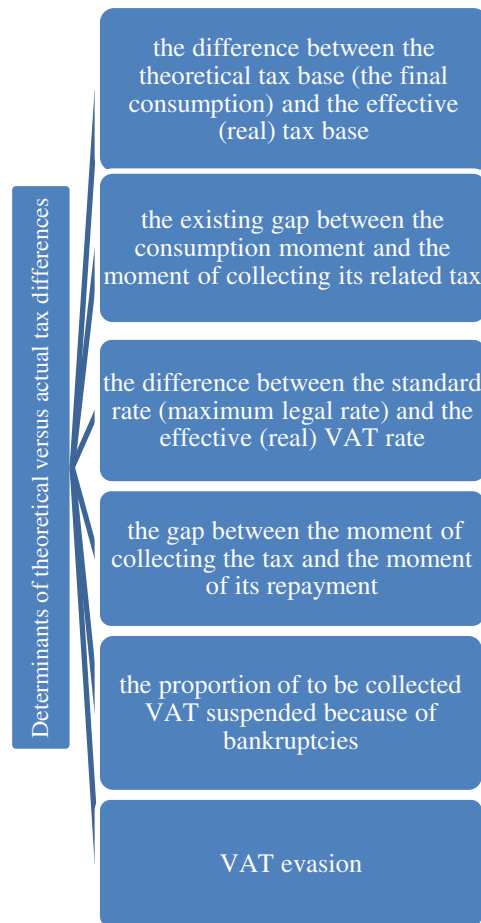
$$E_{VAT} = \frac{VAT_e / B_t}{t}$$

The theoretical tax base may be considered to be the final total consumption (CF), diminished with the value added tax. When computations consider the final consumption including the value added tax (market prices, as available in national accounts), the gross VAT rate might be used for determining the efficiency; the relationship between the gross rate ( $t^*$ ) and the net rate ( $t$ ) is the following:

$$t^* = \frac{t}{1+t}$$

The difference between the theoretical tax and the effectively collected tax is determined by the following factors, also represented graphically in Figure no. 1:

Figure no. 1 The determinants of theoretical versus actual tax differences:



Source: Authors' processings

- the difference between the theoretical tax base (the final consumption FC) and the effective (real) tax base;  
A part of the final consumption is not taxed, while a part of the intermediary consumption and a part of the investments are taxed (gross fixed capital formation GFCF).  
There are non-taxable persons that benefit from the exemption regime for small enterprises, who cannot deduce the tax on purchases.  
Moreover, some purchased goods and services are not entitled to deducing their VAT; also, there are operations (deliveries) without VAT deductibility of acquisitions.
- the difference between the standard rate (maximum legal rate) and the effective (real) VAT rate;



The effective rate represents the average VAT rates applied within a certain country, weighted by the tax base for each rate:

$$\frac{\sum_{i=1}^n B_i \times t_i}{\sum_{i=1}^n B_i}$$

where:

$B_i$  = tax base for  $i$  rate;

$t_i$  = the  $i$  VAT rate;

$n$  = the number of applied rates.

The effective rate is equal to the standard rate only if there is a uniform VAT rate for all consumed products ( $n = 1$  for a single uniform rate);

- the existing gap between the consumption moment and the moment of collecting its related tax (part of the collected tax of a fiscal year relies on the previous year consumption, and part of the tax for the current year consumption is collected in the next year);
- the gap between the moment of collecting the tax and the moment of its repayment;
- the proportion of to be collected VAT suspended because of insolvencies and bankruptcies;
- VAT evasion.

VAT efficiency is thus inversely proportional with VAT evasion, the higher the former, the lower the latter.

Table no.1 represents the weight of effectively collected VAT within the final consumption FC of EU-28 countries, in 2013, the most recent available figures on Eurostat database.

The share of VAT within the FC varies between 7.2% in Italy and 15.9% in Luxembourg.

In order to determine the EU-28 average weight of VAT within FC, we have determined the share of total actual VAT within the total consumption of all the 28 member states, obtaining 8.9%. Romania is situated above the previously determined average, having 10.7% as the share of VAT to FC.

Table no. 1 VAT efficiency for EU-28 in 2013

	Effective VAT -million EUR-	FC -million EUR-	VAT/ FC
Belgium	27225.9	300473.5	9.1%
Bulgaria	3775.3	32451.9	11.6%
Czech Republic	11694.5	108871.1	10.7%
Denmark	24360.2	190980.4	12.8%
Germany	197005.0	2112719.0	9.3%
Estonia	1557.9	13227.4	11.8%
Ireland	10371.0	109289.9	9.5%
Greece	12593.0	166381.0	7.6%
Spain	62179.0	814532.0	7.6%
France	144414.0	1679776.0	8.6%
Croatia	5462.7	35144.8	15.5%
Italy	93812.0	1294177.0	7.2%
Cyprus	1403.0	15472.7	9.1%
Latvia	2172.6	18185.9	11.9%
Lithuania	2611.2	27832.6	9.4%
Luxembourg	3484.7	21893.7	15.9%
Hungary	9073.2	72971.5	12.4%
Malta	586.1	5724.7	10.2%
Netherlands	42424.0	458869.0	9.2%
Austria	24953.0	237780.9	10.5%
Poland	27780.1	312942.5	8.9%
Portugal	13709.7	143139.5	9.6%
Romania	11913.1	111045.9	10.7%
Slovenia	3045.3	26920.0	11.3%
Slovakia	4696.1	55021.7	8.5%
Finland	18848.0	161263.0	11.7%
Sweden	39091.5	318268.2	12.3%
United Kingdom	139293.0	1716295.4	8.1%

Source: Authors' processings based on Eurostat data

In table no. 2, the gross VAT efficiency (determined based on the total final consumption) is 55.4% for Romania, below the EU simple average (59.7%). Within the EU, the gross VAT efficiency varies between 40.5% (in Greece) and 122% (in Luxembourg). For Romania, although the weight of VAT/FC from table no. 1 is above the EU-28 average, gross VAT efficiency is relatively low, as Romania has a very high standard VAT rate.

Table no. 2 VAT efficiency for EU-28 in 2013

	Net average standard rate	Gross average standard rate	Net VAT efficiency	Gross VAT efficiency
Belgium	21.00%	17.36%	43.1%	52.2%
Bulgaria	20.00%	16.67%	58.2%	69.8%
Czech Republic	21.00%	17.36%	51.2%	61.9%
Denmark	25.00%	20.00%	51.0%	63.8%
Germany	19.00%	15.97%	49.1%	58.4%
Estonia	20.00%	16.67%	58.9%	70.7%
Ireland	23.00%	18.70%	41.3%	50.7%
Greece	23.00%	18.70%	32.9%	40.5%
Spain	21.00%	17.36%	36.4%	44.0%
France	19.60%	16.39%	43.9%	52.5%
Croatia	25.00%	20.00%	62.2%	77.7%
Italy	21.25%	17.53%	34.1%	41.4%
Cyprus	18.00%	15.25%	50.4%	59.4%
Latvia	21.00%	17.36%	56.9%	68.8%
Lithuania	21.00%	17.36%	44.7%	54.1%
Luxembourg	15.00%	13.04%	106.1%	122.0%
Hungary	27.00%	21.26%	46.1%	58.5%
Malta	18.00%	15.25%	56.9%	67.1%
Netherlands	21.00%	17.36%	44.0%	53.3%
Austria	20.00%	16.67%	52.5%	63.0%
Poland	23.00%	18.70%	38.6%	47.5%
Portugal	23.00%	18.70%	41.6%	51.2%
Romania	24.00%	19.35%	44.7%	55.4%
Slovenia	21.00%	17.36%	53.9%	65.2%
Slovakia	20.00%	16.67%	42.7%	51.2%
Finland	24.00%	19.35%	48.7%	60.4%
Sweden	25.00%	20.00%	49.1%	61.4%
United Kingdom	20.00%	16.67%	40.6%	48.7%

Source: Authors' processings based on Eurostat data

OECD (2012) [1], Keen (2013) [4] and CASE (2013) [5] consider the total final consumption as a theoretical tax base for determining VAT efficiency. Other specialists, such as Alm and El-Ganainy (2013) [6] and Borselli, Chiri and Romagnano (2012) [7] fundament their computations on the final consumption of households solely.

The difference between the total final consumption and the final consumption of households is represented by the final

consumption of public administrations and that of non-profit institutions serving households (NPISH). The Romanian Fiscal Council has used the final consumption of households and the final consumption of non-profit institutions serving households in the computation of net VAT efficiency [3].

Given that VAT is a tax on final consumption and not upon final production, its efficiency represents a more relevant indicator of VAT performance than VAT productivity [8], the latter being determined as the ratio between the share of VAT revenues within the GDP and the standard VAT rate.

### 3. VAT Evasion

The final consumption differs a lot from the real tax base. A lot of adjustments have to be made in order to obtain a potential tax base that would approximate the real tax base perfectly. One has to consider VAT exemptions, as well as intermediate consumption and the GFCF (which do not entitle to tax deductions).

The VAT Gap concept has been measured as the difference between the potential VAT (the theoretical VAT total tax liability according to the law - VTTL) and actual VAT (actual revenue collected) (CASE, 2013)[5].

Reckon (2009) [9] has estimated and analysed the VAT Gap for the 2000-2006 time period, for 24 membre states (EU-25 excludes Cyprus, which has been confronted with a major reevaluation of national accounts).

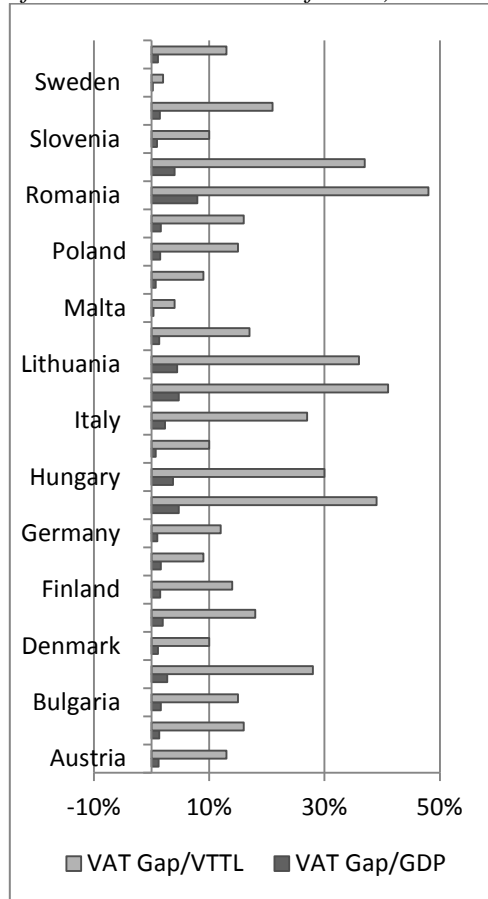
Furthermore, CASE (2013) [5] has quantified the VAT Gap for the 2000-2011 time period, for 26 EU member states (EU-27 except for Cyprus), expanding the analysis for Romania and Bulgaria as well (Croatia only adhered the EU in 2013 and it hasn't been covered by this study).

Figure no. 2 contains the evolution of VAT Gap both as a share of VTTL and as a share of GDP for the EU-26 member states, for the year 2011. According to it, in 2011, VAT Gap as a share of VTTL differs a lot among the EU member states, ranging from 2% in Sweden to 48% in Romania, the EU average being of 18% (EU-26 treated as one unit).

VAT Gap as a share of GDP also varies significantly from one country to another,

ranging from 0.2% (in Sweden) to 7.9% (in Romania), the EU average being of 1.5% (EU-26 treated as one unit).

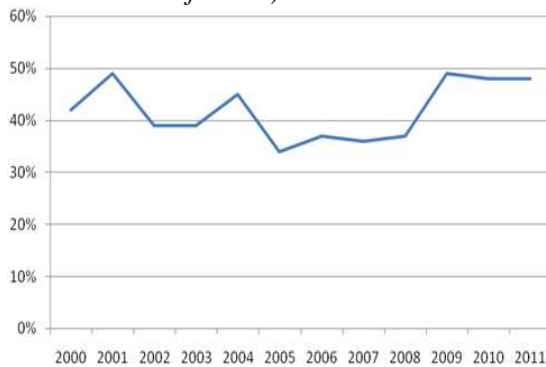
Figure no. 2 EU-26 VAT Gap (as a share of VTTL and as a share of GDP) in 2011



Source: based on CASE

Furthermore, it is interesting to evaluate the VAT Gap for the particular case of Romania, for the years before and after the crisis, according to Figure no. 3.

Figure no. 3 VAT Gap in Romania (as a share of VTTL) in 2000-2011

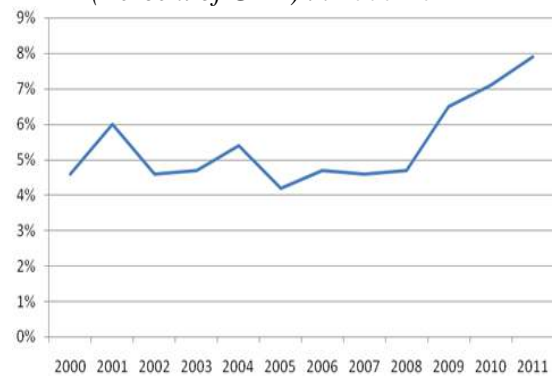


Source: based on CASE

For the 2000-2001 time period, the average VAT Gap as a share of VTTL is of 42% for Romania, almost three times higher than the one registered for the whole EU, of only 15% (EU-26 treated as one unit). In 2011, the VAT Gap as a share of VTTL registered in Romania is of 48%, with 6 percentage points above its 2000 level; its minimum value is registered in 2005 (34%) and its maximum level was of 49%, in the years 2001 and 2009.

VAT Gap in Romania is also studied as a percentage of its GDP, according to Figure no. 4.

Figure no. 4 VAT Gap in Romania (Percent of GDP) in 2000-2011



Source: based on CASE

For the 2000-2001 time period, Romania had an average VAT Gap of 5.4% of its GDP, extremely high as compared to the EU average of only 1.2% of GDP (EU-26 treated as one unit). At the beginning of the time period, Romania's VAT Gap was of 4.6% of GDP, in 2011 it reached 7.9% of GDP (the maximum level from the entire time period). For the 2006-2011 time interval, it has maintained an upward trend; in 2005 it registered the minimum level of 4.2%.

The Fiscal Council of Romania has estimated VAT evasion as the difference between implicit theoretical VAT and effectively collected VAT at the state budget. Theoretical VAT has been quantified by identifying the types of expenditures (final consumption, intermediate consumption and investments - GFCF) that generate non-deductible (non-reimbursable) VAT.

VAT evasion within a certain country may be determined as a function of the effectively collected VAT within a fiscal year and the hypothetical VAT, determined based on national accounts data [10]. Figure no. 5

presents the evolution of VAT fiscal evasion in Romania as GDP weights on the most recent available data; Romanian VAT evasion levels fluctuated before the crisis, but starting with 2008, it has maintained a sustained upward trend, unfortunately.

Figure no. 5. VAT fiscal evasion in Romania (GDP weights) for the 2000-2013 time period



Source: Fiscal Council's estimations based on National Institute of Statistics data

Some studies point out the fact that EU member states register extremely different levels for VAT evasion. These existing evasion rate differences are mostly explained through the differing population attitudes regarding tax payments and the administrating and monitoring differences, while the differentiation of VAT rates seems to be of a secondary importance [11].

#### 4. Conclusions

Based on the calculation methods, different estimations have resulted in the field of VAT.

We may state that it's extremely difficult to approximate the real VAT base, because consumption is indeed very far away from the real VAT base, as argued before. VAT efficiency and evasion differ a lot among EU member states.

Romania is the European country with the highest VAT Gap (the lowest VAT collection), both as VTTL and GDP shares, although it doesn't have the lowest VAT efficiency.

Future research might continue on an econometric modelling of the VAT gap and its determinants.

#### 5. References

- [1] OECD, *Consumption Tax Trends*, Paris, 2012.
- [2] Ebrill, L., Keen M., Bodin J.P., Summers V. *The Modern VAT*. Washington D.C., IMF, 2001.
- [3] Fiscal Council - Annual report for 2012 and 2013, Romania, available at <http://www.fiscalcouncil.ro/RA2013Engleza.pdf>
- [4] Keen, M., "The Anatomy of the VAT", *National Tax Journal* 66 (2), 2013, pp. 423-446.
- [5] Study to quantify and analyse the VAT Gap – Final report, Center for Social and Economic Research (Project leader), for the European Commission, No 16./2013, available at [http://ec.europa.eu/taxation\\_customs/resources/documents/common/publications/studies/vat-gap.pdf](http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat-gap.pdf)
- [6] Alm, J. and El-Ganainy, A., „Value Added Taxation and Consumption”, *International Tax and Public Finance*, 20(1), 2013, pp.105-128.
- [7] Borselli, F., Chiri, S. and Romagnano, E., „Patterns of Reduced VAT Rates in the European Union”, *International VAT Monitor*, January-February, 2012, pp. 13-21.
- [8] Bird R. M., Gendron P. P., „Is VAT the Best Way to Impose a General Consumption Tax in Developing Countries?”, *International Studies Program*, Working Paper 06-18, May 2006.
- [9] Reckon, “Study to Quantify and Analyse the VAT Gap in the EU-25 Member States”, 2009.
- [10] Nam C. W., Gebauer A., Parsche R., „Is The Completion of EU Single Market Hindered by VAT Evasion?”, CESifo Working Paper Series Nr. 974, June 2003 and Nam C. W., Parsche R., Schaden B., “Measurement of Value Added Tax Evasion in Selected EU Countries on the Basis of National Accounts Data”, CESifo Working Paper, no. 431, March 2001.
- [11] Gebauer A., Parsche R., „Evasion of Value-Added Taxes in Europe: Ifo Approach to Estimating the Evasion of Value Added Taxes on the Basis of National Accounts Data (NAD)”, CESifo DICE Report 2, pp. 40-44, 2003.

# Credit Scoring Model for Calculating Firm Financial Performance

Dănilă Alexandra  
Horga Maria-Gabriela  
Negrea Alexandru

"Ovidius" University of Constanta

[alexandradanila14@yahoo.com](mailto:alexandradanila14@yahoo.com), [gabihorga@gmail.com](mailto:gabihorga@gmail.com), [ngralexandru@yahoo.com](mailto:ngralexandru@yahoo.com)

## Abstract

*Currently, a fundamental role in firm activity lies in financial performance, given that competition for each market segment has become increasingly tight and mechanisms of globalization exclude the weakest ones. So the chance to survive in this competition increases considerably for those firms who quickly find and reduce their vulnerabilities and furthermore implement performance management tools that facilitate discovery, explanation and solutioning difficulties.*

*Research presented in this paper continues the investigations that were carried out in the domain of firm financial performance, seeking to highlight the importance of financial knowledge within all sectors. Present reasearch aims to evaluate financial performance within Romanian tourism sector, given specific of this sector. Evaluation of financial performance of this sector is based on a proposed credit scoring model.*

**Key words:** financial statements, credit scoring model, tourism sector, financial indicator.

**J.E.L. Classification:** B41.

## 1. Introduction

Accounting, as a means of representing the economic reality of firms is one that "allows production and dissemination of information for decision-making". Financial and accounting information represents a starting point in the analysis of firm performance and future orientation of its work and is of high interest to many users: managers, shareholders, employees, partners, regulators.

In financial terms, performance is the

result of financial management of the firm. It is a reflection of the profit and loss account, providing useful information to anticipate firm's ability to generate future cash flows based on available resources. Moreover, the information provided by profit and loss account can be used to formulate judgments about future effectiveness of new resources that firms might appeal to. However, the profit and loss cannot provide a complete picture of overall firm financial performance, imposing a parallel analysis of balance sheets and statements of capital changes.

Financial indicators are often the only tool for performance evaluation since they translate the entire activity of a company in terms of profitability.[1]

Main objective of this research was to develop a model reflecting financial performance of Romanian firms, based on financial indicators. Targeted sector was that of tourism.

## 2. Sample - preliminary remarks

Firms were included in this research based on certain criteria. These reffer to:

1. firm activity - only companies within tourism sector were retained;
2. firm size - our sample is formed of micro and small companies, but also medium sized and large companies, in order to ensure representation of all economic categories acting within Romanian tourism sector;
3. firm location - present research is based on a sample of firms located in Constanta, Tulcea and Galati counties - the Southern-Eastern region of Romania;
4. firm profitability - firms that registered extreme values of profitability were excluded, in order to avoid sample mean and variance distortions.

Given these criteria, sample is structured

as follows. Out of the 155 firms considered, a significant percent, 58.35%, are located in Constanta county, 24.43% are firms that act in Tulcea county and 17.32% act in Galati county.

Given the specific of the analyzed sector, it is justified the large share of enterprises located in Constanta, given the fact that this area is most developed within tourism sector (in comparison to other two counties taken into consideration) because of Black Sea's coast potential. Within this sample, tourism companies are represented by hotels, villas and bungalows, guesthouses and agro-touristic complexes. Of these, the largest share (43.78%) are hotels and motels, followed by guest houses, which represent 18.91% of the total units. Villas and bungalows totalized a share of 14.59%, tourist complexes represented 12.43%, and agro-touristic complexes totalized a share of 10.27%.

According to the calculation methodology established by NBR Regulations, "Financial performance evaluation [...] is made [...] based on scores assigned quantitative and qualitative factors. Quantitative factors refer mainly to [...]: liquidity, solvency, profitability and risk, including currency risk. At least qualitative factors relate to issues concerning the administration of the entity under review, the quality of ownership, [...], the market conditions in which it operates ". [2] Based on these considerations, we developed a model for assessing financial performance by using financial indicators.

Conducted analysis concerned calculation of financial indicators based on data retained from financial statements of companies included in this study. As a result, financial ratios were calculated, respectively liquidity, solvency, return on assets, return on equity, leverage, return on sales, debt to equity, together with analysis of turnover trend in the period 2009 - 2013. Balance sheets and profit and loss accounts were the main financial tools used within this analysis. [3], [4], [5]

Each of the eight financial indicators were calculated for a period of four consecutive years, respectively between 2009 -2013, and multiannual average was calculated. Obtained average was subsequently transformed into scores according to its calculated value. The scale used was

differential scale, with scores from 1 to 5, where 1 represented the lowest score (unfavorable) and 5 represented the highest score (excellent condition). This was necessary in order to ensure data comparability, as significant values differ from one indicator to another. Our model is based on credit scoring model used by banking sector.

Central objective of this research is to evaluate firm financial performance within tourism sector in Romania.

### 3. Credit scoring model

Based on financial and accounting practice, we were able to develop a credit scoring model for evaluation of firm financial performance. [4]

We first started in this research by establishing 5 thresholds for each of the eight considered indicators. We then interpreted these five thresholds, and assigned, accordingly, scores from 1 to 5. In this sense, Tables 1 - 8 show proposed credit scoring model.

Table 1. Assigned scores for turnover trend

Turnover trend (%)	Assigned score
Negative $TT < 0$	1
Satisfactory $0 < TT \leq 10$	2
Acceptable $10 < TT \leq 20$	3
Good $20 < TT \leq 30$	4
Excellent $TT > 30$	5

Source: Authors' processing.

As seen in Table 1, we consider an acceptable annual turnover trend one between 10% and 20%, while a good turnover trend is that of minimum 20% and maximum 30% annually. We consider that an excellent turnover trend is one that exceeds 30% annually.

Table 2. Assigned score for liquidity

Liquidity	Assigned score
Very low $L < 60$	1
Low $60 < L \leq 80$	2
Acceptable $80 < L \leq 90$	3
Good $90 < L \leq 110$	4
High $L > 110$	5

Source: Authors' processing.

Consequently, a below 60 liquidity

indicator is considered a very low one, while one exceeding 110 threshold is a high value. (see Table 2).

Table 3. Assigned score for solvency

Solvency	Assigned score
Insolvency $S < 100$	1
Low $100 < L \leq 105$	2
Acceptable $105 < L \leq 120$	3
Good $120 < L \leq 150$	4
High $L > 150$	5

Source: Authors' processing.

Referring to solvency indicator, we consider that acceptable values are ones between 105 and 120, good ones are values between 120 and 150 and highest ones are above 150 threshold. Given these considerations, we assigned scores to each threshold, accordingly - Table 3.

Table 4. Assigned score for ROE

ROE	Assigned score
Negative $ROE < 0$	1
Low $0 < ROE \leq 5$	2
Acceptable $5 < ROE \leq 8$	3
Good $8 < ROE \leq 10$	4
High $ROE > 10$	5

Source: Authors' processing.

Interpretation of both return on equity (ROE) and return on assets (ROA) is similar - Tables 4 and 5. Lowest score is assigned to negative values (below 0 value), and highest score to those values which exceed 10 threshold.

Table 5. Assigned score for ROA

ROA	Assigned score
Negative $ROA < 0$	1
Low $0 < ROA \leq 5$	2
Acceptable $5 < ROA \leq 8$	3
Good $8 < ROA \leq 10$	4
High $ROA > 10$	5

Source: Authors' processing.

Financial indicator called return on sales (ROS) is considered to register good values in cases when it is higher than 20, but not exceeding 30, and at its best value when it is above 30 threshold. Accordingly, we assigned minimum score to negative values and maximum score to those above fifth threshold.

Table 6. Assigned score for ROS

ROS	Assigned score
Negative $ROS < 0$	1
Low $0 < ROS \leq 10$	2
Acceptable $10 < ROS \leq 20$	3
Good $20 < ROS \leq 30$	4
High $ROS > 30$	5

Source: Authors' processing.

Lowest score assigned to leverage indicator was the one referring to negative values of this indicator and highest score is assigned, according to our model, to values of leverage indicator above 3.

Table 7. Assigned score for leverage

Leverage	Assigned score
Negative $Lev < 0$	1
Low $0 < Lev \leq 1.5$	2
Acceptable $1.5 < Lev \leq 2$	3
Good $2 < Lev \leq 3$	4
High $Lev > 3$	5

Source: Authors' processing.

Debt to equity indicator must also be taken into consideration when evaluating firm financial performance, therefore it has also been assigned scores from 1 to 5. We consider debt exceeding 350 threshold to be a negative value, so we assigned lowest score to these values, while debt below 200 threshold has been assigned maximum score, as we consider it a favourable situation - Table 8.

Table 8. Assigned score for debt

Debt to equity	Assigned score
Negative $D > 350$	1
Low $300 < D \leq 350$	2
Acceptable $250 < D \leq 300$	3
Good $200 < D \leq 250$	4
High $D < 200$	5

Source: Authors' processing.

#### 4. Results

Firstly, conducted research revealed that liquidity indicator related to this sector registers the lowest average score, which highlights a first issue. Liquidity is a serious problem of firms within Romanian tourism sector, as they are constantly dealing with

missed or late payments. Accepting extended payment periods, but also customers' habits are the main two factors responsible for this result. Therefore, this is one aspect that should be quickly addressed, as the faster is the action of collecting invoices whose payment period has been exceeded, the higher is the probability to recover large amounts of money and avoid liquidity problems.

Secondly, investigated firms are highly indebted ones, as the average score registered by debt to equity ratio is below 3 (Table 9). This is obviously related to liquidity indicator, as most firms resort to credit in order to ensure proper resources for their activity.

On the other side, best score is the one recorded by turnover trend, above 4 points. This result indicates that revenues are increasing annually within this sector, so firms are starting to take advantage of region's potential and, in addition to that, understand customers' expectations and fulfill them.

The average financial performance of investigated sample recorded significantly higher score than half the possible score - 3.433 points, out of a maximum of 5 points. We obtained this score by simple average of all eight financial indicators - Table 9.

Based on these results we can conclude that, on average, firms within investigated sample have registered acceptable financial results in the period between 2009 and 2013, with positive impact on their financial performance. We consider that financial performance of this sector is medium.

Table 9. Financial performance score

Indicator	Score
Turnover trend	3.679
Liquidity	2.835
Solvency	3.156
Return on assets	3.925
Return on equity	3.552
Return on sales	4.121
Leverage	3.214
Debt to equity	2.983
<b>Financial performance</b>	<b>3.433</b>

Source: Authors' processing.

However, these results indicate that financial performance of the tourism services

sector is far from excellent, needing to be improved in order to considerably approach maximum score.

## 5. Conclusions

Proposed credit scoring model offers an alternative to evaluating firm financial performance of tourism sector, based on financial indicators.

Results of present research show that firms within investigated sector need to enhance several aspects of their financial activity, respectively:

- ✓ reduce the period of collecting invoices in order to solve liquidity problems;
- ✓ find solutions to finance activity through internal resources in order to solve debt problems;
- ✓ act in such a manner in order to improve all financial indicators.

As a consequence of these results, financial performance of analyzed sector is a medium one.

## 6. References

- [1] Robu, V., Sandu R., *Problematika analizei performanțelor – o abordare critică în contextul teoriilor informației și guvernantei corporative*, Economie teoretică și aplicată, pp.15-28, 2006.
- [2] Romanian Official Monitor no.684/27 september 2011, *National Bank of Romania's Regulation no.11 / 2011 on loan and investment classification, as well as determining and applying prudential value adjustments*, 2011.
- [3] *Business and Financial Reporting, Challenges from the New Economy*, FASB Report, 2001.
- [4] Min, J.H., Lee, Y.-C., *A practical approach to credit scoring*, Expert Systems with Applications 35, 2008, pp. 1762–1770.
- [5] Mircea, G., Pirtea, M., Neamțu, M., Băzăvan, S., *Discriminant analysis in a credit scoring model*, Recent Advances in Applied & Biomedical Informatics and Computational Engineering in Systems Applications, pp. 257-262, 2011.



## IAS 29 "Financial Reporting in Hyperinflationary Economies" - Analysis and Implications of Accounting, Tax and Legal

Dăucianu (Avram) Mihaela

*The Bucharest University of Economic Studies*

[mihaela\\_direc@yahoo.com](mailto:mihaela_direc@yahoo.com)

### Abstract

*The objectives of this article are to analyze the judgment and implications of accounting, legal and tax resulting from the application of International Financial Reporting Standards to listed entities in the capital market, resulting from the restatement of financial statements for the last three years as the divergence between national [1] and international rule. Thus, this article aims to present a practical example of restatement of equity and to analyze the impact of tax, legal and accounting. Application of IAS 29 is limited because Romanian economy ceases to be hyperinflationary economy after 31.12.2003. Professionals accountants must face a new challenge, in which the reasoning of value judgments is a criterion that requires present throughout restatement of assets, liabilities, equity, expenses and income as a basis for comparison to IFRS.*

**Keywords:** financial statements, restatement, IFRS, tax implications, professional judgment.

**J.E.L. Classification:** M20, M40

### 1. Introduction

As a result of the many changes in economic, political, social and cultural, the accounting is in a constant evolution. Testify today in our country the legislative changes concerning the mandatory transition to apply IFRS of traded companies regulated and supervised by BSE market. Standards issued by the IASB have been approved by the European Commission and for their application the national industry regulator has issued a series of its own regulations [2], [3], [4], [5], [6], [7], but too late to be implemented from the financial year 2012.

We are for their application because of the advantages offered by these standards of worldwide recognized quality information, methods of balance taxation which arise temporary differences and not just current taxes for governments, the accounting treatment for each element of the financial statements structure. The motivation for the introduction of IFRS is the transparency of annually financial statements, uniform presentation of information for both its shareholders and potential investors.

In the first year of implementation of International Financial Reporting Standards for traded companies, in various fields of activity, accounting professionals have faced a number of problems both in the restatement of the financial statements and the tax implications. IFRS involves appealing to the professional judgment, in Romania the professional accountant is limited and first put into difficulty by the tax legislation of NAFA still unclear. So far the solutions presented are only accounting nature [8].

In other countries, a measure of this scale is ready to years before, by developing measures underpinning knowledge of changes to be made to the concerned companies, to prepare personnel who will understand them and apply and not least in order to quantify their economic implications [9].

### 2. Research Methodology

The objectives of this article are to analyze the judgment and implications of accounting, legal and tax resulting from the application of International Financial Reporting Standards to listed entities in the capital market, resulting from the restatement of financial statements for the last three years as the divergence between national and international rule. European Union requires us the application of IFRS and implicitly our

audit of financial statements for entities whose values are traded on the stock exchange. In this regard from the provisions of International Financial Reporting Standards, European Directives and recent legislative changes in our country applicable to companies whose securities are admitted to trading on a regulated market, from views expressed by theorists in the papers, they've considered the dissemination of theoretical information but also some practical examples of the difficulties encountered in reprocessing and tax issues resulted, to the entities listed on the stock exchange.

In order to fulfill the objectives it will be used a mixed **research methodology** specific to economics, which will combine both qualitative and quantitative methods, in order to acquire new knowledge through strong interdisciplinary nature of the proposed research objective.

Thus based on a practical example of the restatement of the equity of a company listed

on BSE, under IFRS it resulted differences between the financial statements prepared in accordance with OMPF 3055/2009 and the financial statements prepared under IFRS.

The tables below presents the reconciliation of equity between the company's financial position as of statutory individual and the company's financial position under IFRS.

Restatement of capital involves the application of IAS 29 "Financial reporting in hyperinflationary economies". At the beginning of the first period of application of this standard, the components of equity, except retained earnings and any revaluation surplus, are restated by applying a general price index from the dates the components were bringing as a contribution. Any revaluation surplus is eliminated. Restated retained earning is derived from all the other amounts of restated financial position situation [10], [11]. (Table 1)

*Table 1. Restatement of equity at 1<sup>st</sup> of January 2011*

Indicators	1 <sup>st</sup> of January 2011		
	OMFP 3055/2009	Value adjustments	IFRS
Capital	24.266.709	-	24.266.709
Adjusting capital	-	97.408.809	97.408.809
Reserves and other reserves	32.992.536	+ 4.159.273	37.151.809
Revaluation reserve	137.450.968	- 1.104.139	136.346.829
Retained earnings from the first time adoption of IAS 29	-	-107.443.827	-107.443.827
Profit / loss	3.462.632	-	3.462.632
<b>Total equity</b>	<b>198.172.845</b>	<b>-6.979.884</b>	<b>191.192.961</b>

*Source: own approach*

Table 2. The restatement of equity at 31<sup>st</sup> of December 2011

Indicators	31 <sup>st</sup> of December 2011		
	OMFP 3055/2009	Value adjustments	IFRS
Capital	24.266.709	-	24.266.709
Adjusting capital	-	97.408.809	97.408.809
Reserves and other reserves	36.590.555	+4.159.273	40.749.828
Revaluation reserve	126.593.419	-462.303	126.131.116
Retained earnings from the first time adoption of IAS 29	-	-107.443.827	-107.443.827
Profit / loss	927.740	-	927.740
<b>Total equity</b>	<b>188.378.423</b>	<b>-6.338.048</b>	<b>182.040.375</b>

Source: own approach

Table 3. The restatement of equity at 31<sup>st</sup> of December 2012

Indicators	31 <sup>st</sup> of December 2012		
	OMFP 3055/2009	Value adjustments	IFRS
Capital	24.266.709	-	24.266.709
Adjusting capital	-	97.408.809	97.408.809
Reserves and other reserves	37.614.953	+4.159.273	41.774.226
Revaluation reserve	126.486.300	-1.091.202	125.395.098
Retained earnings from the first time adoption of IAS 29	-	-107.443.827	-107.443.827
Profit / loss	2.432.521	+40.530	2.473.051
<b>Total equity</b>	<b>190.800.483</b>	<b>-6.926.417</b>	<b>183.874.066</b>

Source: own approach

Most significant changes contained in the financial statements related to equity in accordance with IFRS [12], [13], [14] are:

a) Adjusting capital during 1991-2003 in accordance with IAS 29 "Financial reporting in hyperinflationary economies", the

Romanian economy being hyperinflationary until 31.12.2003. [Table 4]

accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". [Table 5]

b) Adjusting other elements of equity (legal reserve and other reserves) in

Table 4. Adjusting capital

	Capital according to financial statements at presented data	Differences from revaluation of increased capital	IPC%	Inflated capital	Capital related difference in application of IAS 29
1	2	3	4	5	6
30.06.1990	38.762		230.056,20	89.173.234	89.134.473
	52.599	13.838			
14.09.1993	537.330	484.731			
20.09.1994	2.856.570	2.319.240			
31.12.1995	2.841.619	-14.951			
30.06.1996	3.645.692	804.073	1.859,80	14.954.155	14.150.082
31.12.1996	3.645.692				
31.12.1997	3.645.692				
31.12.1998	3.645.692				
28.12.1999	5.205.690	1.559.998			
20.12.2000	6.718.580	1.512.890			
		<b>5.875.745</b>		<b>104.127.389</b>	<b>103.284.554</b>

Source: own approach

Table 5. Adjusting the legal reserve

	Legal reserve	Annual increases	IPC%	Inflated value	The difference of legal reserves constituted of first applying IAS 29
1	2	3	4	5	6
1992	0	0			
1993	10.458	10.458	4373,8	457.416	446.958
1994	13.915	3.457	2704,2	93.481	90.025
1995	49.071	35.156	2116,8	744.186	709.030
1996	59.477	10.405	1349,1	140.378	129.973
1997	67.433	7.957	536,6	42.695	34.738
1998	72.465	5.032	381,7	19.206	14.174
1999	92.717	20.252	246,6	49.941	29.689
2000	121.475	28.758	175,2	50.385	21.626
2001	121.475	0		0	0
2002	168.177	46.702	114,1	53.287	6.585
2003	168.177	0		0	0
	<b>0</b>	<b>168.177</b>		<b>1.650.976</b>	<b>1.482.799</b>

Source: own approach

The revaluation differences included in capital were removed by the end of 2003,

with the amount of 5,875,745.20 lei (1028 "Capital adjustments" = 105 "Revaluation

reserves") and were transferred to retained earnings of respective reserves revaluations (105 "Revaluation reserves" = 1177 Reported result from transition to IFRS ").

The resulting effect is:

- On January 1<sup>st</sup>, 2011: the increase of capital adjustments to the amount of 103,284,554 lei and the recording in counterpart the amount of 103,284,554 lei in account 118 "Retained earnings from first time adoption of IAS 29" so that equity remains unchanged. The situation is presented to the date 31<sup>st</sup> of December 2011 and 31<sup>st</sup> of December 2012. (118 "The result derived from the first time adoption of IAS 29" = 1028 "Adjustments to capital" ).

- On January 1<sup>st</sup>, 2011: the increase of adjustments related to legal reserves to the amount of 1,482,798.51 lei and the recording

in counterpart the amount of 1,482,798.51 lei in account 118 "The result derived from first time adoption of IAS 29" so equity remains unchanged. The situation is presented to the date 31<sup>st</sup> of December 2011 and 31<sup>st</sup> of December 2012 (118 "Retained earnings from first time adoption of IAS 29" = 1061 "Legal reserves").

- On January 1<sup>st</sup>, 2011: the increase of adjustments related to other reserves in amount of 2,676,473.76 lei and recording in counterpart the amount of 2,676,473.76 lei in account 118 "Retained earnings from first adoption of IAS 29" so that equity remain unchanged. The situation is presented to the date 31<sup>st</sup> of December 2011 and 31<sup>st</sup> of December 2012 (118 "Retained earnings from first time adoption of IAS 29" = 1068 "Other reserves").

Table 6. Statement of financial position

Element	31 <sup>st</sup> of December 2012	31 <sup>st</sup> of December 2011	1 <sup>st</sup> of January 2011
Adjustments related to capital	103.284.554	103.284.554	103.284.554
Adjustments related to legal reserve	1.482.799	1.482.799	1.482.799
Adjustments related to other reserves	2.676.474	2.676.474	2.676.474
Reported earnings	-107.443.827	-107.443.827	-107.443.827

Source: own approach

### 3. Conclusions

Application of IAS 29 is limited because Romanian economy ceases to be a hyperinflationary economy after 31.12.2003. "When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements in accordance with this standard, it shall treat the amounts expressed in the current existing measuring unit at the end of the previous reporting period, as the basis for accounting values of future financial situations." (IAS 29)

Preparing financial statements in accordance with IFRS adopted by the European Union involved from the management of companies the use of estimates and assumptions that affect the

application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated judgments are based on historical data and other factors believed to be eloquent in these circumstances, and the result of these factors form the basis of judgments used in determining the accounting value of assets and liabilities for which there are no other sources of available evaluation.

Actual results may differ from estimate values. Estimates and assumptions are periodically reviewed. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the current and future periods.

Modification effect of the current period is recognized as income or expense in the

current period. If it does exist the effect on future period is recognized as income or expense in those future periods.

Following the analysis of Ionelia Alexandra Feldioreanu in "Analysis of compliance with information requirements of IFRS. The case of companies listed on the BSE" from the 16 analyzed companies, all of them have adopted IAS 29 "Financial reporting in hyperinflationary economies" but two of them had no information on the amounts actually obtained after restatement. [15]

Even if the application of IFRS in the first stage of implementation generates only problems concerning the choose of optimal solution, in this case, since there were not clarified all tax implications, we should not ignore the advantages of their application. IFRS require professional accountants a new language and improved knowledge depending on the development of the profession in the world. The amendments to IFRS are significant and cannot be diminished by the difficulties encountered of their application for the first time by our accountant specialists and statutory auditors. [16]

#### Acknowledgment

„This paper was co-financed from the European Social Fund, through the Sectorial Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/138907 "Excellence in scientific interdisciplinary research, doctoral and postdoctoral, in the economic, social and medical fields -EXCELIS", coordinator The Bucharest University of Economic Studies”.

#### 4. References:

- [1] OMPF 3055/2009 on the approval of accounting regulations compliant with European Directives.
- [2] Order no. 881 / 25.06.2012 on the application by companies whose securities are admitted to trading on a regulated market of International Financial Reporting Standards, *Official Gazette* no. 424 from 26th of June, 2012.
- [3] OMPF 1286 / 01.10.2012 for the approval of Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market in the *Official Gazette*, Part I no. 687/04.10.2012.
- [4] OMFP nr.1690 / 12.12.2012, on amending and supplementing certain accounting regulations, *Official Gazette*, no. 857 from 18th of December, 2012.
- [5] OMFP no.40/2013 on the main aspects of preparation and submission of annual financial statements and annual accounting reports of economic operators at territorial units of the Ministry of Public Finance, *Gazette* no. 44 from 21st of January, 2013.
- [6] Regulation no.1/2006 C.N.V.M. on the implementation of Directive no. 2007/14/EC laying down detailed rules for implementing certain provisions of Council Directive 2004/109/EC on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.
- [7] Instruction 6/2011 on the application of International Financial Reporting Standards by authorized entities, regulated and supervised by the National Committee of Securities.
- [8] Morariu A., IFRS – accounting standards characterized by quality, *Journal of Financial Audit* no. 3/2008.
- [9] <http://roscrib.com/doc/101735351-> Implications of IFRS adoption on Romanian accounting.
- [10] *IASB International Financial Reporting Standards*, CECCAR Publishing, Bucharest 2013. Translated by CECCAR.
- [11] Tort, E., „La contingence de la politique comptable des sociétés cotees: le cas de la transition aux normes IFRS”, *Revue Comptabilite, Controle, Audit*, vol.13, no.3, 2007, pp.171-194.
- [12] Raffournier B., *Les normes comptables internationales (IFRS)*, 5 edition, Economica, Paris, 2012.
- [13] Ristea, M. and Jianu, I., Romania's experience in applying the International Financial Reporting Standards and International Accounting Standards in the Public Sector.
- [14] van Greuning, H., *International Financial Reporting Standard*, 2007.
- [15] Feldioreanu, I.A., „Analysis of compliance with information requirements of IFRS. Case of listed companies on the BSE”, *Financial Audit Magazine* no. 7/2014.
- [16] Jianu, I. and Jianu, I., „Defining and assessing performance - from its origins to the present”, *Journal of Accounting and Information Management*, no. 26, 2008, pp. 72-88.

## Fair Value Measurement: Intricacy and Responsibility

Dobre Elena

Faculty of Economics, Ovidius University, Constanta  
[edobreuniv@gmail.com](mailto:edobreuniv@gmail.com)

### Abstract

*Fair value is still a novelty in the field of accounting valuation, because of the application of IFRS 13. Banking accounting professionals are interested in the measurement of the fair value of financial instruments. In banking, an efficient way to control risks is always necessary. This paper is the second part of a larger endeavor aimed at explaining valuation techniques used in the hedging of price risks. The special purpose and research question is to discover the level of assimilation of good practices in the fair value field before the issuing IFRS13. This study is based on the case of Dexia BIL's restructuring. The qualitative approach follows the critical research method of a case study. The core of the paper is about the fair value measurement of retail and private banking businesses. The findings are revealing of critical aspects and risks and are quite interesting for professional groups such as banking managers, accountants and also for students or trainees.*

**Key words:** fair value measurement, valuation techniques, financial crisis, restructuring plan, intricacy and responsibility

**J.E.L Classification:** G21, G23

### Introduction

The first part of this paper describes the conditions and the parameters of fair value measurement in the banking environment, in relation to IFRS 13. Meanwhile, this interim study may be useful to students and practitioners in the banking environment. The novelties brought by the application of IFRS are not negligible because starting with 2012 the Romanian banking system applies these accounting standards as a basis of a

consistent system of accounting and financial reporting framework [1].

### Background and approaches for measuring the fair value

In the last years so many authors have been interested by the factors causing financial crisis. The financial crisis in the United States has progressed in three stages: initiation, banking crisis and debt deflation [2]. On this evolution, the financial instruments were pervasive. Hence, it is justified to pay more attention to the measurement their value because their prices are volatile and potentially risky. Banking systems deals with a large number and a diverse typology of financial instruments. It's easy to identify their defining elements as generated subject of accounting: assets, liabilities and own-equity instruments [3]. So, there are many considerations and arguments to fair value valuation of financial instruments [4]. We find out all of these in the requirements of IFRS 13. But, first of all, we need to understand the fair value necessity for solving crisis difficulties even before improving reporting financial standards. In the light of IFRS 13, fair value is a market-based measurement, not an entity-specific measurement. Fair value measurements will therefore be subject to the new requirements of IFRS 13, which will largely affect financial institutions and investment entities. However, there are enhanced disclosure requirements that are in place for all entities for annual periods beginning on or after 1 January 2013 [5]. For the banking system, for assets and liabilities, *observable market transactions or market information* might be available. For other assets and *liabilities observable market transactions* and market information might not be available [6]. Anyway, the objective of a fair value measurement in both cases is the same: to estimate the price

at which an *orderly transaction* to sell the asset or to transfer the liability would take place between *market participants* at the measurement date under current market conditions. It's about an *exit price* at the measurement date from the perspective of a market participant that holds the assets or owes the liability.

One of specific issues in fair value measurement of financial instruments is the market price defined as the price that would be received to sell an asset or paid to transfer a liability.

In this context, is needed to define some specific terms used in this field and find their relevance in practice:

- *Inputs* are the assumptions that market participants would use when pricing the assets or liability, including assumptions about risks, such as the risk inherent in a particular valuation technique (a pricing model). Inputs are observable and non-observable.
- *Observable Inputs* are developed using market data, such as publicly available information about actual event or transactions.
- *Orderly Transaction* - A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either: in the *principal market* for the asset or liability, or, in the absence of a principal market, in the *most advantageous market* for asset or liability.
- *Market participants* - An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their *economic best interest*.

Valuation techniques are the core of fair value measurement. About valuation techniques we note that an entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Valuation techniques used to measure fair value shall be applied

consistently [7]. But what is important about inputs to valuation techniques? There are some general principles for inputs used in valuation techniques. One of general principles for inputs used in valuation techniques is to maximize the use of relevant observable inputs and minimize the use of unobservable inputs [8].

### **Hierarchy references in technical evaluation of financial instruments used by banks**

Fair value hierarchy represents one of the most important challenges for banking system in financial instruments measurement.

A simulation practical case to use different levels inputs to valuation techniques, based on IFRS 13 paragraphs 81-85, 86-90 [9] is presented below. A Level 2, 3 inputs might be used in swap transaction, a specific financial instrument in banking used for hedging cash-flows by a swap rate interest contract.

*Level 1 inputs* is represented by markets in which inputs might be observable for some assets and liabilities generated by financial instruments, includes as follows:

- exchange markets;
- dealer markets;
- brokered markets, and
- principal to principal markets.

*Level 2 inputs* for particular banking assets and liabilities might include as follows:

- receive-fixed, pay-variable interest rate swap based on the *London Interbank Offered Rate* (LIBOR) swap rate;
- receive-fixed pay-variable interest rate swap based on yield curve denominated in a foreign currency;
- receive-fixed pay-variable interest rate swap based on a specific bank's prime rate;
- three-year option on exchange-traded shares;
- licensing arrangement.
- cash-generating unit and others.

*Level 3 inputs* for particular banking assets and liabilities might includes follows:

- long-dated currency swap;
- interest rate swap and others.



A general conclusion of the above classification is that in order to increase consistency and comparability in fair value measurements and related disclosures, IFRS 13 establishes a fair value hierarchy. This hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities at first level 1 inputs and the lowest priority to unobservable inputs at thirds level inputs. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, for an adequate assessing of the significance of a particular input to the entire measurement a strong judgment is required, taking into account factors specific to the asset or liability.

#### **Scope of valuation techniques for fair value measurement before IFRS 13: DEXIA BIL restructuring case**

We choose this case of bank restructuring after crisis difficulties because of the intricacy and professional responsibility of the implementation plan which involves fair value measurement of sold shares and sold business. By decision of 26 February 2010, the European Commission authorized the restructuring plan for Dexia Bank and the conversion of the rescue aid into restructuring aid on condition that all the commitments and conditions established by the decision were complied with [10]. But this approved plan encountered further difficulties and the Member States concerned have envisaged additional aid measures. So, in October 2011, the Commission decided to open a formal investigation procedure into the measure involving the sale by Dexia SA of Dexia Bank Belgium (DBB) and its acquisition by the Belgian State. Commission adopts a final decision on the measure Dexia BIL is part of Dexia group. The corporate story of Dexia began in 1996 when was formed by the merger of France's Crédit Local and Belgium's Crédit Communal and was specialised in loans to local authorities, but also had some 5,5 million private customers, mainly in Belgium, Luxembourg and Turkey. The Dexia group was organised around the parent holding company (Dexia SA) and three operational subsidiaries located in

France (DCL), Belgium (DBB) and Luxembourg (Dexia BIL). The Dexia group was organised around the parent holding company (Dexia SA) and three operational subsidiaries located in France (DCL), Belgium (DBB) and Luxembourg (Dexia BIL). On 20 October 2011 DBB was sold to the Belgian State and, on 31 December 2011, the consolidated balance- sheet total of the Dexia group (deconsolidation of DBB on 1 October 2011) was EUR 413 billion[11].

In addition to the sale of DBB that took place on 20 October 2011, the Dexia group announced the sale in the short term of the following companies: Dexia BIL; Dexia Municipal Agency; DenizBank; Dexia Asset Management ('DAM'); RBC Dexia Investor Services ('RBCD').

In the orderly resolution plan notified to the Commission[12], the holdings of the main shareholders in Dexia SA at 31 December 2011 are as follows: Caisse des Dépôts et Consignations 17,6 % ; Holding Communal 14,3 % ; Arco Group 12,0 % ; French Government 5,7 % ; Belgian Government 5,7 % ; Ethias 5,0 % ; 3 Belgian regions 5,7 % ;CNP Assurances 3,0 % ;Employees 0,6 % *Others* 30,4 %.

Dexia BIL may be described as follows: (i) it's one of the largest commercial banks in Luxembourg, with a balance-sheet total of EUR 41 billion on 30 June 2011; (ii) it operates not only in Luxembourg, but also in other countries such as Switzerland, the United Kingdom and some countries in Asia and the Middle East, either directly or through certain of its subsidiaries; (iii) it holds a substantial portfolio of legacy securities, with an estimated market value at 30 September 2011 of approximately EUR [5–10] billion; (iv) is one of the large banks with a branch network in Luxembourg and is an essential player in the local economy as both a depositary bank for resident individuals and businesses, and a provider of consumer credit, property loans and business lending; (v) is the bank of choice for [10-15] % of individual residents and [15-20] % of resident SMEs (small and medium-sized enterprises), both groups placing it in third position on the Luxembourg market; (vi) it's market shares in the Luxembourg banking system are approximately [10-15] % by volume of deposits, [10-15] % by volume of

loans and [5-10] % of assets under management in the private banking sector.

### **Difficulties faced by Dexia in the context of financial crisis**

The difficulties faced by the Dexia group during the financial crisis in autumn 2008 and more recent difficulties may be described as follows: (i) the worsening of the sovereign debt crisis, so the latter are unable to obtain financing in satisfactory volumes and under satisfactory conditions; (ii) since the Dexia group has been particularly exposed to sovereign and quasi-sovereign risk, the level of mistrust among investors is higher. Dexia has among its assets many loans and/or bonds from countries and/or local and regional authorities in countries perceived as risky by the market; (iii) the current crisis hit before Dexia had time to finalize implementation of its restructuring plan, which would have resulted in a much stronger liquidity risk profile. Since Dexia still had a particularly vulnerable liquidity profile and the market was well aware of that vulnerability, it is possible that Dexia faced more mistrust than other banks.

The main reasons for the increase of Dexia's financing requirements were as follows:

(i) *the sharp fall in interest rates* during the summer of 2011 increased by at least EUR [5-20] billion the need for additional collateral to cope with the margin calls linked to the variation in the market value of the portfolio of interest-rate derivatives used to hedge the balance sheet;

(ii) *many bond issues* (in particular sovereign-guaranteed bonds previously issued by Dexia) matured at a time when market conditions for refinancing these bonds were not optimal;

(iii) *the substantial fall in market value and decline in the credit quality of the assets* that Dexia uses by way of security to obtain financing;

(iv) *the loss in confidence by many investors* following, among other things, the announcement of substantial losses in the second quarter of 2011 (almost EUR 4 billion) and downgrades by some rating agencies;

(v) Dexia's difficulties also resulted in *massive withdrawals of deposits by*

*customers* in Belgium and Luxembourg in October 2011.

### **Accepted solution: the sale of Dexia BIL**

The measure of the sale of Dexia BIL notified to the EU Commission was not the subject of a formal call for tenders. According to the Luxembourg authorities, the sale of Dexia BIL had apparently been envisaged for a long time by Dexia, which contacted a series of operators in that regard between 2009 and 2011. There was some progress but none of the operators had submitted a tangible plan to acquire Dexia BIL. Finally, contacts with investor named *Precision Capital* resulted in the start of exclusive negotiations. A binding draft agreement on the sale of Dexia's 99,906 % holding in Dexia BIL was concluded by a Memorandum of Understanding (MoU) on 20 December 2011. Under this document *Precision Capital* will acquire 90 % of the holding, the remaining 10 % being acquired by Luxembourg under the same terms and conditions as Precision Capital.

### **Specific issues of Dexia's sale by point of view fair value measurement**

Certain of Dexia BIL's assets are excluded from the scope of the sale, which relates only to part of Dexia BIL - *retail and private banking businesses* ('the sold businesses'). More specifically, the following are excluded from the scope of the sale: Dexia BIL's 51 % holding in DAM, its 50 % holding in RBCD, its 40 % holding in Popular Banca Privada, its portfolio of legacy securities (and certain derivative and associated products) and its holdings in Dexia LDG Banque and Parfipar. The above businesses will be transferred to Dexia before the transaction is completed, with a clause for the recovery of the net proceeds from the transfers by Dexia BIL. Furthermore, the MoU provides as a precondition for the sale the elimination of all the unsecured borrowing and lending with companies in the Dexia group and the elimination of much of the secured borrowing and lending with companies in the Dexia group. On 10 February 2012 the financing granted to the other companies in the group was approximately EUR [0-5] billion, of which

less than EUR [500-800] million was secured. The exclusion of all these assets will make it possible to reduce Dexia BIL's total assets by approximately EUR 16,9 billion in relation to total assets of EUR 41 billion on 30 June 2011 (i.e. a 40 % reduction in total assets and a 50 % reduction in risk-weighted assets). Sale conditions include and the notified measure stipulates that when the sale is completed, Dexia BIL will have a Common Equity Tier 1 ratio under Basel III of exactly 9 %.

The sale price was set at EUR 730 million, with Dexia BIL having a Common Equity Tier 1 ratio of exactly 9 % when the sale is completed. In the event that the capital at the time of completion exceeds the 9 % Common Equity Tier 1 ratio under Basel III, the sale price will be adjusted by the excess capital available at the time of completion. If there is a shortfall of capital in relation to the 9 % Common Equity Tier 1 ratio, the shortfall will be offset by Dexia SA.

The measure notified on 23 March 2012 included a clause stipulating that, if Dexia SA or a company in the Dexia group obtained a sovereign guarantee in favour of a buyer in relation to its indemnification obligations towards that buyer under contractual guarantees specific to the sale, and if the buyer is a private entity (not controlled directly or indirectly by public entities), then Dexia undertakes to ensure that a guarantee on similar terms and for similar contractual obligations is granted by the same guarantor (or an alternative guarantor with the same credit rating) to the buyers under the sale contracts. This clause obligation was to have applied until 1 January 2017. However, the clause was subsequently dropped and was not included in the final contracts for transfer of shares that replaced the MoU.

So far, from the point of view of fair value measurement, prudence and fairness are the key subjects. Various scenarios under the preliminary draft of the sale of Dexia BIL were subject to a fairness opinion by a third party. The evaluation dated 10 December 2011 was carried out using three different methods and resulted in a valuation of between EUR [600-700] and [800-900] million. The three different methods used were: (i) *The discounted cash flows to equity method* on the basis of the cash flow

distributable to shareholders, subject to compliance with the core tier 1 regulatory ratios; (ii) *The price to book ratio method*, on the basis of excess profitability in relation to the cost of capital; (iii) *The comparable listed companies method*. The updated evaluation dated 30 May 2012 comes to the same conclusions. Such a case study conclusion, the Commission understands regarding the fairness opinion by a third party is an exercise of prudence in sale shares valuation. At the same time, the same prudence was shown for sold business meaning *retail and private banking businesses*. Because of the possible Member States involvement in state aid, the Commission had doubts about whether the fairness opinion had taken into account the exact scope of the sold businesses and the conditions of the notified measure, including the clause for the recovery of the net proceeds from the transfers by Dexia BIL and clause condition.

## Conclusions

Banking valuation techniques of fair value measurements of financial instruments are categorized into a three level hierarchy. These are based on the type of inputs to the valuation techniques used but each fair value measurement is categorized based on the lowest level input that is significant to it. On the other hand, for a good practice of applying IFRS 13 we need take into account responsibility. As we have presented above, the intricacy of the solution chosen for Dexia BIL facing financial crisis difficulties requested prudence and flexibility. These were considered before the latest improvements in fair value.

An immediate question is: Who is affected by the valuation techniques for fair value measurements? Almost all banks use fair value measurements and fair value hierarchies. The second question is: What do affected entities need to do? Bankers and professionals that issue financial statements in banking for disclosure would begin by evaluating the nature and extent of the fair value measurements that they are currently required to make under IFRS. Management will need to determine which of the measurement techniques used will have to change as a result and what additional disclosures will be necessary.

A final conclusion is the need to acknowledge and appreciate the intricacy and responsibility of valuation projects, their advantages and potential risks and to implement a good practice in applying the IFRS requirements regarding fair value measurement.

## References

- [1] Dobre, E. “ Banking Accounting between Prudence and Flexibility”, *Procedia Economics and Finance* 6, (2013), pp. 621-626.
- [2] Mishkin, F., *The Economics of Money, Banking and Financial Markets*, Pearson Education, 2010 Ninth Edition, pp. 109-207
- [3] Dobre, E., *Noi dimensiuni în contabilitatea și gestiunea titlurilor de valoare*, InfoMega, București, 2007, pp. 69-79.
- [4] Dobre, E., *Noi dimensiuni în contabilitatea și gestiunea titlurilor de valoare*, InfoMega, București, 2007, pp. 103-110.
- [5] Pwc, *A practical guide to new IFRSs 2013*, 0000000836965130pdf., p. 28
- [6] Commission Regulation no 1255/2012, L360/29.12.2012, *Official Journal of European Union*, 2012, p.87
- [7] Commission Regulation no 1255/2012, L360/29.12.2012, *Official Journal of European Union*, 2012, p.94
- [8] Dobre, E., Petrascu, D., *Fair Value Measurement of Financial Instruments in Accounting Banking System*, Analele FSE Ovidius, 2013
- [9] <http://www.icaew.com/en/library/subject-gateways/accounting-standards/ifrs/ifrs-13>
- [10] Official Journal of the European Union L357/28.12.2012 pp.15-19
- [11] Dexia, Annual Report -financial results for 2011, 23 February 2012, p. 51
- [12] [http://ec.europa.eu/competition/state\\_aid/cases/244302/244302\\_1353624\\_142\\_2.pdf](http://ec.europa.eu/competition/state_aid/cases/244302/244302_1353624_142_2.pdf)

## Concept of Performance Between Theory and Practice

Georgescu Floarea  
Romanian Academy  
[georgescufiori@yahoo.com](mailto:georgescufiori@yahoo.com)

### Abstract

*Getting profit implies exact knowledge of market trends, pricing, consumer demand and directing cautiously factors of production and marketing.*

*Both profit and profitability (profit rate) reflects the entity's ability to produce income over expenditure incurred. Therefore, profit is the excess of income and capital employed entrepreneur repays work.*

*After influence on economic activity, profit can perform the following functions: stimulate economic initiative; cultivate the spirit of economy and increase the efficiency of economic activity; increase economic incentives in achieving positive financial results; is a synthetic indicator in assessing performance; is an indicator of control regarding the calculation, distribution and taxation.*

*The objective of this paper is to analyze precisely in terms of net profit to be distributed to shareholders for the confidence of investors and fitting them to a level that does not hinder investment firm or increase the tax burden.*

**Keywords:** Net profit, cash flow, available cash flow, dividend, shareholders, working capital.

**JEL Classification:** M14, M 21, M 41.

### 1. Introduction:

In light of the company's cash flow analysis differs only in the type of estimated cash flow (cash flow available to shareholders or creditors) [2].

In managerial finance, cash flow available (free cash flow) is dedicated as cash flow most appropriate for assessing a company or an investment project.

Given the origin and allocation of funds attracted inflows needed to ensure continuity and development of society, we can identify

four main components of this cash flow (cash flow available) [8]:

- cash flow resulting from the operating activities of the company, equivalent to gross operating surplus;

- tax savings realized by companies through financial interest deductibility, representing the amount of tax that the company did not pay due to the deductibility of these expenses. This tax saving, which increases the size of available cash flow, will be achieved only as long as the company profit from operating activities;

- Net working capital (net working capital), represented by current assets involved in the pursuit of the company's current operating liabilities are deducted or other short-term funds raised to finance them. Increase in net working capital involves distributing additional cash, which leads to lowering the amount of cash flow available;

- investments in fixed assets that should be performed by the organization to maintain and develop existing production capacity. It is thus evident depreciation role both as deductible expense item for the enterprise generates a tax saving and investment allocation as possible to maintain existing production capacities. From this perspective it is noted need for a depreciation of fixed assets as close to their actual economic depreciation, which hampered the impact of inflation on negotiated market price of such assets.

Development investments are allocations for the purchase of new assets to increase production capacity existing within the enterprise.

### 2. The estimation of the available cash flow

From the main components of cash flow available, it can be estimated using the following formula [9]:

$$ACF = GOS \times (1 - \tau) + (IR \times \tau) - \Delta I - \Delta NCA,$$

where:

GOS = Gross operating surplus

IR= Annual interest expense recorded by the company

$\Delta I$ .= Size of investments / disinvestments in assets by the company in the financial year

$\Delta NCA$ = Change in net working capital levels involved in the production activity of the enterprise

CA = current assets - current liabilities

To estimate cash-flow available method most commonly used is the cascade. It starts so the cash flow resulting from the operating activities of the company or the entire business management. It represents the total cash flow available to the company for self-financing its business or pay its investors. This amount is reduced by the amount of cash allocations for the maintenance or development of existing production capacities and net working capital. It comes as the amount of cash flow available to be distributed to shareholders or creditors businesses.

The value of cash flow from operations reflects cash flow resulting from this activity is estimated using the following formula:

$$CF_{operating} = OR + Ad - \text{Income Taxes},$$

where:

$CF_{operating}$  = Cash- flow from operations

OR = Operation result

Ad = annual depreciation expense of fixed assets

Cash-flow management is determined where the other activities of the firm (investment and financing) provide significant cash flows.

$$CF_{management} = NP + IR + Ad,$$

where:

$CF_{management}$  = Cash-flow management

NP= Net profit (profit or loss)

IR = Annual interest payment expenses

Ad = Annual depreciation expense of fixed assets

Depending on the predominance of cash flows arising from the activities of the enterprise is determined cash flow available.

As originally defined, the available cash flow (ACF) is the net cash flow is distributed to the shareholders and creditors for the payment of contributions made by them in the company, after meeting the needs of growth of the firm (investment + maintenance capacity the existing production).

The formula for calculating the ACF is:

$$ACF = CF_{management} - \Delta I - \Delta NCA$$

The two formulas for calculating the cash flow available lead to the same result. They differ only in that perspective is analyzed.

A negative value indicates ACF attract new resources to the firm from shareholders or creditors, it is a normal situation where society development. But if a company having reached maturity obtaining negative ACF indicates serious management problems.

ACF incumbent shareholders can be estimated as follows:

$$ACF_{shareholders} = Dividends - \Delta CE$$

where:

$ACF_{shareholders}$  = cash flow available to shareholders incumbent

Dividends = distributions to shareholders

$\Delta CE$  = Change in equity as a result of the increase or reduction of capital

ACF incumbent creditors can be determined as follows:

$$ACF_{cr} = IR - \Delta \text{financial liabilities}$$

$ACF_{cr}$  = cash flow available incumbent creditors

$\Delta \text{financial liabilities}$  = Variation in the volume of financial debt contracted by the company from third parties (in Excludes operating liabilities).

Therefore, the company ACF consists of cash flow available to shareholders ( $ACF_{shareholders}$ ) and cash flow available to creditors ( $ACF_{creditors}$ ).

$$ACF = ACF_{shareholders} + ACF_{creditors}$$

Based on these cash flows can be estimated value of the entire enterprise of its equity or debt. Investors are interested in a business that you can compare the gain obtained by placing money in various investment opportunities. Thus, taking as a reference the size of the opportunity cost (lost return value relative to other investment opportunities), they can estimate whether, after one year of operation of the company, the amount of capital invested decreases or both, increases.

From the perspective of a shareholder present value of invested capital can be determined as follows:

$$V_0CPR = \frac{ACF_{shareholders} + CPR_1}{1 + K_c}$$

where:

$V_0CPR$  = present value of equity

$ACF_{shareholders}$  = the cash flow expected to be allocated to shareholders

$CPR_1$  = value of equity at year-end

$K_c$  = opportunity cost of capital employed for the same level of risk

From the perspective of a creditor, present value of capital is calculated as follows:

$$V_0Dat.fin. = \frac{CFD_{cr} + DAT_{fin1}}{1 + K_d},$$

where:

$V_0DAT_{fin}$  = present value of financial liabilities incurred by the enterprise

$ACF_{cr}$  = the cash flow expected to be allocated to creditors

$DAT_{fin}^1$  = value of financial liabilities at end of year

$K_d$  = opportunity cost of capital employed for the same level of risk

Cash flow analysis can be used as manager, for better business management and investors to estimate the value of investments made by them in that undertaking.

### 3. Theories on dividend policy

Due to the diversity of approaches to its financial theory considers dividend policy as an interesting research field. Studies on dividend policy sought to provide answer to questions like [6]: "What is the dividend distribution?", "What is the optimal dividend policy?" What is the impact of dividends on the company's value? ".

Studies on dividend policy, extremely diverse, considering two types of models: on the one hand there are models that attempt to provide a standard distribution of dividends, among which may be mentioned theories of Miller and Modigliani, Walter and Bhattacharya. On the other hand there are models which are based on practice and trying to determine what caused the dividend policy practiced by the company chosen was analyzed. This category is included Litner's study, based on empirical analysis.

A particularly important factor impacting on dividend policy is the country which has conducted the study. Frankfurter G. and R. Wood said in a study for the dividend policy: "The issue of payment of dividends of companies is a cultural phenomenon, influenced by habits, beliefs and regulations, public opinion, perceptions and history,

general economic conditions and other factors all changing and different impact on firms. In these circumstances it can not be modeled mathematically and uniform for all companies and for all time".

From a historical perspective, there is a sequence in time, normative theories, considered classics in the field, the modern theory and signal theory and agency theory.

For a long time dividends have been considered as a means of transmitting information relating to the future performance of the company. Recent studies argue the existence of dividends in terms of probability managers to monitor activity, thus making the call agent theory [5] .

#### 3.1. Practice dividend distribution in large firms

In studies addressing the application of dividend policy highlights three fundamental ways to share in the distribution of net profit:

- Residual policy represents an application of the theoretical model of Walter JE;
- Constant rate policy consisting in promoting a constant ratio between the dividend and profit;
- Policy constant amount or one growing;

Waste policy has the effect of generating a stream of fluctuating annual dividend, which is paid only after satisfying finance investment projects, while maintaining a desired ratio between debt and equity.

Dividends are therefore a function of investment:

$$Dt = Dt(It)$$

with:

$D$  = dividend

$I$  = investments

$$\text{with: } \frac{\delta Dt}{\delta It} < 0$$

Practice has shown that it can not always achieve zero dividends, owners sometimes react negatively to such decisions.

Improve this policy can be achieved by organizing a minimum limit of distribution of dividend, ie policy of type:

$$Dt = Dt(It)$$

type:

with the restriction

$$Dt \geq Dmin$$

Implementation of this policy should, however, a new conditional limitation, that the Company will not distribute a dividend lower than the previous year. In these

circumstances would consider that the company does not work as powerful as last year.

Constant rate policy based on net profit, generate a great variability of distributions. As shown in this policy, apparently stable, can not be applied while the profit rate.

where:

$d$  = rate of dividend distribution

$Pn_t$  = net profit in year  $t$

**Because of this variability, for large companies, this policy is not applicable. To be implemented dividend policy should evolve according to the following function:**

$D_t = D_0 + dI(Pn_t - D_0)$ , pentru  $Pn_t \geq D_0$

$D_t = D_0$ , for  $Pn_t < D_0$ ,

$D_0$  = size of the acceptable dividend minimum

It can be seen, in these circumstances, that the company should pay dividends even if they did not have tax, which may not be applicable under the legislation of our country. Accordingly  $D_0$  and  $D_1$  is the current dividend ( $D_0$   $Pn_t$ -) reflects extradividendului size.

Distribution policy of a fixed dividend or possibly with a growth rate ( $g$ ) application creates prerequisites Gordon-Shapiro model. By applying this policy can meet the need of the company in the market signaling (permanent increase dividends and shares are becoming increasingly attractive to the market), but this will erode the company's investment capacity. If we intake at a certain time  $t$  can be seen that no firm can increase the infinite time horizon.

In practice, companies do not carry dividend increase at a constant rate. Increasing the amount shall be processed only when the payment is clear that this will be repeated in the future.

In conclusion, it appears that this variable for listed companies '*dividend*' must be handled with extreme care. The dividend payment is necessary to increase investor confidence, but fitting them to high levels can have adverse effects such as reducing the company's investment capacity or increased tax burden of shareholders.

### **3.2. Practice dividend distribution in small**

For large firms, quoted, I noticed that there is some constraint dictated by financial

environment in which they operate and in particular the needs of the market signaling. In contrast, small firms have more flexibility in dividend policy [6]. They may choose, depending on their objectives, for a dividend policy or another.

In 1976, Fischel Black, commented in an article that for a rational investor, dividends solely for signal, they did not affect the value or profitability of the company and its risks. This role can be played by periodic financial statements, of course not referring to accounting data in raw form, but at the corrected information needs, which is why the author, in the future, predict the disappearance of dividends.

This need signaling for small firms no longer appears so conspicuously.

Gerard Hirigoyen, in 1984, found that 86% of small firms does not pay dividends French and not increase the share capital, which confirms recent developments in financial theory. The managers of these companies, in most cases, shareholders prefer to do the sizing costs protocol in place to distribute all or part dividends [9].

In conclusion, it follows that if small firms dividend policy is more flexible, potential conflicts between stakeholders are not so acute and, as such, is not required to distribute dividends as a means of monitoring managers. They most often coincide with the owners.

### **3.3. Practice dividend distribution in Romanian companies**

To repay investors, because they trusted and bought shares, giving the measure of profit or dividends ask them to "tighten their belts" to withstand the worst economic crisis in 70 years? This is the dilemma that grinds most managers of firms acting in the Romanian economy.

The current economic crisis thus divided into two companies, announces that it will give some dividends, while others prefer to secure finances.

In Romania, by 2008, those who invest in stocks were almost certain that if the company is profitable, will be closely fruit in a relatively short time. In time, however, the vision has changed, nothing you bought shares on the stock exchange in time, estimating that you win both titles and



increasing the value of dividends, you may get nothing if you decide that it is necessary AGA Financial Policy anti- crisis [11].

According to experts, the dividend policy has changed fundamentally during the crisis. If until 2008, granting a form of dividends to attract investors in securities trading at BSE, now things are different. Some chose to give dividends, counting on the positive effect of measuring and trying in this way to keep investors close, while others preferred to take precautions during the crisis, keeping the entire profit.

In the current economic conditions, uncertain, dividend policy can be a very relevant indicator for investors regarding the company's plans who want to invest. Some companies will choose to be cautious, preferring to keep dividends in the context of financial blockage, a win-win situation, but raises questions about the level of liquidity of the company. On the other hand, if they distribute dividends without publishing other anti-crisis measures, can raise questions about the ability of management.

Since liquidity needs and funding sources have become priorities for companies, we will see radical changes in terms of dividends.

Romanian Scholars who study the phenomenon of dividends distributed to shareholders notes that in general, firm-level policies are adopted three groups:

- direct participation in profit policies, characterized by providing a relatively constant rate of dividend distribution. In applying this policy, a firm that obtains underperformance for recovery and development will allocate a share of the net profit equal to that which would distribute it and if it would get very good results. This is an inflexible policy, uncoordinated concrete realities facing the company, respectively development opportunities and favoring its managers and employees, which may thus choose between higher earnings with more effort or lower earnings without special efforts. Encouraging managers and employees appears in conditions in which they receive a fixed amount as wages, as is the case with most businesses, at least for employees and who will not be interested in participating in March for profit;

- dividend distribution policy of constant or increasing by a certain constant rate, both

give a degree of certainty to shareholders and are focused on meeting their interests. These policies pay particular attention to the external image of the company and should be preferred especially by listed companies;

- residual dividend policy is that the dividend will be distributed only if the funds remaining available after completion of all effective investment. In this case, while there will be investment opportunities characterized by a positive net present value in society, it will not distribute dividends. Shareholders will be paid in the future due to increased cash flows. This policy is incompatible with the logic stock investors, who will receive such messages as signs of poor performance of the company, although it has been practiced in times home of most large companies today [9].

Each of these policies have advantages in certain respects and disadvantages of others, making it highly questionable idea of the perfect dividend policy.

#### 4. Conclusions

The quantity and quality of a company and how capital management is reflected by the profits from it. The main ways to increase profits are:

1) reducing production costs, the main way to increase profits. Thus the factors with direct impact on cost reduction mention:

- labor productivity growth influences both reduce costs and increase profit by reducing fixed costs and by modifying the share of wages in total operating costs as a consequence of higher production in a time unit of work;

- promoting modern methods of production and labor management, also contribute to reducing costs and to increase the profit;

- reducing costs of production materials, refer to the rational use, efficient and reducing consumption per unit of raw materials, materials, energy, fuel, recycling of secondary materials etc .;

- accelerating the rotation speed of current assets leads to lower costs and increase profits through proper mass that a number of fixed costs are allocated to a higher yield obtained with the same amount of current assets.

2) increase the selling price of products and services while maintaining or reducing production cost. The difference between the sales price of the goods and the cost of products determines gross profit of the company. The profit increases as increasing the sales price or reduce production cost.

To attract customers each manufacturer will be tempted to lower the selling price to the level that ensures a sufficient profit business continuity.

*"This work was supported by the project "Excellence academic routes in the doctoral and postdoctoral research – READ" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/159/1.5/S/137926".*

## 5. References:

- [1] Agrawal A., Jayaraman N., *The Dividend Policies of All-Equity Firms. A Direct Test of the Free Cash Flow Theory*, Managerial Decision Economics, 15, 1994, pg. 139-148;
  - [2] Albu N., Albu C., *Instrumente de management al performanței*, Editura Economică, București, 2004;
  - [3] Batteau P., *Actionnaires, dirigeants financiers et managers. Historique et perspectives*, Revue Française de Gestion, vol. 35/2009, pg.319-342;
  - [4] Capron M., *Les normes comptables internationales, instruments du capitalisme financier*, Ed. La Decouverte, Paris, 2005;
  - [5] Causse G., Gauthier N., *La trésorerie dans l'entreprise*, Editura Publi-Union, 1981;
  - [6] Cohen E., *Analyse financière, 5e édition*, Paris, 2004;
  - [7] Dragotă V. coordonator, *Abordări practice în finanțele firmei*, Ed. IRECSON, București, 2005, pg. 25-56. pg. 65-85;
  - [8] Dragotă V., Obreja L., Ciobanu A., Dragotă M., *Management financiar. Analiză financiară și gestiune financiară operațională*, vol. I, Editura Economică, Bucharest, 2003,
  - [9] Eisdorfer A., *Empirical Evidence of Risk Shifting in Financially Distressed Firms*, Journal of Finance, vol. 63/april 2008, pg. 609-637;
  - [10] Țurlea E., Ștefănescu A., Dumitru Viorel, *Romanian public sector entities between performance and audit of performance*, Analele Universității Oradea, secțiunea Științe Economice, tom XVII, vol. III, 2008, pg. 1551-1554, ISSN 1582-5450, <http://steconomice.uoradea.ro/anale>;
  - [11] Țurlea E., Nișulescu I., Ștefănescu A., Vuță M., Gherghina R., Duca I., Trică C., *Study regarding the reality and creativity of the financial performance of the economic entities, 4th International Finance Conference „ Investissement & Finance: immatériel, TIC, et valeur. Investments, Information Technologies, Value and Control”*, Yasmine-Hammamet, Diar el Medina, Tunisia, 2007, publicată în Cahier de la Recherche de l'ISC Paris CRISC numéro 16: Actes du colloque IFC 4 Investissement et financement, 2ème trimestre 2007, pg. 208-213, ISSN 1951-7637;
  - [12] Vernimmen P., *Finance d'entreprise, 7e édition*, Ed. Dalloz, Paris, 2009;
- \*\*\* The law of accountancy nr.82/1991 subsequently amended;
- \*\*\* Official Gazette of Romania, 2000-2014 collection;
- \*\*\* Compilations journals: Economic Tribune, Finance, Credit and Accounting, General Accounting Review and expertise, accounting, and audit expertise Affairs;
- \*\*\* Ministry of Finance, Accounting regulations compliant with European Directives, 2013;
- \*\*\* [www.accaglobal.com](http://www.accaglobal.com)
- \*\*\* [www.cnp.be](http://www.cnp.be)
- \*\*\* [www.iasb.org.uk](http://www.iasb.org.uk)
- \*\*\* [www.accaglobal.com](http://www.accaglobal.com)
- \*\*\* [www.focusifrs.com](http://www.focusifrs.com),
- \*\*\* [www.iasplus.com](http://www.iasplus.com)
- \*\*\* [www.pwcglobal.com](http://www.pwcglobal.com)

# The Group of Companies and the Consolidated Financial Statements in Romania - Convergence and Harmonization

Guni Claudia Nicoleta  
"Spiru Haret" University, Constanta  
[borsanclaudia@yahoo.com](mailto:borsanclaudia@yahoo.com)

Munteanu Victor  
"Dimitrie Cantemir" University, Bucharest  
[a2c\\_vm@yahoo.com](mailto:a2c_vm@yahoo.com)

## Abstract

*The legislative scenery in Romania on the consolidated financial statements should be regarded and analyzed in the context of the Romanian accounting reform after 1989. Under communism there were no national regulations concerning group situations as there would have had no applicability, given that the enterprises were state owned.*

*In a slightly forced way, we might even say that the whole national economy before 1989, characterized by a super-centralization, represented an economic group (consolidated from stage to stage up to national level, on the chain company - center - ministry) focused on achieving the unique national plan of economic and social development.*

**Key words:** consolidated accounts, consolidation perimeter, international convergence, minority interests.

**JEL Classification:** G3; G32; G34

## 1. Introduction

According to international financial reporting standards IFRS, the financial reports are a distinct informational tool prevailing current and potential investments, fundamental in making economic decisions. In the national accounting systems of most European Union countries, the purpose of financial statements is the correct and fair representation, granting them the role of exposing the patrimonial structure and the economic result for the financial year concerned, on the basis of criteria able to protect the interests of the creditor and of the

associates through a prudential assessment of the investments.

## 2. The regulation of the consolidated financial statements in the European Union (EU directives)

**In the UK** in 1912 there are published the first consolidated accounts and in 1944 appears the first time the SSAP norm, respectively norm no. 14 concerning the consolidation. Starting 1948 the publication of the consolidated accounts becomes mandatory [1].

**In Germany**, in 1965, for equity companies, publishing the consolidated accounts is mandatory, and in 1968 this obligation includes also the limited liability companies.

**In France**, the publication of the first consolidated accounts doesn't take place until 1966. In 1968 appears the first recommendation of the National Council of Accounting (NCA), and starting 1985 the consolidation becomes mandatory. The following year there were issued the Decree of 17 February and "The Methodology on the consolidated accounts of the National Council of Accounting (NCA)" implemented by ministerial order. Also in the norms governing the consolidation there are taken into account the recommendations of the Stock Exchange Operations Committee (SEOC) [1]

The Treaty of Rome, signed in 1957, on March 25, which established the European Economic Community, provided, among others, the mission of this Community's Council, to proceed to an approximation of national laws for the proper functioning of the Common Market.

The legal framework harmonisation and the standardization of the operating conditions of the member states companies, is based on Article 54, paragraph 3, letter "g" of the Treaty, targeting to ensure some identical guarantees for the member states companies and the protection of the interests of members as well as those of third parties.

In order to answer to this objective, in terms of consolidated accounts, the European Community Council adopted, on July 18, 1983 the Directive VII- concerning the consolidated accounts.

In the spirit of this Directive, companies belonging to a group, are required to proceed to consolidation of accounts, regardless of their headquarters, companies named subsidiaries.

All the companies in a group whose accounts can be consolidated, in accordance with Directive VII, are called the consolidation perimeter.

The Directive VII was introduced in the legislation of all member states of the union over a period of seven years. These countries are: Denmark (1990), UK (1989), France (1985), the Netherlands (1988), Luxembourg (1988), Belgium (1990), West Germany (1985), Greece (1987), Ireland (1992) Portugal (1991), Spain (1989), Italy (1991).

The Member States, affiliated to Directive VII, are able to exclude, from the consolidation perimeter, certain subsidiaries if their activity is very different and therefore the inclusion in the consolidation could prove contrary to the provision of a true image; instead they can be put into equivalence.

### **3. The regulation of the consolidated financial statements in terms of International Financial Reporting Standards (IFRS)**

According to the provisions of the European Parliament and of the Council, on the implementation of International Accounting Standards, from January 2005, all listed companies in Europe are required to use International Accounting Standards in the drawing up of their financial statements.

The regulations of International Accounting Standards represent the most important change in the financial reporting in Europe in the last 30 years and, as a result of their application, the European Union will

become the first region in the world to have a common set of accounting standards. This essential step towards the international convergence of accounting standards will lead - in the opinion of experts - to improve the transparency of financial information that companies publish and will become a cornerstone of the European Union efforts to create a single European capital market.

Starting 2005, investors, analysts and other stakeholders will be able to make decisions based on high quality information provided by European companies. For the first time, the information reported within the European Union could be compared directly with the information reported by companies worldwide that prepare their financial statements in accordance with the International Accounting Standards.

For the publicly traded companies that are already applying another set of accounting standards, internationally accepted, to prepare consolidated financial statements and for the companies that have only publicly traded securities, the time limit for the International Accounting Standards was postponed from 2005 to 2007 [2].

Founded in 1973, the International Accounting Standards Committee (IASC - International Accounting Standards Committee) aimed the development and publication of international accounting norms, to be followed during the preparation and presentation of financial statements as well as the acceptance and implementation of these norms at international level.

Started in 1976 by IAS 3 "The consolidated financial statements", the IASC normalizing activity concerning the consolidated financial statements resulted in the following accounting norms:

- Accounting Norm I. A. S. C. no. 27 entitled "Consolidated and Separate Financial Statements", was adopted by the International Accounting Standards Committee in June 1988 and published in April 1989. IAS 27 requires that any company that controls another company to prepare consolidated accounts.

Control is given by the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Unlike the Financial Accounting Standards Board (Financial Accounting Standards Board - FASB), the US

standardization body, that recognizes only the rightful control, that exists when it holds the majority of voting rights, IAS considers that holding the majority of voting rights is not required to exercise control. Thus, the consolidation perimeter includes the parent company and all those companies over which it exercises control, directly or indirectly. Also, IAS 27 allows only two exclusions from the consolidation perimeter:

- the companies which are under temporary control;
- the companies subject to severe and long lasting operating restrictions, that limit the capacity to transfer funds to the parent company (companies under judicial administration, foreign subsidiaries subject to the control of currency exchange).

Unlike Directive VII, IAS does not allow the exclusion from consolidation of companies carrying out activities different from those of other companies in the group. Minority interests (the share, in the net asset of the subsidiary, that corresponds to the members outside the group) must be presented in the consolidated balance sheet separately from liabilities and equity. Also, the incumbent for minorities from the group result must be specified separately in the profit and loss statement.

- The International Accounting Norm no. 28 entitled "Investments in Associate Entities" defining the associated enterprises as being the enterprises under notable influence (direct or indirect holding of 20% of voting rights), the norm contains regulations on the regime of the shareholdings in associated companies, as well as the information that must be provided.

Thus, in the case of consolidated accounts, an equity in an associated enterprise must be accounted for in the consolidated accounts only by the equity method, except when this share is purchased and held based on a disposal of a future income, in which case it should be accounted only using the recovery cost method.

An investor should give up using the equity method in the following situations:

- He gives up having a notable influence in an associated enterprise but preserves all or part of its shareholding;
- The use of the equity method is not the most appropriate in the cases where the

associated company operates under the restrictions that require, to a large extent, transfer of funds to the investor.

The accounting value of the equity at this date, is considered to be its cost of recovery.

As information, the following must be provided:

- the list and description of significant associated companies, with the percentage of capital held and the percentage of voting rights;
- the methods used for the accounting of holdings.

Holdings in the associated companies, accounted by using the equity method, must be considered long-term assets and be included in the balance sheet. The investor's share in the results of these holdings must be included in the profit and loss account. The investor's share in the exceptional elements or originating in prior periods, must equally, be specified separately.

- The International Accounting Norm no. 31 entitled "Interests in Joint Ventures" was adopted by the International Accounting Standards Committee in November 1990.I.A.S. 31 has undergone several changes over time (November 1994, July 1998, 1999, October 2000, 2002, 2004), the final form being applied as from January 1st 2005 [3].

A joint-ventures is an agreement by means of which two or more people decide to undertake an activity subject to conjugated control (simultaneously).

IAS 31 identifies three main categories of joint ventures:

- Activities subject to conjugated control;
- Assets subject to a conjugated control;
- Entities subject to conjugated control.

This norm should be applied in the accounting of the interests in joint ventures and in reporting of assets, liabilities, income and expenses belonging to the joint venture in the financial statements of the associates and investors, without considering the structures or forms under which the joint venture activities take place.

- the International Accounting Norm no. 21 entitled "The Effects of Changes in foreign exchange rates" presents the methods used to convert the financial statements drafted in a foreign currency. The conversion method applied depends on the degree of

autonomy of the activities carried out abroad. Thus, IAS 21 distinguishes:

- Activities that are part of the company's consolidating activities;
- Foreign entities.

In the case of the first activities that are regarded as a simple extension of the parent company's activities abroad, the financial statements are converted based on the historical exchange rate method, while the method used for foreign entities is the closing exchange rate.

- The International Accounting Norm no. 24 entitled "The Submission of Information regarding related parties"

Parties are considered to be related if one party has the capacity to control partially or to execute a significant influence over the other party.

A related party transaction is a transfer of resources, services or obligations between related parties, no matter whether or not a price is charged [3].

- The International Accounting Norm no. 29 entitled "Financial reporting in hyperinflationary economies"

This norm specifies that the parent company, which presents its financial statements in the currency of a hyperinflationary economy may have subsidiaries that also present their financial statements in the currency of a hyperinflationary economy. Before the financial statements of the subsidiaries to be consolidated by the parent company, they must be restated based on the general price index from the country whose currency is used to express the accounts of the subsidiaries. If the subsidiary is located abroad, its restated financial statements will be converted based on closing exchange rate. [4]

- The International Accounting Norm no. 39 named "Financial Instruments: Recognition and Measurement" aiming to establish the principles for the recognition, measurement and disclosure of financial instruments in the financial statements of a company.

This Norm should be applied by all companies for all the financial instruments, except those interests in the subsidiaries, associated companies and joint ventures that are governed by IAS 27, The consolidated financial statements and the accounting for

investments in subsidiaries; I.A.S. 28, The Accounting for investments in associated companies and IAS 31, The financial reporting of interests in joint ventures. However, a company applies this norm in the consolidated financial statements to account for a holding in a subsidiary, associate or joint venture company which:

(a) is acquired and held exclusively for later disposal in the near future; or

(b) operates under severe long-term restrictions, which significantly deteriorate its capacity to transfer funds to the company. In these situations, apply the presentation requirements of the information in IAS 27, I.A.S. 28 and I.A.S. 31, in addition to the requirements of this norm.

- The Accounting Norm I.F.R.S. nr. 3 entitled "Combinations of Companies" was adopted and published by the Commission on International Financial Reporting Standards in March 2004.

The current IFRS has been issued aiming its high quality and in order to internationally unify the accounting of companies' combinations in the following respects [5]:

(a) the accounting method used for combinations of companies;

(b) the initial evaluation of the identifiable assets acquired and of the liabilities and contingent liabilities taken over in a combination of companies;

(c) the recognition of liabilities for the termination or diminishing in the activity of the acquired company;

(d) the accounting treatment used in situations where the proportion held by the acquirer, of the fair value of the identifiable net assets acquired, exceeds the cost of the combination of companies; and

(e) the accounting of the goodwill and of the intangible assets acquired in a combination of companies.

#### **4. The regulation of the consolidated financial statements through the United States**

##### **Generally Accepted Accounting Principles (US-GAAP)**

In the United States: the Anglo-Saxons are, also in this respect, the pioneers of consolidating accounts, in the US being found the oldest concerns in this area. Thus, since 1891, there have been published the

first consolidated accounts, and in 1910 appear the first consolidated accounts included in the annual reports, for, in 1914 the publication of the consolidated accounts to become mandatory [6].

The strong economic development of the US companies and their expansion, the emergence of the phenomenon of economic concentration and regrouping of enterprises, the existence of the financial market and the dominant financing of enterprises through financial institutions, the pressure and the increased requirements of the users to obtain additional information that the financial accounting could not provide, the existence of an accounting profession and of an accounting research concerned to respond to economic realities and the needs of users, all these are considered as being some of the main causes that led to the appearance of the consolidated accounts for the first time in the United States.

Furthermore it is noticed that in order to obtain a general picture of the heritage and the outcome of a group of companies, as if they were a single company, there were interested both the shareholders and the managers of the group, the financial analysts, the stock market, the banks and the trade unions. A particular concern has arisen and it is maintained among accountants and auditors of the accounts, specialized in the preparation, respectively verification and certification of the consolidated accounts [7].

That's why starting 1933, by a law called "Security Act", it was imposed the obligation to draw up the consolidated accounts, because in 1959 appears the first norm "Accounting Research Bulletins" (ARB) no. 51 with express provisions in accounting regrouping of activities, already treating the consolidation perimeter, the general consolidation technique, minority interests and dividends regime [8].

In 1972 it is set up the Financial Accounting Standards Board (FASB) - as an independent body that received full authority to establish the general accounting rules and to present financial statements [9].

A total of over 100 norms have been published replacing the ones previously issued by ARB and Accounting Principles Board (APB), among them Norm FASB nr. 94 which deals with the consolidation of the main shares [10].

## 5. Conclusions

The notion of international group is synonymous with the opening to an international space dominated by large financial markets, which shows an extreme vigilance towards the transparency and quality of financial information. For a group, in which the management of assets is performed at the supranational level, the national accounting referential is irrelevant. Thus, rather than force foreign companies to recalculate their equity and outcome after local regulations, most global stock markets, except for those in the US, preferred to encourage the adoption of IASC norms, dispersing the companies that prepare the accounts based on these norms of any additional information. In fact, it can be noted that "the pressure of foreign financial markets plays a crucial role in the the decision to apply the IASC norms".

## 6. References

- [1] Zuca Ș., *Experiențe britanice în formarea profesională – Principalele practici contabile anglo-saxone*, Universul Juridic, 2006;
- [2] Nișulescu I., *Reorganizarea și lichidarea societăților comerciale*, Editura Infomedica, București, 1997, pag.105;
- [3] Zuca Ș., *Diferențele naționale și armonizarea contabilă internațională*, Editura Sylvi, București, 2001;
- [4] *Jurnalul Adevărul economic*, nr.26 (534), 3 – 9 iulie 2002;
- [5] Minu M., *Contabilitatea ca instrument de putere*, Editura Economică, București 2002, pag.312;
- [6] Greuning H., Koen M., *Standardele internaționale de contabilitate – ghid practic*, Editura Institutul Irecson, București, 2003, pag.10;
- [7] Greuning H., *IFRS – A practical guide*, Editura Institutul Irecson, București, 2006;
- [8] Baker R., Lembke V., King T., *Advanced Financial Accounting*, Editura Mc Graw Hill, 2006
- [9] Siegel J., Levine M., Qureshi A., Shim J., *GAAP 2006 – Handbook of policies and procedures*, Editura CCH, București, 2005;
- [10] Zuca Ș., *Why do national GAAP differ from IAS ? The role of culture.*, Editura Lucian Blaga University, Sibiu, 2006.

# Theoretical Delimitations and Positioning of the Performance of Group Companies

Guni Claudia Nicoleta

"Spiru Haret" University, Constanta

[borsanclaudia@yahoo.com](mailto:borsanclaudia@yahoo.com)

Munteanu Victor

"Dimitrie Cantemir" University, Bucharest

[a2c\\_vm@yahoo.com](mailto:a2c_vm@yahoo.com)

## Abstract

*The success of any investment activity, the performance and long-term sustainability of the business depend, to the same extent, on a number of fundamental decisions, either individual or collective, of the management team.*

*Each of these decisions has, ultimately, an economic impact on the business.*

*A common element of all the decisions is the fact that they are weighed in economic terms, so a decision, before being taken, is analyzed from the perspective of expected cash benefits, reported to the cash costs involved in this decision.*

**Keywords:** efficiency, effectiveness, cost-effectiveness, performance management

**JEL Classification:** G3; G32; G34

## 1. Introduction

In this context, managers should carefully assess the probability that the net volume of the resources allocated, directly or indirectly, by the decision taken, to be recoverable and profitable over time through the changes that taking the decision and the allocation of funds bring on revenue and expenses. The managers are also the ones who need to clearly identify the information necessary for analysis as the above, as their effect will inevitably reflect on the performance and business value.

The results obtained are then analyzed periodically, either by using data from the consolidated financial statements, or by using specific economic analysis.

Starting from the premise that, regardless

of the variety of problems facing the daily management and those encountered in the hierarchy of economic activities, the tasks of managers are similar, Erich A. Helfert groups management decisions into three major categories [1]:

- The allocation / The investment of resources;

- Conducting business operations using these resources;

- The determination of the adequate financing structure of such allocations.

The same author formulates a definition of what constitutes the fundamental economic goal of any efficient management, representing „the selected strategic resource allocation, in order to create, over time, an economic value sufficient to recover all the resources involved and getting an acceptable profit under the risk conditions expected by shareholders”. According to the author, the successful allocation of resources should reflect in the improvement of the economic position of the shareholders within the company, mainly by creating value, outlined in the price offered by potential buyers of the business.

In return, when we do not have an increase in value over time, or when this value begins to decrease over time, the question of the economic viability of the company arises. The correct orientation of the process for creating value is based on the adoption of sustainable economic decisions that will ensure the long term success of the business and not focus on current achievements, which can not be sustained in the future.

Thus, the basic task of economic and financial analysis resides in building a data set and significant relations for users, to



assist the decision making process in order to create value. Profit is one of the most concise forms to express the performance of any financial and economic activity of an institution, taking into account all the stages of its economic circuit: supply, payment and delivery. Profit is "the ability of a company to retrieve result expressed in monetary units" [2].

In the theory of financiers "Profit as benchmark, in the orientation of strategic and tactical decisions, can be approached from different angles: accounting, economic and financial.

In the financial analysis, all three approaches integrate logically in the investigation of the efficiency and effectiveness of any institution " (2).

We can talk about profit when the profit overpasses the expenditures; profit is only one component of financial profitability. And in order to characterize a group of companies in terms of financial profitability, to see whether or not it is cost effective, we believe that there have to be studied three key points:

- the evolution of the activity - the increasing / the decreasing of the economic activity;
- the evolution of the annual turnover, the evolution of the added value;
- the evolution of the actual financial profitability (profit, rate of financial return, as indicators).

The financial profitability is closely correlated with the professionalism of the entrepreneurs, with timing, with material and financial resources invested in an economic activity.

The profit analysis should not be limited to the investigation of its absolute indicators, there should be investigated equally the relative ones, resulted from the reporting of the results obtained by the means engaged or consumed in order to obtain those results.

## **2. The concept of performance. Definition and classification**

The term "performance" although very often used nowadays is rarely defined, even in the works in which the central object of study is the performance.

The word "performance" is of Latin origin, but its meaning comes from English. *Performare* in Latin assumes giving form

entirely to something. On the other hand the verb *to perform* in English assumes to do something that requires a certain skill or ability. The noun *performance* translates by the manner an organization achieves the goals that have been proposed to it (2).

In an attempt to define this notion as "sweet" as meaning, but "bitter" in its complexity, from the economic perspective there can be distinguished three major orientations [3]:

- the definition of performance based on the level of achievement of the objectives;
- the definition of performance based on the creation of value;
- the definition of performance based on profitability and efficiency of the group of companies.

## **3. Defining the performance according to the level of achievement of objectives**

From this perspective it may be considered performant only the one that reaches the objectives. In other words, the performance depends on a purpose, a goal originally set, of a reference. Given that the goals can be multiple, chosen according to the one that sets this reference and the reason why it is set, the performance becomes multidimensional.

A performance itself is not bad or good, it can be appreciated as a good performance if the goal is modest or as a bad performance if we are dealing with an ambitious one.

In other words, in order to be able to talk about performance, you first need to set a goal. Thus, the performance becomes equal to the result only if the result obtained is identical with the original objective chosen. What is performant in a given situation, characterized by certain objectives, may not be performant, in another situation, characterized by other objectives. [4]

It is performant only the one that achieves the preset objectives.

## **4. The definition of performance based on the creation of value**

Performance for the economic entity, represents what contributes to the improving of the torque value cost, and not only what contributes to reducing costs or increasing value [5].

Creating value should be regarded from the perspective of all parties involved in the activity of the group of companies - shareholders, employees, customers, and last but not least, the environment where the institution operates, "the nature".

According to some specialists „the performance and the value represent the ideal torque for a modern and efficient management of the groups of companies; to measure the performance means to appreciate value, and to know value, means to translate performance" [5].

### 5. The definition of performance based on profitability and efficiency

According this vision a company is theoretically efficient if „it is both cost effective and efficient" [6].

Given that the profitability represents the ratio between the results obtained and the means engaged to achieve these results, and considering that the effectiveness represents the ratio between the results obtained and the expected results, we can say that:

**PERFORMANCE = RENTABILITY + EFFICIENCY**

Source: Niculescu, M., *Diagnostic global strategic*, Editura Economică, București, 2003, pp. 129

We consider, however, that the performance can not be reduced to these two terms. Profitability expresses only a factual situation which characterizes the profitable activity of a company. The fact that a company is profitable does not necessarily mean it is performant.

The financial performance is the desire of any company or business activity, the aim and purpose of any investment and management activity.

**Profitability** is one of the most concise forms of expressing the performance of any financial and economic activity of a company, taking into account all the stages of its economic circuit: supply, payment and delivery.

Profitability is "the ability of an enterprise to release a result expressed in monetary units" [6].

In the theory of financiers, profitability is defined as the ability of a company to make a

profit through the use of inputs and capital, regardless of their origin.

"Profitability, as benchmark, in the orientation of strategic and tactical decisions, can be approached from different angles: accounting, economic and financial.

In the financial analysis, all three approaches integrate logically in the investigation of the efficiency and effectiveness of any economic agent" [7].

We can talk about profit when the income overpasses the expenditure; profit is only one component of profitability. And in order to characterize a company in terms of profitability, to see whether or not it is cost effective, we believe that three key points need to be studied :

- the evolution of the activity – increase / decrease of the economic activity;
- the development of the annual turnover, the evolution of the added value;
- the development of the actual profitability (profit, profitability rate, as indicators).

The profitability is closely correlated with the professionalism of the investors, with time, with the material and financial resources invested in the economic activity. The profitability analysis should not be limited to the investigation of its absolute indicators there should be equally investigated the relative ones, produced by the reporting of the results obtained from the means engaged or consumed in order to obtain those results.

### 6. The measurement and performance management

*Performance measurement* is the process of determining the company's progress and achievement of objectives, in terms of efficiency (resources consumption), quality of products and services, and the activity results.

*Performance management* represents the use of performance measurement to make changes in the processes, the activities, the culture of the organization and in order to enable setting the policy and the objectives, as well as their application.

Performance management precedes and incorporates performance measurement [8]. The result itself (the performance) can not be separated from the manner of obtaining it,

thus the administration, the performance management exceeds in importance the performance measurement.

If the financial performance is only "the result of the race", the overall performance is the race itself, as well as the vector for future racing success [8]. As such, the performance needs to be tracked, measured and managed at all times.

In order to be efficient, a company must take into consideration:

- A dynamic planning;
- Monitoring the quality of the activity;
- Leadership development;
- The organization of teamwork;
- The use of technology;
- Change management;
- Tracking the results by indicators connected to the company's strategy;
- Intellectual Capital Management;
- Improving skills;

## **7. The accounting result and the performance**

The current trend of globalization of national economies, with consequences on increasing the number and power of transnational corporations, financial markets, market capitalization and the emergence of new financial products, require obtaining and provision of financial information relevant, reliable, comparable, to use a common accounting language, able to provide communication between all the categories of users of such information.

In this context, the economic indicators that provide an overview on the company's financial position, financial performance, cash flow as well as the management of the resources entrusted to the management are presented in the form of financial statements. Regardless of the name under which we find them in accounting, the financial statements are the source of information needed for making economic decisions by different categories of users.

As a result of accounting, the financial statements are the effect of an activity that can be decomposed into three steps:

- Data collection;
- Recording of data in the accounts;
- Formalizing in summary accounts.

According to the definition given by the **International Accounting Standard No.1**,

the financial statements are „*a structural representation of the financial position and financial performance of a company* “. The financial statements provide information about the assets, liabilities, equity, income and expenses (including gains and losses) the cash flows of the company, allowing the analysis of the company's financial performances and its financial position, on the market where it conducts its business, while facilitating the adoption of the investment policies designed to maintain or even improve the performances obtained, choosing the most suitable sources of financing, debt policy as well as that of risk management.

But, „the fair” presentation of the information provided by the financial statements is also determined by the most accurate reflection of the results of the transactions involving the company, of the recognition and proper accounting of the assets and liabilities on the one hand, and income and expenses, on the other hand.

Thus, the definitions of assets and liabilities are of great importance. According to the Framework for the Preparation and Presentation of Financial Statements „*an asset is a resource controlled by the company as a result of past events and from which future economic benefits are expected to reflect upon the company*” [9]; while a liability is „*a present obligation of the company, arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits from the company*” [10].

It should be noted that both the asset and the liability are not recognized in the financial statements only when there are cumulatively fulfilled two requirements:

- there is the probability that the economic benefit related to one of the elements will enter into the company (as for assets) or exit the company, as for the debt;
- they have a cost or value that can be measured reliably so that there is no susceptibility or subjectivity error, and the users can rely on the credibility of this value.

The use of the term „probability”, in terms of achieving economic benefit and which is imposed both by the degree of uncertainty with which future economic benefits will be reflected or will leave the company, and also by the uncertainty specific

to the environment where each company operates, it may generate a conflict between credibility and relevance.

Other elements that are reflected in the financial statements are income and expenses. In terms of income, these are defined in the same general frame for the preparation and presentation of financial statements as being „*increases in economic benefits during the accounting period in the form of asset inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those related to the contributions of the participants in equity*” [10].

An important element, underlying the record revenue in the financial statements is represented by the determination of the moment when revenue should be acknowledged. Thus, revenue is recognized only when it is “probable” that certain economic benefits, that can be reliably measured will return in the future to the company. In certain cases, this may be less probable until the moment receipt of counter performance or until an uncertainty is removed. Conversely, if an uncertainty arises, related to the recovery of an amount that has already been registered in the income, then this amount will be rather considered an expense and not an adjustment of the income initially recognized.

In addition to incomes, another element, which is reflected in the content of the financial statements, is represented by costs that are defined as „*decreases of the economic benefits during the accounting period in the form of outflows or depletion of assets, or assumption of certain debts, resulting from the decrease in equity, other than those related to the distribution of equity towards the participants*” [11]. So the expenses are costs already incurred, or items that have been active, but they can no longer be part of their category, because they no longer have future value. In the category of expenses, in addition to the costs generated by the current activity of the institution, there are reflected the losses, that represent decreases of future economic benefits and are not different from the point of view of their nature of expenditure. As with the earnings, in the case of incomes, losses are the result of adjacent transactions that could be classified as operational or non-operational in relation

to sources of origin [12].

A principle that should be taken into account in the process of reflection of income and expenses within the financial statements, in order to determine the most rigorous financial performance of a company, is that all the income generating expenses to be recognized within the same accounting period in which there are recognized the revenues directly related to them.

## 8. Conclusions

If you can not measure, you can not control. If you can not control, you can not manage. If you can not manage, you can not improve and you can not be performant. Therefore the role of the management control is to provide the method of performance assessment.

In conclusion, performance measurement is a necessary condition to ensure the progress of an entity, but not sufficient. It is said that progress that is not measured does not exist, but measurement is not a goal itself; it makes the success recurrent to the extent that generates the action. According our point of view, the information about an entity's performance, especially its profitability, is important, on the one hand, to assess the potential changes of economic resources that the entity will be able to control the future, and on the other hand, they are useful to anticipate the entity's ability to generate cash flows by using the existing resources and to make judgments on the effectiveness with which the entity may use new resources.

## 9. References

- [1] Helfert, A.E., *Tehnici de analiză financiară*, Editura BMT, București 2006, pp. 3-9;
- [2] Colasse, B., *La gestion financière de l'entreprise*, Éditeur PUF, Paris, 1993, pp. 213-218;
- [3] Niculescu, M., *Diagnostic global strategic*, Editura Economică, București, 2003, pp. 127 – 133;
- [4] Jianu, I., *Evaluarea, prezentarea și analiza performanței întreprinderii*, Editura CECCAR, București, 2007, pp. 158-169;
- [5] Burlaud, A., Friederich M., Langlois G., *Comptabilité approfondie*, Editura Foucher, Paris, 1999, pp. 51-59;
- [6] Lorino, P., *Comptes et recits de la performance*, Editura D'Organisation, Paris,

- 1995, pp. 39-48;
- [7] Șerban, C., *Analiza financiară a activității instituțiilor de credit*, suport de curs pentru masterat –on line, pp. 48-59;
- [8] Niculescu, M., *Diagnostic global strategic*, Editura Economică, București, 2003;
- [9] Colasse, B., *La gestion financière de l'entreprise*, Éditeur PUF, Paris, 1993, pp. 213-218;
- [10] Albu, C. Albu, *Soluții practice de eficientizare a activităților de creștere a performanței organizaționale*, Editura CECCAR, București, 2005, pp. 37-42;
- [11] Troacă. V., *Contabilitate bancară*, Editura Măiastra, Tg-Jiu, 2008, pp. 28-32
- [12] Kueng, P. Krahn, A.J.W., *Building a process Performance Measurement Systems: some early experiences*, Journal of Scientific & Industrial Research, 1999

# Measuring Tax Gap on Income Tax and Social Contributions: Romania's Case

Horga Maria-Gabriela

Dănilă Alexandra

"Ovidius" University of Constanta

[gabihorga@gmail.com](mailto:gabihorga@gmail.com), [alexandradanila14@yahoo.com](mailto:alexandradanila14@yahoo.com)

## Abstract

*Taxes are a very important dimension of current economies, as they form the basis of national budgets and allow governments to finance expenditure in vital areas such as health, education, defense or infrastructure. Tax administrations are the ones responsible for a proper application of tax laws and efficient collection of taxes. The difficult economic context that followed the financial crisis triggered in 2008, characterized by emphasizing fiscal deficits and increasing government debt, brought the interest in measuring and reducing tax evasion and tax gaps in the majority of EU Member States, including Romania.*

*Present paper debates the issue of tax gap recorded in Romania, related to income taxes and social contributions. Within this paper, tax gap is adressed throughout estimations on undeclared work in Romania.*

**Key words:** undeclared labor, fiscal measurements, tax due.

**J.E.L. Classification:** H26.

## 1. Introduction

Combating tax evasion and tax avoidance are two current issues of states fiscal administrations, as they significantly reduce national revenues. Collecting higher revenues by increasing tax compliance is obviously preferable to increasing revenues by increasing tax ratios. In order to achieve a higher degree of tax compliance, fiscal administrations should pay attention to the costs that collection of taxes incurs, but also to the costs that taxpayers - both individuals and businesses - must bear.

There are several criteria that form the

basis of effective tax administration. Effective tax organizations appeal to a global strategy of compliance and focus their efforts to control the highest fiscal risks. These organizations split into two groups: partners and opponents. Therefore, they distinguish between actions of supporting and educating those taxpayers who voluntarily comply, respectively, control actions against those taxpayers who refuse to comply. Tax administrations use comprehensive information from additional sources (third party information), provide taxpayers with pre-filled forms of financial statements, and, as possible, use IT systems in their activity in order to create an easy and stable mechanism for tax payment. This mechanism is also used to limit taxpayers' disposition to evasion. In terms of organizational structure, these administrations are often functionally organized.

Currently, it is important for tax systems to be simple and stable, and that arrears are efficiently collected. All these measures support tax morality and increase voluntary compliance among taxpayers, which allows tax administrations to focus their efforts on those taxpayers who attempt to avoid taxes.

## 2. Measuring tax gap - international aspects

Organisation for Economic Cooperation and Development (OECD) estimated that in 2011, approximately 30% of tax administrations were establishing total or partial measurements of tax gap. Relevant examples are the United Kingdom, the United States of America, Sweden, Denmark, Chile, Canada, France, Ireland.

In the UK, Her Majesty's Revenue and Customs (HMRC) has over 10 years experience in measuring tax gap, as first estimates were made in the early 2000s for

indirect taxes (VAT and excise duties). After 2005, scope of estimates was extended to direct taxes. HMRC is today one of the few tax administrations in the world that publishes annually results obtained in measuring tax gap. HMRC measures tax gap throughout four general tax audit programs on random sampling (for corporation tax, income tax, VAT and social contributions) and throughout "top down" and "bottom up" methodologies when referring to indirect taxes (VAT and excise duties).

In the USA, the Internal Revenue Service (IRS) initiated the process of estimating the hidden income levels and fiscal gap (tax gap) since 1963 by setting up a representative sample of 92,000 taxpayers with tax liability in the domain of income taxation. On this sample, tax audits were carried out to identify specific unpaid tax obligations. The Taxpayer Compliance Measurement Program was held until 1988 when, due to important resources that it involved, it has been replaced by the National Research Program, a similar program organized on smaller samples of taxpayers. This program uses, in addition to tax audits on random sampling, automated comparison of information included in declarations submitted by taxpayers with data from external sources (banking and financial institutions, registers of other authorities, etc.). Since 2006, National Research Program is held annually, but on much smaller samples (10,000 - 13,000 taxpayers).

In Sweden, the Swedish Tax Administration conducted a single estimate of the tax gap in the year 2006. This has been done by using a variety of sources and methodologies, presenting in the end, in addition to estimating the tax gap, a map reflecting taxpayers compliance.

Denmark's Tax Agency (SKAT) also conducted in 2007-2008 an extensive program of measurement of compliance for major administered taxes (VAT, corporate income tax, personal income tax) based on results obtained through random tax audits conducted on a sample of approximately 13,000 taxpayers.

Chilean Tax Administration (Servicio de Impuestos internal) measures tax gap since 1980. The level of compliance is estimated mainly for VAT, which is the main source of tax revenues, with over 50% of the total revenue. Estimation methodology uses

national accounts data on consumption which are compared with earnings.

Canada's Revenue Agency uses a central program of tax audits on representative samples. The main program is addressed to small and medium enterprises, the area where, traditionally, the level of compliance is considered to be the lowest. Level of compliance is measured periodically in order to monitor multiannual trends and to validate and refine risk criteria used in programming fiscal control.

Of the 27 countries of the European Union, in early 2012, a number of 11 States estimated in the past or continue to estimate tax gap, according to own methodologies.[1]

### **3. Tax gap based on undeclared labor in Romania**

Tax gap is the most appropriate measurement of taxpayers non-compliance to tax legislation, calculated as the difference between what would be charged throughout taxes if all taxpayers would fully comply with law, and the amounts that are actually collected throughout these taxes.

In a general approach, compliance gap can be determined by the following factors:

- Lack of awareness of tax obligations by individuals and companies;
- Difficulty in understanding tax code and the high costs of income declaration;
- Non-declaration of income;
- Non-payment of taxes or timely payment of taxes;
- The ability to cheat /underreport. [2]

Underdeclared, undeclared work and other forms of underreporting income within fiscal statements represent cases of lack of compliance and thus tax evasion. While "cheating" in terms of reporting revenue can be detected and prevented through administrative controls, combating shadow economy requires other methods. Tax compliance can be defined as "the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pay the right amount of taxes on time". [3]

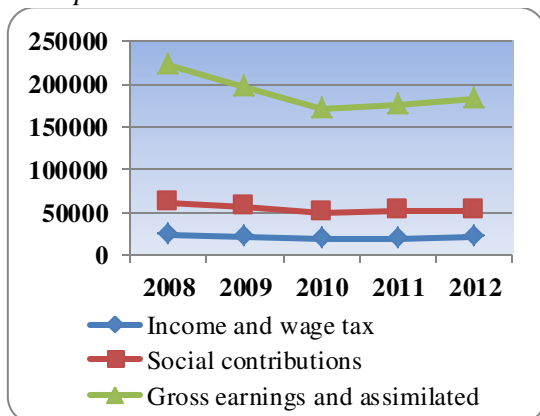
Compulsory social contributions are the main source of budget revenues in Romania, representing 32% of revenues collected by National Agency of Financial Administration (ANAF) in 2012, respectively lei 53850.60

million. The high share of revenues representing social contributions is justified by statutory tax rates in this area, as these bulled to a minimum aggregate of 44.25% during 2010 - 2012. In turn, the income tax revenues represented 12% of the total revenues collected by ANAF in 2012, respectively lei 20732.40 million.

We approached the tax gap recorded in Romania by using both mandatory social contributions and income tax, throughout the phenomenon of "illegal work" - undeclared work. Research approaches have failed to identify a comprehensive methodology for analysis when measuring the total tax gap in social security contributions and income tax, for all income categories. Under these circumstances, given the similar experiences of other European tax administrations, we resumed to analyzing fiscal gap solely throughout the effects of undeclared work and wage related activities carried out in the informal sector.

Evolution of the amounts collected to the General Government must be similar to the evolution of their macroeconomic base within national accounts - gross earnings and assimilated. To see how these three indicators evolved in the period 2008-2012, we appealed to updating annual recorded amounts by inflation rate (Consumer Price Index), thus actual values for 2012 were obtained - Figure 1.

Figure 1. Evolution of ammounts collected through social contributions and income tax, compared to their macroeconomic base



Source: Authors' processing

As Figure 1 shows, in the period 2008 - 2012, the ammounts collected by income tax and mandatory social contributions have followed the general trend of their macroeconomic base. However, in 2012, a decrease in mandatory social contributions of

-1.3% in real terms was registered (although nominal value increased by 2%). This evolution can be explained by normal evolution of its macroeconomic base, which grew by + 3.9% in 2012 in actual values (mainly due to reunification of budgetary wages in mid 2012). A possible explanation of this contradictory evolution may be given by the fact that in case of high income growth, social contribution is limited at 5 times the average gross salary (according to article 296 ^ 5 of Law 571/2003) [4]. Another possible explanation may be related to the generalization of a payment system that lead to avoidance of some legal obligations, such as employees who were asked by their employers to register as freelancers and conclude cooperation agreements in place of labor contracts. This practice is increasingly used in Romania, especially by companies operating in the IT sector, thus employer legally avoids payment of mandatory social contributions for these employees.

In 2011, mandatory social contributions recorded a real growth over the one of theirs macroeconomic base (+ 4.7% compared + 1.8% increase for gross earnings and assimilated incomes). A similar evolution was registered in 2012 in revenues from income taxes, which increased by + 6.3%, while the real growth of its macroeconomic base was only of + 3.9%. Recorded increases are attributable to increase of efficiency in tax collection of ANAF.

Evolution of GDP shares of the three indicators supports previous statements and indicates an alarming situation regarding the decrease in the actual amounts collected from mandatory social contributions in 2012, given that gross earnings and assimilated increased in 2012, but also income tax revenues.

#### 4. The implicit tax rate on labor

Generally speaking, the implicit tax rate measures the average effective tax burden a specific tax imposes. According to Eurostat methodology, implicit tax rate "measures the actual or effective average tax burden directly or indirectly levied on different types of tax base or activities that could potentially be taxed by Member States." [5]

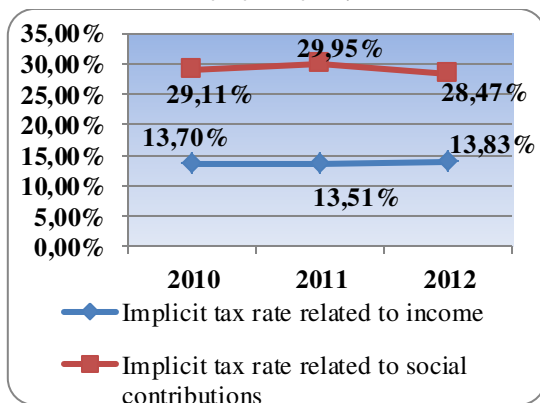
In both the case of income tax and



mandatory social contributions, macroeconomic basis used to calculate implicit tax rates is represented by the indicator named Gross wages and gross compensation in National Accounts. In the case of income tax, basis is adjusted by the percentage representing mandatory social contributions of the employee, which are deductible.

Implicit tax rate related to income was that of 13.7% in 2010, respectively 13.51% in 2011 and 13.83% in 2012. Within this period, statutory tax rate was that of 16%. Mandatory social contribution rate was that of 29.11% in 2010, 29.95% in 2011 and 28.47% in 2012, while legal average rate was that of 44.25% within same period.

Figure 2. Implicit tax rate in Romania, 2010 - 2012.



Source: Authors' processing.

As discussed, implicit tax rate regarding income tax follows a general upward trend. Adversely, revenues from mandatory social contributions of employees confirm a decline in 2012.

Overall tax burden on labor in Romania can be estimated by the indicator entitled implicit tax rate on labor. This indicator is constructed as a ratio, respectively the ratio of taxes and social security contributions on employed labor income to total compensation of employees, indicator of National Accounts. In Romania, this indicator stands at 30% - 31%, while the EU-27 average is 35.5%.

The efficiency index of direct taxation is the ratio of the implicit tax rate, previously identified, and standard legal share of respective tax.

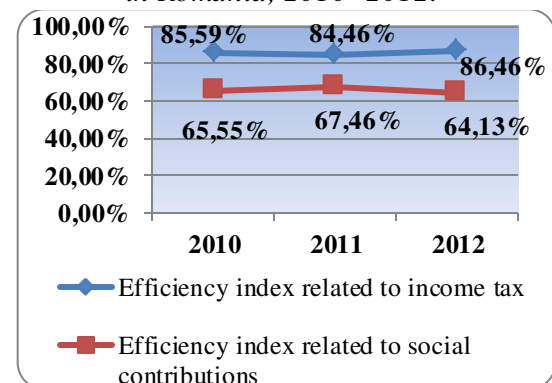
From Figure 3 we note that, besides the decrease of social contributions' yield in 2012, discussed in the previous paragraphs,

efficiency index is different for the two discussed taxes on labor. Thus, while the present income tax efficiency index varies between 84.5% and 86.5% (medium values for the group of 10 new Member States of the EU), compulsory social security contributions record efficiency rates around 65.5%, very low ones at European level, which place Romania in last place among the 10 new Member States.

In EU-27, the share of mandatory social contributions related to GDP ranges between 10.5% and 11.0%, while Romania recorded values of 9.1% of GDP in 2011 and 8.8% of GDP in 2012.

Differences in yield between the two tax liabilities can be partially explained by the relatively low level of income tax in Romania and the high level of mandatory social contributions. However, the shares not fully explain the large differences recorded. ANAF must pay attention to combating fraud to mandatory social contributions, as justified by the reduced correspondent efficiency index and enhanced by the significant share of this type of tax within total income tax revenue.

Figure 3. Efficiency index of direct taxation in Romania, 2010 -2012.



Source: Authors' processing.

To determine the tax gap income tax and compulsory social security contributions on labor based on undeclared labor, we first determined the taxable hidden related phenomenon. At this point, we multiplied the number of illegally working employees by monthly average gross wage, as calculated by the statistical Survey on labor costs in economic and social units. The average gross monthly wage, estimated in this way, is the ratio of businesses gross payment during the reference period, and number of employees within considered period. We used a

simplifying assumption that if undeclared labor should be formalized for similar categories of employees, gross income received by employees will be equal. Also, we assumed an identical distribution, by income, to the one registered by formal distribution of wage. Hidden tax base, respectively undeclared labor, is the sum of gross wages that would have been paid to people working in hidden economy, if they would have worked within formal sector and would have declared incomes.

Given these assumptions, we estimated hidden tax base related to labor at lei 32519.64 million in 2010, lei 36381.31 million in 2011 and at approximately lei 38000 million in 2012. As implicit tax rate related to income ranged between 13.7% and 13.83% within analyzed period, we estimated that correspondent tax gap ranged between lei 4455.19 million and lei 5227.7 million in 2010-2012 (as seen in Table 1). Likewise, tax gap related to social contributions was estimated at lei 9466.46 million in 2010, inferior to that of 2012, which reached an approximate value of lei 10761.58 million.

Table 1. Estimated hidden tax base related to labor in Romania, 2010-2012

	2010	2011	2012
Number of undeclared workers (average, thousands of persons)	1424.8	1531.2	1516.6
Monthly gross wage (average, lei)	1902	1980	2077
Hidden tax base (lei)	32519.64	36381.31	37799.74
Tax gap related to income (lei,million)	4455.19	4915,11	5227.7
Tax gap related to social contribution (lei,million)	9466.46	10896.2	10761.58

Source: Authors' processing.

Given our calculus, Romania's total tax gap related to labor is of approximately lei 15000 million annually. Hence, several measures should be taken into consideration

in order to reduce this increasing tax gap, such as reducing tax burden or improving ANAF's control mechanisms.

#### 4. Conclusions

Romania's total tax gap related to labor recorded high values within analyzed period, respectively 2010-2012, reflecting the fact that large amounts of income are not declared and therefore, no correspondent taxes are being paid.

Hence, National Agency of Fiscal Administration should make serious efforts to increase taxpayers compliance related to income taxes and mandatory social contributions through implementation of measures in order to:

- increase detection probability of taxpayers that under/undeclare incomes;
- continuously improve the efficiency and effectiveness of control devices ethics along with increasing staff;
- improve quality of services provided to taxpayers;
- lower administrative burden for taxpayers who want to comply;
- increase fiscal citizenship through adopting a responsible attitude in management of public funds, transparency and education.

#### 5. References

- [1] Fiscalis Risk Management Platform Group, "Tax Gap and Compliance Map Report", Financial Code: FPG32/GRP6.
- [2] Internal Revenue Service, *The Determinants of Individual Income Tax Compliance: Estimating The Impacts of Tax Policy, Enforcement, and IRS Responsiveness*, Washington, DC, 1996.
- [3] Palil, M.R., Mustapha, A.F., *Factors affecting tax compliance behaviour in self assessment system*, African Journal of Business Management Vol. 5(33), pp. 12864-12872, 2011.
- [4] Romanian Official Monitor no.927/23.12.2003, *Law no.571/2003 on Tax Law*, 2003.
- [5] Eurostat Statistical Books, *Taxation Trends in the EU, Annex B: Methodology and explanatory notes*, Luxembourg, Publications Office of the European Union, 2014.

# Corporate Governance Dimensions and Financial Structure of the Companies in European Developing Countries

Ionescu Alin

West University of Timisoara, Faculty of Economics and Business Administration  
[alinionescu86@yahoo.com](mailto:alinionescu86@yahoo.com)

Tudoreanu Petru

West University of Timisoara, Faculty of Economics and Business Administration  
[petrurazasul@yahoo.com](mailto:petrurazasul@yahoo.com)

## Abstract

*The main purpose of this article is to test the impact of corporate governance dimensions on financial structure of the companies. In this regard, using a dataset covering 26 European developing countries and based on the method of principal components analysis, we made five indices for main dimensions of corporate governance and one index in case of financial structure of the companies. The main dimensions related to corporate governance that were considered in this study are transparency, ownership structure and rights, corporate social responsibility, bureaucracy and corruption (crime). As well, financial structure was quantified using the main sources of finance and the percentages of firms that are using banks for a loan or for investments. Using the generalized linear model, the main output of the paper consist in fact that the most significant influence on financial structure index is exercise by dimensions like corruption (crime) and ownership structure and rights.*

**Keywords:** corporate governance, financial structure

**JEL Classification:** G32, G34

## 1. Introduction

Corporate governance represents a current topic in economic research. It can be relevant to find the main linkages between the different ways to manage a company and their abilities to influence the company's performance or financial structure. For example, Rehman et al. (2010) [1] showed

that the banking sector from Pakistan is characterized by a positive and a weak linkage between corporate governance and capital structure.

As we highlighted in the abstract, the main goal of this article is to test the possible impact of different corporate governance dimensions on financial structure of the companies in European developing countries. In this regard, we have constructed an indicator for each considered dimension of corporate governance and one, as well, for financial structure. These indicators were determined for 26 European developing countries, taking into consideration the period between 2002 and 2013 (*high income* - Croatia, Czech Republic, Estonia, Lithuania, Latvia, Poland, Russian Federation, Slovak Republic, Slovenia; *upper middle income* - Albania, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Hungary, Kazakhstan, Macedonia, Montenegro, Romania, Serbia, Turkey; *lower middle income* - Armenia, Georgia, Kosovo, Moldova, Ukraine). The variables included in this study are different and the data were provided by World Bank Database ([www.enterprisesurveys.org](http://www.enterprisesurveys.org)). First of all, the index of financial structure was quantified by variables like (i) percent of firms with a bank loan/line of credit, (ii) percent of firms using banks to finance investments, (iii) proportion of investments financed by banks, (iv) proportion of investments financed by supplier credit, (v) proportion of investments financed by equity or stock sales, (vi) percent of firms using banks to finance working capital, (vii) proportion of working capital financed by banks and (viii) proportion of working capital financed by supplier credit. In the same time, corporate governance was

represented by several dimensions, most of them having a recognized role and importance in the specialized literature. Thus, these dimensions of corporate governance quality are informational transparency, ownership structure and rights, corporate social responsibility, bureaucracy and corruption (crime).

In the first stage of our analyse, using principal component analysis we proceeded to identify the possible grouping configuration between selected variables, in order to cumulate all of the relevant variables to create a global index. In addition to the fact that we assume that used variables are strongly correlated, the principal components analysis shapes the variance of dataset using linear combination of data (see for details Dima et al., 2013 [2]; Jolliffe, 2002 [3]). Thus, in this manner we have constructed an index in case of financial structure as well as for each corporate governance dimension.

In the second stage of present study our aim was to test the impact of the main corporate governance dimensions on financial structure indicator using the generalized linear model (see for details Nelder and Wedderburn 1972 [4]). In addition, we used a *Poisson distribution*, a *log* link function and we assumed that *Newton-Raphson* method is apposite to check the robustness of empirical results.

## 2. Empirical results

The empirical results of appliance of principal components analysis in terms of financial structure variables are reported in Table 1. The first part of this table describes the sample of observations and shows several information related to the number of components retained, while the second part of the table summarizes the information about eigenvalues. In this case, the first principal component describes 51% from the global variance, while the second component accounts 24% of the variance. Thus, the first two components describe 75% of the group variance and we consider that this component can be used in order to create a synthetic information indicator. As well, the second part of the table shows the linear combination of coefficients and we can observe that all the values are positive, between 0.20 and 0.46. In this regard, it might be interpreted as a

relevant indicator of companies' financial structure.

Table 1. Principal Components Analysis of financial structure variables

Eigenvalues: (Sum = 8, Average = 1)				
Component number	Value	Difference	Proportion	Cumulative proportion
1	4.11	2.22	0.51	0.51
2	1.89	1.03	0.24	0.75
3	0.86	0.30	0.11	0.86
4	0.56	0.26	0.07	0.93
5	0.30	0.14	0.03	0.96
6	0.15	0.07	0.02	0.98
7	0.08	0.05	0.01	0.99
8	0.03	-	0.003	1.00

Eigenvectors (loadings):	
Variable	PC 1
Percent of firms with a bank loan/line of credit	0.35
Percent of firms using banks to finance investments	0.46
Proportion of investments financed by banks	0.44
Proportion of investments financed by supplier credit	0.20
Proportion of investments financed by equity or stock sales	0.25
Percent of firms using banks to finance working capital	0.40
Proportion of working capital financed by banks	0.37
Proportion of working capital financed by supplier credit	0.25

Notes: Included observations: 26; Computed using: Ordinary (un-centred) correlations; Extracting 8 of 8 possible components.

Using the same procedure in Table 2 can be seen the results of the variables related to informational transparency. Thus, the first component explains 68% of the global variance and the second one describe 28% of this variance. In this sense, with a huge cumulate proportion of 96% in case of these components, we are able to construct a information indicator about transparency. As well, the second part of the table confirms positive results in case of all these three variables.

Table 2. Principal Components Analysis of transparency variables

Eigenvalues: (Sum = 3, Average = 1)				
Component number	Value	Difference	Proportion	Cumulative proportion
1	2.04	1.19	0.68	0.68
2	0.85	0.74	0.28	0.96
3	0.11	-	0.04	1.00

Eigenvectors (loadings):	
Variable	PC 1
Percent of firms having their own Web site	0.66
Percent of firms with an annual financial statement reviewed by external auditors	0.35
Percent of firms using e-mail to interact with clients/suppliers	0.66

Notes: Included observations: 26; Computed using: Ordinary (un-centred) correlations; Extracting 3 of 3 possible components.

In the same manner we analysed the variables related to ownership structure and rights. Table 3 shows that first principal component describes 73% of the total variance and the second component accounts 18% of the variables variance. As well, in the

second part of the table can be observed positive values in case of all eigenvalues. The output of this analysis permits us to consider a synthetic information index about ownership structure and rights.

Table 3. Principal Components Analysis of ownership structure and rights variables

Eigenvalues: (Sum = 3, Average = 1)				
Component number	Value	Difference	Proportion	Cumulative proportion
1	2.19	1.66	0.73	0.73
2	0.53	0.25	0.18	0.91
3	0.61	-	0.09	1.00
Eigenvectors (loadings):				
Variable	PC 1			
Proportion of private domestic ownership in a firm	0.54			
Proportion of a firm held by the largest owner(s)	0.59			
Percent of firms with legal status of Sole Proprietorship	0.61			

Notes: Included observations: 26; Computed using: Ordinary (un-centred) correlations; Extracting 3 of 3 possible components.

The results from appliance of the same procedure in case of corporate social responsibility variables can be observed in Table 4. Thus, the first principal component accounts 67% from the total variance and the second component defines 20% of this variance. As well, in the second part of the table we can observe that first principal component represents a roughly-equal linear combination of these variables. Therefore, we can construct an informational indicator which describes the corporate social responsibility dimension.

Table 4 Principal Components Analysis of corporate social responsibility variables

Eigenvalues: (Sum = 4, Average = 1)				
Component number	Value	Difference	Proportion	Cumulative proportion
1	2.70	1.91	0.67	0.67
2	0.79	0.44	0.20	0.87
3	0.35	0.19	0.09	0.96
4	0.16	-	0.04	1.00
Eigenvectors (loadings):				
Variable	PC 1			
Percent of firms with female participation in ownership	0.53			
Percent of firms with a female top manager	0.56			
Proportion of permanent full-time workers that are female	0.53			
Proportion of permanent full-time non-production workers that are female	0.35			

Notes: Included observations: 26; Computed using: Ordinary (un-centred) correlations; Extracting 4 of 4 possible components.

Using the same procedure we considered that corruption (crime) can affect decisively the governance system of a company. In this regard, in Table 5 can be seen the results of applying the principal component analysis in case of this dimension. Thereby, the first principal component accounts 70% of the

variables variance, while the second component accounts 11% of the variance. More than that, the second part of the table reveals that first component of the analyse represents a roughly-equal linear combination of these variables, because all the values have values around 0.30. Thus, considering these results, we can construct a synthetic information indicator in case of corruption and crime variables.

Table 5. Principal Components Analysis of corruption (crime) variables

Eigenvalues: (Sum = 11, Average = 1)				
Component number	Value	Difference	Proportion	Cumulative proportion
1	7.73	6.50	0.70	0.70
2	1.23	0.63	0.11	0.81
3	0.59	0.14	0.05	0.86
4	0.46	0.17	0.04	0.90
5	0.29	0.04	0.03	0.93
6	0.25	0.04	0.02	0.95
7	0.21	0.11	0.02	0.97
8	0.10	0.01	0.01	0.98
9	0.09	0.05	0.01	0.99
10	0.04	0.04	0.004	0.99
11	0.01	-	0.001	1.00
Eigenvectors (loadings):				
Variable	PC 1			
Corruption	0.27			
Bribery incidence (percent of firms experiencing at least one bribe payment request)	0.35			
Bribery depth (% of public transactions where a gift or informal payment was requested)	0.35			
Percent of firms expected to give gifts in meetings with tax officials	0.31			
Percent of firms expected to give gifts to secure government contract	0.25			
Value of gift expected to secure a government contract (% of contract value)	0.23			
Percent of firms expected to give gifts to get an operating license	0.32			
Percent of firms expected to give gifts to get an import license	0.27			
Percent of firms expected to give gifts to get a construction permit	0.32			
Percent of firms expected to give gifts to get an electrical connection	0.32			
Percent of firms expected to give gifts to public officials "to get things done"	0.30			

Notes: Included observations: 26; Computed using: Ordinary (un-centred) correlations; Extracting 11 of 11 possible components.

In case of the last corporate governance dimension which was considered – bureaucracy – we applied the same analysis of the principal components. Thus, the first component explains 52% of the global variance, while the second component describes 32% of this variance (Table 6). With a total cumulative proportion of 84% in case of the first two principal components, we are able to create an information index in case of bureaucracy.

Table 6. Principal Components Analysis of bureaucracy variables

Eigenvalues: (Sum = 4, Average = 1)				
Component number	Value	Difference	Proportion	Cumulative proportion
1	2.09	0.80	0.52	0.52
2	1.29	0.78	0.32	0.84
3	0.51	0.41	0.13	0.97
4	0.10	-	0.03	1.00
Eigenvectors (loadings):				
Variable	PC 1			
Senior management time spent dealing with the requirements of government regulation (%)	0.42			
Number of visits or required meetings with tax officials	0.63			
If there were visits, average number of visits or required meetings with tax officials	0.63			
Days to obtain a construction-related permit	0.20			

Notes: Included observations: 26; Computed using: Ordinary (un-centred) correlations; Extracting 4 of 4 possible components.

Accordingly with the empirical results which are reported in Table 7, generalized linear model provides a robust estimation of impact exercised by different dimensions of corporate governance on financial structure index.

Table 7. GLM estimation of corporate governance dimensions impact on financial structure of the companies in European developing countries

Dimensions	Dependent variable: financial structure indicator
Transparency	0.03 (0.33)
Ownership structure and rights	0.65** (0.30)
Corruption (crime)	-0.47*** (0.14)
Corporate social responsibility	0.35 (0.24)
Bureaucracy	-0.02 (0.25)
Number of observations	26
Pearson SSR	49.03
Log likelihood	-45.14
Modified Akaike Information Criterion	3.93
Bayesian Information Criterion	-16.12
Pearson statistic	2.45

Notes: \*\*\*, \*\*, and \* represent statistical significance at 1%, 5%, and 10% level. Generalized Linear Model a) Family: Poisson; b) Link function: Log; c) Optimization algorithm: Newton-Raphson

These results indicate that the estimated coefficients have a statistical significance of 5% in case of ownership structure and rights and a significance of 1% in case of corruption (crime). This last influence and its negative sign can be explained by the fact that a considerable level of corruption (crime) is able to affect in a negative and unwanted way both the corporate governance and financial structure.

### 3. Concluding remarks

The present paper tested the eventually impact of corporate governance dimensions on financial structure of the companies in a number of 26 European developing countries. The main output of this study consist in fact that financial structure index is influenced by two dimensions of corporate governance. Firstly, it is positively influenced by indicator which expresses ownership structure and rights. A possible argument for this is the fact that the aspects related to owners' rights are in attention of many international organizations (like stock exchanges, for example, which represents also an important source of finance). As well, corruption (crime) creates a deteriorated environment for organisations and influences negatively the process of choosing the financial structure.

In spite of these results, in future this study can be expanded by considering a larger number of countries or even by including new corporate governance dimensions in analyse.

### 4. Acknowledgements

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU 159/1.5/S/142115 "Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain".

### 5. References

- Ur Rehman, M. A., Ur Rehman, R., Raof, A., "Does corporate governance lead to a change in the capital structure?", *American Journal of Social and Management Sciences*, doi:10.5251/ajs.ms.2010.1.2.191.195, 2010
- Dima, B., Ionescu, A., Tudoreanu, P., "Corporate governance and financial structures of companies in developing countries", *Annales Universitatis Apulensis Series Oeconomica*, 15(1), p. 162-172, 2013
- Jolliffe T., "Principal Component Analysis", *Springer*, ISBN 0-387-95442-2, 2002
- Nelder, J., Wedderburn, R., "Generalized linear models", *Journal of the Royal Statistical Society*, Vol. 135, No. 3, pp. 370-384, 1972

## The Applying of IAS/IFRS in Uzbekistan

Khalilov Sh.A.

*Department of Accounting, Tashkent Financial Institute*  
[halilov86@gmail.com](mailto:halilov86@gmail.com)

### Abstract

*Alignment with the international standards, improvement of legal actions in the field of accounting and financial statements allows IFRS, Government bodies and the private organizations for full implementation of financial, static, bank, accounting's and auditor's affairs.*

**Keywords:** international accounting standards, international financial reporting standards, national accounting standards, financial statements, accounting and financial reporting

**JEL Classification:** M4, M41, M410

### 1. Introduction

Introduction of obligatory certification at auditors of IFRS, chief accountants, managers of financial services. The main reason consists in that Uzbekistan does not stop and constantly moves to the purpose, and IFRS will be accepted in Uzbekistan, Including, IASC, the International federation of Accountants, the World bank, FIC, UNDP, CIPAEN, IFRS ACCA and other associations are optimum in conditions to their introduction. Ensuring alignment by global practice of the report of enterprises and system of statistical indicators, including reflection of financial, bank affairs and customs necessary for compilation of national accounts to give the established support to their development.

In 1994, A State Program of transition of the Republic of Uzbekistan on the internationally accepted system of accounting and the interdepartmental

commission for the implementation of this program.

The main goal is to create the conditions for effective state regulation of the economy of the republic, an objective analysis of the role and value of its various fields of activity in the international community, on the basis of information adequate to the structure of the market economy, the timely identification of trends, predicting their development and assess the impact of management decisions.

*The State Program, the following tasks:*

- Review general methodological foundations of the state statistics and accounting, and bringing it into internationally accepted system of accounting and statistics;
- Alignment with international standards, national macroeconomic indicators, the establishment of the system of National Accounts of the Republic of Uzbekistan, including the development of accounts by sector of the national economy.

*At the inter-ministerial commission shall have the following functions:*

- control of the implementation of decisions and orders of the Cabinet of Ministers on the implementation of the State Program;
- ensuring alignment with global accounting practices of business entities and the system of statistical indicators, including reflecting the financial, banking and customs, necessary for the compilation of national accounts, to provide institutional support to their development. Public and private bodies authorized to carry out the plan or program of implementation of IFRS in the national economy:
- The Ministry of Finance of the Republic of Uzbekistan;

- The State Committee of the Republic of Uzbekistan on Statistics;
- The Central Bank of the Republic of Uzbekistan;
- The Ministry of Justice of the Republic of Uzbekistan;
- Professional Association of Accountants and Auditors.

## **2. The period during which it is supposed to carry out the implementation of IFRS in the national economy: in the long run - in stages.**

Since 2000, the mandatory IFRS implemented in banks of Uzbekistan, where the basis of accounting and reporting is the Law of the Republic of Uzbekistan "On Accounting" and International Financial Reporting Standards. Financial statements published by the Bank, as well as the basic principles, concepts and definitions used by banks in the process of accounting and reporting, corresponds to the Law of the Republic of Uzbekistan "On Accounting" and IFRS [1].

Since 2007, the mandatory IFRS incorporated into microcredit organizations, where the accounting principles, rules of accounting and control of financial transactions, the structure of the accounting system, methods of customer service and management of documents, the order of the financial statements based on International Financial Reporting Standards.

In voluntarily apply IFRS Enterprises with foreign investment and joint ventures in the preparation of financial statements for foreign investors, but such companies simultaneously maintain accounting records and financial statements with the national standards.

In business practice, companies of Uzbekistan on a voluntary basis at the request of the bank's financial statements prepared using IFRS - to receive a bank loan. This is done to ensure that the most reliable way was presented a picture of the financial condition of the enterprises applying for a loan.

Quality control of the accounting statements prepared under IFRS operating audit organizations: banks and microcredit organizations - mandatory for all the others - on a voluntary basis.

Since 1998 began to be administered by a National Accounting Standards (NAS), which were developed on the basis of IFRS. The main mission for the development of NAS assigned to the Office of accounting methodology and audit of the Ministry of Finance of the Republic of Uzbekistan with the participation of the National Association of Accountants and Auditors of Uzbekistan and with the support of international organizations [2]. Cooperation with international organizations in the field of accounting and reporting is carried out in the form of joint conferences, seminars, symposia, congresses, trainings: with IASC, the International Federation of Accountants, the World Bank, FIC, UNDP.

In 2002 was enacted national Accounting Standard (NAS) "Chart of Accounts and instructions for its use," which is designed based on the principles of IFRS and has been praised by all users [3]. Almost every year we introduce a new NAS in 2009 was inducted NAS, "Accounting for borrowing costs." Total enacted 25 National Standards developed on the basis of IFRS. Introduction NAS developed on the basis of IAS allowed to raise a high level of system of accounting in Uzbekistan and has greatly facilitated the work of the chief accountants and auditors.

The successful implementation of IFRS in Uzbekistan requires a sufficient number of specialists in IFRS, as well as the system for their training; independent audit; well developed regulatory and enforcement framework; adapted version of IFRS for small businesses; focus on key technical issues; established mechanisms to ensure compliance; careful matching of IFRS with the tax system.

Currently, the mandatory requirements to undergo training and obtain certificates (diplomas) IFRS in Uzbekistan have not been established, but it is planned to



introduce this requirement for auditors and chief accountants.

In 2010, the President of the Republic of Uzbekistan has adopted a Decree supporting adoption of IFRS in Uzbekistan. The Decree would require audits of large state-owned entities on the basis of International Standards on Auditing by 2015[4]. Following that, IFRS would be implemented. Moreover, the Central Bank has adopted IFRS for the banking sector in Uzbekistan. However, IFRS has not yet been fully implemented for banks.

While the Central Bank has required the use of IFRS in financial statements of the banking sector since 1996, banks also follow certain prudential accounting requirements of the Central Bank that differ from IFRS.

IFRS has not been adopted for other companies, but it is under consideration by the Ministry of Finance. No timetable has been established. Some companies publish voluntarily IFRS financial statements in addition to financial statements using Uzbek accounting standards.

### **3. Endorsement of IFRS in Uzbekistan**

The auditor's report/or the basis of presentation footnotes state that financial statements have been prepared in conformity with:

- for banks, the audit report states conformity with IFRS;
- for all other companies, the audit report states conformity with Uzbek national accounting standards.

IFRS are not incorporated into law. However, IFRS have been adopted for banks in regulations issued by the Central Bank. The Central Bank regulations were adopted again in 2004. They refer to those IAS/IFRS that were in effect before 2005. The requirements in those regulations are now outdated since they have not been kept up to date for new or amended IFRS issued since 2005 [5]. Therefore, the Central Bank is planning to change its regulation to refer simply to IFRS as issued by the IAS once IFRS have been translated into Uzbek (the national language). This will be done in a

separate legal act (Resolution of Cabinet of Ministers or Resolution of Central bank). By referring to IFRS as issued by IAS, all future changes to IFRS will automatically be adopted in Uzbekistan without a need to issue new regulations.

The jurisdiction has eliminated any accounting policy options permitted by IFRS and/or made some modifications to any IFRS. Under the Central Bank regulations adopted by IFRS for the banks, property, plant, and equipment must be accounted for using the revaluation model and not the cost-depreciation-impairment model. In applying the revaluation model, property, plant, and equipment is remeasured on the basis of indices issued by the government on an annual basis. Further, in applying IFRS banks follow the certain prudential accounting requirements of the Central Bank that differ from IFRS. Examples of differences include:

- Valuation of investments held in bonds and equities.
- Measurement of loan loss impairment.
- Recognition and valuation of loan fees.
- Deferred income tax.
- Lease accounting.
- Consolidation.

### **4. Conclusions**

*In Uzbekistan, widely represented special courses IFRS and certification of specialists:*

- in higher education - Tashkent Financial Institute, Tashkent State University of Economics and others;
- IFRS training accountants - CIPAEN, ACCA IFRS;
- Training of IAS auditors carried out in preparation for the qualifying exam and special courses IAS auditors in the system of continuous professional development - CIPAEN, ACCA IFRS;
- IFRS training university teachers CIPAEN, ACCA IFRS;
- A national certification of specialists in IFRS public associations of accountants and auditors in professional certification.

*The main problems of the implementation of IFRS:*

- lack of official status of financial statements prepared in accordance with

IFRS, as well as the necessary infrastructure of IFRS;

- a formal approach to economic entities for many categories, principles and comply with IFRS;

- the need for high costs of economic entities in the consolidated financial statements in accordance with IFRS by transformation of financial statements prepared in accordance with national accounting standards;

- adapting software computerized accounting systems to IFRS;

- lack of participation of professional associations of accountants and auditors, and other interested public, including users of financial statements, in the regulation of accounting and financial reporting, as well as in the development of the accounting profession;

- low level of training most of the accountants, as well as insufficient skills in the use of information prepared in accordance with IFRS;

- lack of an official translation of IFRS in Russian and Uzbek languages.

Possible solutions:

- improvement of legal acts in the field of accounting and financial reporting towards the full implementation of IFRS;

- creation of an infrastructure of IFRS[6].

*Improving the management of accounting and financial reporting:*

- training of professionals engaged in the organization and accounting and financial reporting based on IFRS, as well as the users of the financial statements;

- provision of good quality official translation of IFRS into Russian and Uzbek languages;

- the introduction of mandatory certification under IFRS auditors, chief accountants, managers of financial services. The main thing is that Uzbekistan does not stand still and is constantly moving to the target and IFRS will be adopted in Uzbekistan, will be prepared when the optimum conditions for their implementation.

#### 4. References

- [1] Karimov A, *Accounting*, Sharq nashriyoti, Tashkent 2004.
- [2] Bobojonov A, Jumaniyozov K, *Financial Accounting*, Moliya, Tashkent 2002.
- [3] *National Accounting Standards of the Republic of Uzbekistan*, Norma, Tashkent, 2010
- [4] Hasanov B, Hashimov A, *Management Accounting*, Yangi asr, Tashkent 2011.
- [5] Sh.A.Khalilov, The account of essences on operation activity by managing subjects, *Journal of Moliya, №4, 2013, 40-41 pages, Uzbekistan, www.jm.tfi.uz/Home.aspx.*
- [6] Sh.A.Khalilov, The organization of account income on operation activity by managing subject, *International conference 29 May, 2013, 256 page, Tashkent Financial Institute, Uzbekistan.*

# Trends and Policies Promoted in Public Debt Management

Lupulescu-Caruntu Roxana Corina

Caruntu Andreea Laura

Vezure Oana Sabina

*"Constantin Brancusi" University of Tirgu-Jiu*

*Faculty of Economics and Business Administration*

[r\\_caruntu\\_28@yahoo.com](mailto:r_caruntu_28@yahoo.com)

[andreea.caruntu@yahoo.com](mailto:andreea.caruntu@yahoo.com)

## Abstract

*The world economy has faced in the last decades a series of imbalances, being seriously affected by the crisis which began in 2008. The recovery has proved more difficult than anticipated, recording a number of issues related to inflation, unemployment, budget deficit and public debt. Many states have adopted measures inconsistent with the reality, which aggravated the imbalances of the crisis. The option for drastic reduction of public expenditure has not had the desired effect.*

*From the analysis of the countries that implemented such a policy excessively was concluded that they were those that experienced the lowest growth. Romania was, unfortunately, within in this category, which generated a series of macroeconomic difficulties.*

**Keywords:** public debt, indebtedness, gross domestic product

**J.E.L Classification.:** H62, H63

## 1. Introduction

Romania is a country that has experienced the issue of substantial growth in public debt since 1990 (previously, the policy of liquidation of foreign debt has allowed recording a zero level of debt, but the price paid by the Romanian economy was found in subsequent developments). But this situation is characteristic to many economies, additionally affected also by the manifestation of the economic - financial crisis.

As a result, public debt management has become a necessity, especially in the context

of a domestic financial market not well developed and the economic and domestic political context impacted Romania's reputation in foreign markets.

## 2. Theories and controversies in establishing the indebtedness and its effects on the economic development

One of the main objectives to be targeted by the external public debt management remains the budget deficit.

This is evident as the accumulation of public debt is the result of increasing public spending, amid diminishing the income received and the application of a fiscal policy inadequate for the economic realities. In fact, the two elements have a relationship of interdependence, meaning that also the level of public debt generates increases in budget deficits. In addition, a highly disputed controversy in recent years relates to the impact that debt has on economic growth.

In this regard, numerous debates relate to the conclusion set from a study conducted on a sample of 20 developed countries by the economists Reinhart and Rogoff. From the statistical processing of the data collected on the impact of public debt on economic growth, the two Harvard economists concluded that a debt level below 90% causes a growth of 3-4%, while an excess of this threshold causes a reduction to -0.1% of the average growth. [1]

But, in 2013, the findings of that article, which represented a foundation of many states in their policies for economic recovery, had been criticized by other three economists: Pollin, Ash and Herndon. They had redone the statistical calculations and found that exceeding the 90% threshold of the public debt caused a slowdown in the

economic growth at around 2.2% and not at -0.1%. The analysis of the period 2000-2009, showed that the growth rate of GDP in countries with higher debt level of 90% was comparable to or greater than that recorded in countries where public debt had a share in GDP between 30 and 90%. [2]

What conclusion can be drawn from these disputes? First, the fact that the thesis long supported on the negative effect of budget deficit on interest and, therefore, on the ability of indebtedness was not supported by the facts recorded internationally. Moreover, the three economists bring arguments in this regard. Thus, the USA supported the lowest levels of interest on the debt contracted even if the indebtedness increased. In addition, the government spending financed on the account of the deficit were the most effective way to stimulate the demand. This argument has been presented by other economists, who have shown that the fiscal discipline imposed by the Maastricht criteria generated negative effects on economic growth compared to the USA and UK.

In addition, they support the idea that a stabilized level of public debt on a longer time interval is sustainable, regardless of its size: "... for example, a debt ratio to GDP of 150% is as sustainable as a share of 50%." [3] However, it is not supported the idea that a country can owe anything without a proper management of the budget deficit. Another economist, Krugman Paul, pointed out the errors in Reinhart and Rogoff's article and argued that the economic recovery and the reduction in the expenses related to debt contracted during the crisis can be provided only by funding all public spending through public debt. [4] Also, it can be considered that not only a large debt causes reduced growth but the opposite: a weak economic growth causes high debt, which is reinforced by the example of Japan which, after significantly reducing the economic growth of the early 1990s faced a sharp increase in public debt. [5]

It should be noted also the revaluations made by the two economists, Reinhart C. and Rogoff K., in 2012. Thus, they consider that the period of recovery after a financial crisis is lengthy and requires sacrifices and debt reduction should be performed in a slow pace. In addition, they refer to the level of public debt above 90% which, if maintained

over a period of 5 consecutive years, can generate the "overhang" phenomenon (all income from domestic investments are assigned to creditors) and a record of the levels of growth below trend for at least 10 years.

This idea is also supported by other economists who believe that beyond certain limits, a level increasingly large of debt causes a lower growth rate on long-term. [6]

What results from these discussions? The fact that many decision makers have relied on the conclusions of that study as justification for the austerity policies promoted. Reality has shown, however, that they have failed to revive the economic growth, foreshadowing a new manifestation of the crisis.

Another recent study noted the influence of external debt on an economy in a decisive proportion compared to the total debt. The explanation relates to the fact that indebted countries in their own currencies are able to pay the loans in the worst case by issuing currency, unlike other countries, who cannot appeal to such a way (for example, Greece, which has faced serious problems amid record a high level of public debt - 169.1% of GDP after the first 6 months of 2013). [7]

Regardless of the structure of public debt and the controversies regarding its implications on economic growth, it remains a dilemma: it can be established a so-called sustainable level so as to ensure a reasonable level of budget deficit and a positive trend of growth? Heated debates in the literature do not converge towards a unified approach, recording several approaches. Obviously, it can be considered that a sustainable level implies a degree of indebtedness that allows payment of debt and avoid financial collapse, which involves a mix of fiscal and budgetary measures and compliance with the democratic rules. Providing this level is however dependent on: "the ability of a national economy to generate primary surpluses, the interest on state borrowing markets, the risk premium attached, and its economic growth rate." [8] Other recent studies have identified differences between various countries in terms of the sustainable level of debt.

For example, research conducted in the EU Member States on the impact of rising public debt on economic growth identified a

point of balance of the debt ratio between 80 and 94% for the EU Member States in the period 1980-1995 and 53-54 % for Member States in the period 1995-2010.[9]

### 3. Analysis of the sovereign debt crisis in the EU member states

The year 2010 was a difficult time for many states, it was considered a year of a double crisis, the public debt crisis and the euro crisis. First, it can be signaled the case of Greece, considering that it would not be able to pay the outstanding debt in that year. However, the Greek crisis generated also the euro crisis. Austerity was a central element in the policies pursued by various countries (however, the Greeks were the ones who rejected it), but without the expected success.

The economic situation deteriorated in other countries (Portugal, Spain, Ireland) who achieved a budget deficit financing on account of additional debt incurred in the financial markets. The unemployment, the reduced consumption, the housing market collapse and the high level of individual indebtedness were elements of extremely high pressure on the national economies and the increasing public debt.

An analysis of public debt in EU Member States for the year 2012 shows an uneven distribution. Thus, Estonia, Bulgaria and Luxembourg have the lowest debt, on the opposite being placed Greece (156.9% of GDP), followed by Italy (127%), Portugal (124.1%) and Ireland (117, 4%). Many countries (also from outside the EU) whose level of debt exceeded 100% of GDP are also

facing other problems (unemployment, social instability etc.). To solve the problems arising from such a level, the monetary authorities of the countries concerned have diminished the interest rates to near zero, mainly aimed at producing inflation expectations. [10]

Obviously, such a measure could generate an orientation effect of the capital available for investment to countries that offer better remuneration. Instead, central banks can opt to increase yields while prices for government bonds will increase. Regardless of their choice, the effect will be reflected in the emerging countries.

The year 2013 marked further increases in public debt plan, the number of countries that exceeded the 100% threshold being higher than the one from previous year (Cyprus recorded an increase of 1.28 times compared to 2012, reaching 111.7% of the GDP). Countries with problems continued to increase their public debt to GDP, Greece remained in first place with 175.1%, followed by Italy with 132.6%, Portugal with 129% and Ireland 123.7%. A range of views expressed in the literature channels the increased public debt issue in conjunction with widening the budget deficits (which are explained, in turn, by decreasing revenues, increasing public expenditure generated by social problems or covering the bank debt etc). It is interesting that the increase in public debt in the past three years occurred when the budget deficits diminished.

The public debt situation in the EU countries is presented in Table no. 1.

Table no. 1. Public debt to GDP in the EU countries

Country	2005	2006	2007	2008	2009	2010	2011	2012	2012/2008
EU27	62,7	61,5	58,9	62,2	74,5	80	82,4	85,2	1,36
Austria	64,2	62,3	60,2	63,8	69,2	72,3	72,8	74	1,16
Belgium	92	87,9	84	89,2	95,7	95,7	98	99,8	1,12
Bulgaria	27,5	21,6	14,2	13,7	14,6	16,2	16,2	18,5	1,35
Cyprus	69,4	64,7	58,8	48,9	58,5	61,3	71,5	86,6	1,77
Denmark	37,8	32,1	27,9	28,7	34,6	38,4	41,4	46,2	1,61
Estonia	4,6	4,4	3,7	4,5	7,1	6,7	6,1	9,8	2,17
Finland	41,7	39,6	35,2	33,9	43,5	48,7	49,2	53,6	1,58
France	66,4	63,7	64,2	68,2	79,2	82,4	85,8	90,2	1,32
Germany	68,6	68	65,2	66,8	74,5	82,5	80	81	1,21
Greece	100	106,1	107,4	112,9	129,7	148,3	170,3	156,9	1,38
Ireland	27,2	24,6	24,9	44,2	64,4	91,2	104,1	117,4	2,65

<b>Italy</b>	105,7	106,3	103,3	106,1	116,4	119,3	120,7	127	1,19
<b>Latvia</b>	12,5	10,7	9	19,8	36,9	44,4	41,9	40,6	2,05
<b>Lithuania</b>	18,3	17,9	16,8	15,5	29,3	37,8	38,3	40,5	2,61
<b>Luxembourg</b>	6,1	6,7	6,7	13,7	14,8	19,1	18,2	21,7	1,58
<b>Malta</b>	68	62,5	60,7	60,9	66,5	66,8	69,5	71,3	1,17
<b>Great Britain</b>	41,7	42,7	43,7	51,9	67,1	78,4	84,3	88,7	1,71
<b>Netherlands</b>	51,8	47,4	45,3	58,5	60,8	63,4	65,7	71,3	1,21
<b>Poland</b>	47,1	47,4	45	47,1	50,9	54,9	56,2	55,6	1,18
<b>Portugal</b>	67,7	69,4	68,4	71,7	83,7	94	108,2	124,1	1,73
<b>Czech</b>	28,4	28,3	27,9	28,7	34,6	38,4	41,4	46,2	1,61
<b>Romania</b>	15,8	12,4	12,8	13,4	23,6	30,5	34,7	37,9	2,83
<b>Slovakia</b>	34,2	30,5	29,6	27,9	35,6	41	43,4	52,4	1,87
<b>Slovenia</b>	26,7	26,4	23,1	22	35,2	38,7	47,1	54,4	2,47
<b>Spain</b>	43,2	39,7	36,3	40,2	54	61,7	70,5	86	2,14
<b>Sweden</b>	50,4	45,3	40,2	38,8	42,6	39,4	38,6	38,2	-0,01
<b>Hungary</b>	61,7	65,9	67	73	79,8	82,2	82,1	79,8	1,09

Source: epp.eurostat.ec.europa.eu

A simplistic analysis of the data presented in the above table highlights the trend recorded almost in all EU countries (except Sweden): until 2008, in general, the level of public debt to GDP decreased or increased slightly (although the situation is questionable given the calculation of this indicator, the trend being fixed also by the economic growth); after 2008, unless previously specified, public debt increased in most countries. Greece remained in 2012 the country with the highest level of public debt share to GDP (as I stated earlier, the situation maintained into 2013).

From previous data we observe a rise in the number of countries that do not comply with the 60% limit imposed by the Maastricht Treaty. If in 2007 there were 9 countries, their number reached 14 in 2012. In fact, even the European average suggests that many countries did not follow the rules imposed.

Another aspect that can be noted is that reported to countries where there is a higher level of debt than GDP. Thus, if in 2007 only

Greece and Italy faced such a situation, in 2012 two countries were added to them, Ireland and Portugal, Belgium being also very close, with 99.8%.

Increasing public debt can be attributed, amid the financial crisis, to the significant increase in budget deficits. The effects of the financial crisis were felt at the level of budgetary expenditures and revenues. Thus, the budget expenditures recorded increases generated by the social protection (unemployment increased significantly in many countries) or by taking over the debt of some banks. Budget revenues have declined significantly, largely due to the economic downturn, and the adoption of fiscal or budget inadequate measures. Unfortunately, Romania has excelled in such bad examples: increased VAT rates, the establishment of the minimum tax or the reduction in wages and pensions.

Table no.2 shows the budget deficit level to GDP recorded in the EU member states in the period under review.

Table no. 2. Budget deficit to GDP in the EU 27

Country	2005	2006	2007	2008	2009	2010	2011	2012
<b>EU27</b>	<b>-2,5</b>	<b>-1,3</b>	<b>-0,7</b>	<b>-2,1</b>	<b>-6,4</b>	<b>-6,2</b>	<b>-4,2</b>	<b>-3,7</b>
<b>Austria</b>	-1,7	-1,5	-0,9	-0,9	-4,1	-4,5	-2,5	-2,5
<b>Belgium</b>	-2,5	0,4	-0,1	-1	-5,6	-3,7	-3,7	-4
<b>Bulgaria</b>	1	1,9	1,2	1,7	-4,3	-3,1	-2	-0,8
<b>Cyprus</b>	-2,4	-1,2	3,5	0,9	-6,1	-5,3	-6,3	-6,4
<b>Denmark</b>	5,2	5,2	4,8	3,2	-2,7	-2,5	-1,8	-4,1

<b>Estonia</b>	1,6	2,5	2,4	-2,9	-2	0,2	1,1	-0,2
<b>Finland</b>	2,9	4,2	5,3	4,4	-2,5	-2,5	-0,7	-1,8
<b>France</b>	-2,9	-2,3	-2,7	-3,3	-7,5	-7,1	-5,3	-4,8
<b>Germany</b>	-3,3	-1,6	0,2	-0,1	-3,1	-4,2	-0,8	0,1
<b>Greece</b>	-5,2	-5,7	-6,5	-9,8	-5,7	-10,7	-9,5	-9
<b>Ireland</b>	1,6	2,9	0,2	-7,4	-13,7	-30,6	-13,1	-8,2
<b>Italy</b>	-4,4	-3,4	-1,6	-2,7	-5,5	-4,5	-3,8	-3
<b>Latvia</b>	-0,4	-0,5	-0,4	-4,2	-9,8	-8,1	-3,6	-1,3
<b>Lithuania</b>	-0,5	-0,4	-1	-3,3	-9,4	-7,2	-5,5	-3,2
<b>Luxembourg</b>	0	1,4	3,7	3,2	-0,7	-0,8	0,1	-0,6
<b>Malta</b>	-2,9	-2,7	-2,3	-4,6	-3,7	-3,5	-2,8	-3,3
<b>Great Britain</b>	-3,4	-2,8	-2,8	-5	-11,4	-10,1	-7,7	-6,1
<b>Netherlands</b>	-0,3	0,5	0,2	0,5	-5,6	-5,1	-4,3	-4,1
<b>Poland</b>	-4,1	-3,6	-1,9	-3,7	-7,5	-7,9	-5	-3,9
<b>Portugal</b>	-6,5	-4,6	-3,1	-3,6	-10,2	-9,8	-4,3	-6,4
<b>Czech</b>	-3,2	-2,4	-0,7	-2,2	-5,8	-4,7	-3,2	-4,4
<b>Romania</b>	-1,2	-2,2	-2,9	-5,7	-9	-6,8	-5,6	-3
<b>Slovenia</b>	-1,5	-1,4	0	-1,9	-6,3	-5,9	-6,3	-3,8
<b>Slovakia</b>	-2,8	-3,2	-1,8	-2,1	-8	-7,7	-5,1	-4,5
<b>Spain</b>	1,3	2,4	2	-4,5	-11,1	-9,6	-9,6	-10,6
<b>Sweden</b>	2,2	2,3	3,6	2,2	-0,7	0,3	0,2	-0,2
<b>Hungary</b>	-7,9	-9,4	-5,1	-3,7	-4,6	-4,3	4,3	-2

Source: epp.eurostat.ec.europa.eu

One can easily see that the budget deficit was significantly affected by the financial and economic crisis, in 2009 and 2010 it recorded its highest levels: 30.6% in Ireland (2010); 11.4% in the UK (2009) and 11.1% in Spain (2009).

Greece is characterized by maintaining high levels throughout the whole period. At the opposite end is Germany, the only country that, after 2009 and 2010, ended 2012 with a surplus of 0.1%. It should be noted the case of countries that experienced low levels of pre-crisis deficits after they widened significantly: Ireland, Spain, Netherlands, Romania.

The budgetary developments occurred based on the changes in the real rate of economic growth, significantly affected in 2009 by the economic crisis (Table no. 3). The years 2010 and 2011 were characterized by economic growth in most countries (except Greece, Ireland, Latvia, Portugal and Romania), Estonia obtaining a record level of 9.6% in 2011.

Interesting is that in 2012, 13 countries registered negative growth rates again, which seemed to support the idea promoted by many economists who believed that there would be a new spurt of the crisis in the coming years.

Table no. 3. The real economic growth rate in the EU countries

Country	2005	2006	2007	2008	2009	2010	2011	2012
<b>EU27</b>	<b>2,2</b>	<b>3,4</b>	<b>3,2</b>	<b>0,4</b>	<b>-4,5</b>	<b>2</b>	<b>1,7</b>	<b>-0,4</b>
<b>Austria</b>	2,4	3,7	3,7	1,4	-3,8	1,8	2,8	0,9
<b>Belgium</b>	1,8	2,7	2,9	1	-2,8	2,3	1,8	-0,1
<b>Bulgaria</b>	6,4	6,5	6,4	6,2	-5,5	0,4	1,8	0,8
<b>Cyprus</b>	3,9	4,1	5,1	3,6	-1,9	1,3	0,4	-2,4
<b>Denmark</b>	2,4	3,4	1,6	-0,8	-5,7	1,4	1,1	-0,4
<b>Estonia</b>	8,9	10,1	7,5	-4,2	-14,1	2,6	9,6	3,9
<b>Finland</b>	2,9	4,4	5,3	0,3	-8,5	3,4	2,8	-1
<b>France</b>	1,8	2,5	2,3	-0,1	-3,1	1,7	2	0

<b>Germany</b>	0,7	3,7	3,2	1,1	-5,1	4	3,3	0,7
<b>Greece</b>	2,3	5,5	3,5	-0,2	-3,1	-4,9	-7,1	-6,4
<b>Ireland</b>	6,1	5,5	5	-2,2	-6,4	-1,1	2,2	0,2
<b>Italy</b>	0,9	2,2	1,7	-1,2	-5,5	1,7	0,5	-2,5
<b>Latvia</b>	10,1	11	10	-2,8	-17,7	-1,3	5,3	5,2
<b>Lithuania</b>	7,8	7,8	9,8	2,9	-14,8	1,6	6	3,7
<b>Luxembourg</b>	5,3	4,9	6,6	-0,7	-5,6	3,1	1,9	-0,2
<b>Malta</b>	3,6	2,6	4,1	3,9	-2,8	3,3	1,7	0,9
<b>Great Britain</b>	3,2	2,8	3,4	-0,8	-5,2	1,7	1,1	0,3
<b>Netherlands</b>	2	3,4	3,9	1,8	-3,7	1,5	0,9	-1,2
<b>Poland</b>	3,6	6,2	6,8	5,1	1,6	3,9	4,5	1,9
<b>Portugal</b>	0,8	1,4	2,4	0	-2,9	1,9	-1,3	-3,2
<b>Czech</b>	6,8	7	5,7	3,1	-4,5	2,5	1,8	-1
<b>Romania</b>	4,2	7,9	6,3	7,3	-6,6	-1,1	2,2	0,7
<b>Slovenia</b>	4	5,8	7	3,4	-7,9	1,3	0,7	-2,5
<b>Slovakia</b>	6,7	8,3	10,5	5,8	-4,9	4,4	3	1,8
<b>Spain</b>	3,6	4,1	3,5	0,9	-3,8	-0,2	0,1	-1,6
<b>Sweden</b>	3,2	4,3	3,3	-0,6	-5	6,6	2,9	0,9
<b>Hungary</b>	4	3,9	0,1	0,9	-6,8	1,1	1,6	-1,7

Source: [ep.eurostat.ec.europa.eu](http://ep.eurostat.ec.europa.eu)

From the analysis it appears that the actual level of economic growth has fluctuated markedly from one country to another, imposing measures to ensure a sustained pace. Attracting foreign investment, infrastructure development and job creation are elements that can cause a smart economic growth.

#### 4. Conclusions

From my point of view it cannot be determined exactly one level of indebtedness, as statistical data processing can generate results that do not quantify all the influences of various factors. In addition, the economic, political or social conditions are very different from one country to another, and expressing a generally valid opinion may lead to the application of rules or principles that may adversely affect the economic development.

However, a better coordination in terms of economic policies, banking sector reform and the review of the issues which lie at the basis of the foundation of the management strategies on budget deficits and public debt in order to restart the economic growth to prevent the occurrence of instabilities in the financial, economic and social field.

#### 5. References

- [1] Reinhart, C. M., and K. S. Rogoff, *Growth in a Time of Debt.*, American Economic Review, 2010
- [2] Herndon T., Pollin R., Ash M., *Does High public debt consistently stifle economic growth? A critique of Reinhart and Rogoff*, political Economy Research Institute, University of Massachusetts Amherst, no. 322, 2013
- [3] Roubini, N., *Debt Sustainability: How to Assess Whether a Country is Insolvent*, Stern School of Business, NY University, 2001
- [4] Krugman P., *The excel Depression*, The New York Times, The opinion pages, 2013
- [5] Dube A., *A note on debt, growth and causality*, Economist's View, 2013
- [6] Kumar, M.S., Jaejoon, W., *Public Debt and Growth*, Working Paper, No. 10/174, Washington, IMF, 2010
- [7] Gros D., *External versus domestic debt in the euro crisis*, Social Science Research Network, 2011
- [8] Socol A.G., *Sustenabilitatea datoriei publice în contextul crizei financiare*, Economie teoretică și aplicată, vol. XX, nr. 3(580), 2013
- [9] Mencinger J., Aristovnik A., Verbic M., *Impactul creșterii datoriei publice asupra creșterii economice din Uniunea Europeană*, Amfiteatru Economic, nr. 35, 2014
- [10] Croitoru L., *Vom avea deflație și surplusuri de cont current?*, [www.cursdeguvernare.ro](http://www.cursdeguvernare.ro), 2013



# Motivation of Revenue Specificity in Non-profit Organizations

Mihălașan Delia Corina  
University "Valahia" of Târgoviște  
[dellyya\\_c@yahoo.com](mailto:dellyya_c@yahoo.com)

Vitan Daniela  
University "1 December 1918" of Alba Iulia  
[daniela\\_v89@yahoo.com](mailto:daniela_v89@yahoo.com)

## Abstract

*This paper focuses on identifying the factors that determine the specificity of revenues from a non-profit organization and the challenges arising from these revenues in accounting.*

*To achieve these objectives, we studied both the literature and the law. From a practical point of view, we consulted accounting specialists from non-profit organizations on the subject of this paper.*

**Keywords:** non-profit organizations, specific revenues; determinants, accounting revenues

**J.E.L. Classification:** M 41

## 1. Introduction

This paper aims at identifying the factors determining the revenue specificity in a non-profit organization and also shows their reflection in accountancy and detection of potential problems, together with proposals for their resolution. Therefore, the hypothesis of the study can be summarized as follows: there are factors that determine the specific of revenues in non-profit organizations and their reflection in accountancy.

To achieve the above mentioned goal, we resorted to the study of literature and the legislation for the non-profit organizations. From a practical perspective, we initiated discussions with accounting practitioners in the non-profit field on issues related to the typical revenues in non-profit organizations.

The structure of the paper includes a brief presentation of the specific of non-profit entities, presentation of features specific to revenues and influence factors identified,

accounting revenue approach, the report on typical aspects and possible problems in accounting, and finally, conclusions and proposals.

## 2. Non-profit organizations in Romania

The name "nonprofit organization" is generally used to refer to those entities that are not aimed to make a profit. These organizations, in legal terms, in Romania take the form of associations and foundations as defined in Law no. 246/2005 approving Government Ordinance no. 26/2000 on associations and foundations as presented below:

-Association – is the legal entity formed by three or more persons who, according to an agreement, are pooling and not subject to refund material contribution, knowledge or contribution in labor with the purpose of carrying out activities in the general interest of some communities or, where appropriate, in their private prerogatives. [3]

-Foundation – is the legal entity established by one or more persons on the basis of a legal act between the livings or upon death and constitutes a patrimony permanently and irrevocably affected to achieve a goal of general interest or, as the case of some communities. [3]

-Federation – is the body established by the association of two or more associations / foundations for specific purposes.

The main difference between the association and foundation relates to the role of patrimony. While the foundation achieves its purpose based on patrimony, association generally meets its objectives through voluntary work. [1]

A non-profit organization is funded primarily through donations and works with

both employees and volunteers. In Romania these entities may hold three types of activity:

- non-profit activity - is the core business of the entity generated by its mission, purpose and objectives;
- special activity – the activity of protecting the copyright in certain cultural areas;
- economic activity - especially trade activity, but sometimes production related to the basic activity in order to finance non-profit activity.

In terms of revenues within a non-profit organization, the features mentioned are of particular importance.

### 3. Specific revenues and determinants

The revenues of non-profit organizations represent all the amounts of money available to them during a reporting period, amounts necessary for achieving the objectives set under the statute or programs. These amounts arise from the three types of activities that a non-profit organization may perform. Revenues represent amounts paid or donated by citizens, beneficiaries of activities, members or supporters of non-profit organizations.

In general, the specific aspects of an entity are determined by its core mission. Specific revenues generated within non-profit organizations are related to their scope of activity. The mission of any non-profit organization is related to society, to have a specific and predetermined impact on the community where they perform their activity or on a target group. This activity is non-profit (not aiming to increase it), without seeking to obtain profit or enrichment of founders / owners.

In this context, the work itself cannot generate revenues. As long as non-profit organizations provide services or perform pro bono activities, even if these activities do not generate revenues, they must nevertheless be funded. Their "return on investment" is the changing of the community where they act. To finance their activities, non-profit organizations conduct fundraising campaigns in various forms, after which they receive income in the form of donations and sponsorships. In Romania, the state supports non-profit organizations with legal

regulations regarding the ability of each individual to direct 2% of the income tax payable to a non-profit organization. Thus, many of the Romanian non-profit organizations link their fundraising campaigns to "project 2%", trying to convince as many people as possible to opt to direct to them that percentage of the tax payable to the state. The state also supports non-profit organizations by exempting them from income tax specific, derived from fundraising campaigns.

Revenues from donations and sponsorships are the main income category specific to non-profit organizations. Donations and sponsorships can be in cash or in kind. The goods received as sponsorship, in order to be reported in accountancy must be evaluated financially. In terms of material goods received from individuals, professional judgment must determine the best options for their evaluation.

The associative aspect of the organizations is mostly concerned with the interests of their members and / or a target group generates, at their level, the existence of income from contributions and membership fees of the individuals associated to found the respective non-profit organization.

In addition to the basic objective, non-profit organizations may conduct economic activity adjacent to their scope of activity. The economic activity is developed in order to supplement the income for non-profit activity, if this is not sufficient to fully support the core business. In Romania, these activities are generally trade, but there are cases when the organizations opt for the production of goods or rendering of services. In this type of activity, revenues are related to the turnover, as in the case of a trader. This is a common feature of non-profit organizations and the business sector.

Another influence on the specifics of non-profit sector income is collaboration with the state, with other organizations in the country or abroad or with the economic sector. Thus, non-profit organizations can get additional revenues from subsidies, grants, sponsorships. Those state-subsidized non-profit organizations share common features with the public sector because in both cases we refer to administration of public funds.

The economic crisis we have witnessed in recent years has as well influence on the revenue specificity of non-profit organizations. Civil society in Romania was, at the onset of the economic crisis, in an early stage, being poorly developed and operating mainly on grants received from various foreign non-profit organizations which opened their branches in our country. The context in which the majority of Romanian non-profit organizations learn to be financially independent, it is not therefore a normal, favourable one. Non-profit organizations encounter difficult situations in which they should find new ways of financing their activities. Many have opted for the conduct of economic activities, but there are attempts to conduct fundraising campaigns. These forms of financing are American-inspired, but they must be adjusted to the Romanian cultural context in order to be effective.

In our country, a category of non-profit organizations were regulated, which operate special activities, namely, they protect the copyright. These non-profit organizations are legally called "creator organizations" and are those non-profit legal persons whose members are artists in one of the following cultural areas: literature, cinema, theatre, music, folklore, arts, architecture and entertainment. Their income is special purpose revenues from stamp duty, therefore, public funds. The use of revenues thus obtained is restricted by Law no 35/1994 republished, for the following specific purposes:

- supporting cultural projects of national interest;
- taking part in interpretation and creation contests in the country and abroad;
- promoting actions involving Romanians abroad;
- support and protection of cinema, theatre and music;
- supplementing the funds to support the work of young creators and performers;
- material support of retired creators and performers;
- material support of journals belonging to creative unions;
- supporting the entry of valuable artistic works in the national and international circuit;
- honouring and perpetuating the memory of Romanian culture personalities and of national minorities in the country and abroad;
- enhancing the folklore and ethnographic heritage in Romania;
- financial support of the shows in which the creative works whose authors are Romanian or representatives of national minorities in Romania;
- financial support of the awards granted to creators and performers. [4]

From an accounting perspective, these revenues are treated separately depending on their type. Thus, for each type of stamp applied, a separate analytical account is created for their separate reflection.

*Table 1 - Classification of revenues in non-profit organizations*

Generating activity	Type of revenue
Non-profit activity	Revenues from fees and contributions in cash or in kind from members and supporters;
	Revenues from registration fees at various events set;
	Revenues from donations and money or goods received through sponsorship;
	Revenues from interest and dividends earned on cash from non-profit activities;
	Revenues for due tax on shows;
	The resources obtained from the state budget and / or local budgets and grants revenues;
	Income from occasional actions, used for social or professional purposes, according to the organization and operation statute;
	Revenue arising from the disposal of non-profit tangible assets owned by legal individuals, other than those related to the economic activity;
	Revenues from received shares, according to the statute;
	Aid and grants in the country and abroad and grants revenue;
	Revenues from insurance compensations - damages and subsidies for extraordinary events and the like;
	Revenues from exchange rate differences arising from non-profit activities and income from provisions from adjustments for impairment on operating activities and financial income

Generating activity	Type of revenue
	from adjustments for impairment;
	Revenues from sports visas, fees and penalties or participation in sports competitions and demonstrations;
	Revenues from advertising and publicity, according to the laws in force;
	Other income from non-profit activities
Economic activity	Operating revenues from sales of products and goods, performance of works and rendering of services, from production of property related to economic activity and from inventory change;
	Financial revenues achieved from financial assets, from short-term investments, from receivables, from disposal of financial investments, from exchange rate differences, from interest and discounts received from financial cuts;
	Extraordinary revenues achieved as a result of extraordinary events, such as revenues from compensation received for expenses or losses from disasters.
Special activity	Revenue derived from application of literary, cinema, theatre, music, folklore, fine arts, architecture and entertainment stamp

Source: own projection based on legislation [4],[5]

## 5. Reflection in accounting

Revenue recognition is achieved with the recognition of an asset or liability, a process which is reflected by increasing economic benefits of the organization. In practice, revenue recognition is limited to items that can be measured reliably and have a sufficient degree of certainty. Connecting revenue recognition to asset or liability recognition ensures the credibility of assessment and a high probability of achieving economic benefits. IAS 18 accounting standard lists the conditions to be fulfilled simultaneously for possible revenue recognition, as follows:

- the seller has transferred the significant risks and rewards of ownership of the goods to the buyer;
- the entity retains neither managerial involvement nor effective control over the goods;
- related costs can be measured reliably;
- it is probable that the economic benefits associated with the revenue will flow to the entity;
- the amount of revenue can be measured reliably. [6]

Even if we speak of accrual accounting, most revenues related to non-profit activity can only be measured reliably upon their effective receipt. To achieve some types of

revenue, contracts or partnerships are concluded or even finance projects are initiated. In this case, the date of employment and revenue recognition may be different than the actual receipt. Such revenues could be: revenues from sponsorships, revenues from advertising and publicity, revenues from the disposal of fixed assets related to non-profit activities, aid and grants in the country and abroad and revenue subsidies. Other revenues that can be committed before the effective receipt are those whose income is provided in the statute of the organization or additional documents. These are revenues from membership fees and income from share part received according to the statute.

As regards the revenue for special activities, the date of their recognition is the date of receipt. Recording the revenues concomitant with the receipt is motivated by the fact that there is no obligation to declare early the counter value of the stamps due by those working in one of the eight cultural fields listed in the law.

As for the revenues generated by economic activity, their recognition modality is similar to economic agents: either by the recognition of a claim, or when received. In Table 2, we summarized the accounting operations which are performed in relation to revenues, on generating activity type.

Table 2 - Revenue accounting operations

Nr. crt.	OPERATIONS	FORMULA
I.	Creating revenues from non-profit activities	
	Employment date coincides with receipt date	$\begin{array}{l} \text{Cash at bank 51} = 73 \\ \text{Cash in hand 53} \\ \text{Sundry debtors 461} \end{array} \quad \begin{array}{l} \\ \\ \text{Revenues from} \\ \text{non-profit activities} \end{array}$
II.	Creating revenues related to special activities	
	Employment date coincides with receipt date	$\begin{array}{l} 55 = 79 \\ \text{Special purpose} \\ \text{assets} \end{array} \quad \begin{array}{l} \\ \\ \text{Special purpose} \\ \text{revenues} \end{array}$
III.	Creating revenues related to economic activities	
a.	Production - obtaining finished products	$\begin{array}{l} 34 = 711 \\ \text{Products} \end{array} \quad \begin{array}{l} \\ \\ \text{Inventory change} \end{array}$
b.	Billing of products or goods sold	$\begin{array}{l} \text{Customers 411} = 70 \\ \text{Turnover} \end{array}$
c.	Receiving bills:	
	• for products or goods already billed	$\begin{array}{l} \text{Cash at bank 51} = 41 \\ \text{Cash in hand 53} \\ \text{Credentials 54} \end{array} \quad \begin{array}{l} \\ \\ \text{Customers and} \\ \text{similar accounts} \end{array}$
	• receipt concomitant with service and work billing	$\begin{array}{l} \text{Cash at bank 51} = 704 \\ \text{Cash in hand 53} \\ \text{Credentials 54} \end{array} \quad \begin{array}{l} \\ \\ \text{Revenues from} \\ \text{work performed and} \\ \text{services rendered} \end{array}$
II.	Attribution - settlement of expenses on the results	$\begin{array}{l} \text{Class 7} = 120 \\ \text{Revenue accounts} \end{array} \quad \begin{array}{l} \\ \\ \text{Profit and loss} \\ \text{for the period} \end{array}$

Source: own projection inspired by literature [2]

We mention that in terms of specific activity, the assets related to it are reflected by a specially created group accounts, namely group 55 "Special purpose assets". Depending on organizational needs, assets related to non-profit and economic activities can be reflected separately only by creating distinct analytical accounts for each activity performed. We recommend this treatment for better management of financial resources.

Revenues are accounted according to the generating activity, but expenses are accounted upon their nature. The costs of a particular activity are reflected in the accounts in analytical accounts opened on types of activities, a different treatment from that of revenues. Thus, revenue and expenditure approach is not uniform. This is driven by the specificity of existing revenues in a non-profit organization, which includes a much wider range than the costs that can occur. Costs are relatively similar to those of companies and for accounting uniformity, they are registered upon their nature, as in the case of businesses.

## 6. Conclusions and proposals

In this paper we have identified the factors that determine the revenue specificity

in non-profit organizations and we showed their influence not only in the generated specific revenues, but also their reflection in accountancy.

Influencing factors are primarily related to the mission of non-profit organizations and the activities they can perform, then to their funding method. Specific revenues arise from their ability to conduct business without profit (basic), economic and specific activity. Their funding is achieved in several ways, one being the collaboration with other non-profit organizations, with the state or other similar public bodies. Another way is through fundraising campaigns.

All revenues generated in this way are reflected in the accounting taking into consideration how they were achieved, some being recognized from the date of employment, others only when received.

## 7. References

- [1] Deaconu, S., C., *Particularități ale contabilității entităților*, C.H. Beck Publishing House, București, 2012.
- [2] Diaconu, Gh., Pitulice, C., *Contabilitatea financiară a organizațiilor non-profit*, Contaplus Publishing House, Ploiești, 2007.

- [3] Law no. 246 approving Government Ordinance no. 26/2000 on associations and foundations, published in (2005) Official Monitor of Romania no. 656.
- [4] Law no. 35/1994, on literary, film, theatre, music, folklore, fine arts, architecture and entertainment stamp, republished in 2008.
- [5] OMEF no. 1.969/2007 regarding the non-profit organizations accounting regulations published in Official Monitor of Romania no. 864bis/2007.
- [6] IAS 18 Revenue,  
[http://www.contabili.ro/index.php?option=com\\_content&view=article&id=613:ias-18&catid=85:ifrs&Itemid=117](http://www.contabili.ro/index.php?option=com_content&view=article&id=613:ias-18&catid=85:ifrs&Itemid=117), 15.10.2014.

## Controlling in Romania. A Literature Review

Mocanu Mihaela

Bucharest University of Economic Studies, Romania

[mihaela.mocanu@cig.ase.ro](mailto:mihaela.mocanu@cig.ase.ro)

### Abstract

*Nowadays, the controller is considered to be operating as a business partner of the management. Controlling acts as a vital managerial support that enables companies not only to survive, but also to succeed in the market economy. Despite its obvious importance, controlling in the Romanian academic literature has not received enough attention.*

*The paper's objective is to perform a thorough literature review on controlling in Romania. From a methodological point of view, the research consists in a literature review of papers published in Romanian renowned journals over the period 2014-2014.*

*The conclusions of the study are that, as expected, the Romanian literature on controlling is scarce. Some authors even mistake controlling for control. However, there are also papers that include empirical research or modern views on controlling such as socio-controlling. All in all, there is a gap in the Romanian literature regarding the topic "controlling".*

**Keywords:** Romania, controlling, literature review, management accounting

**JEL Classification:**M49, M10

### 1. Introduction

Currently, the controller is considered to be operating as a business partner of the management. His tasks are not only to put information at the management's disposal, but also to actively prepare and accompany the decision-making process and to conduct a professional dialogue among the individual business units and functional areas of the company. The controller is both a financial specialist and an internal consultant of the company, sees both in the past and in the

future, is characterized by proactive behavior and holistic communication. Therefore, the importance of controlling in a company nowadays is without any doubt really high.

However, controlling in the Romanian academic literature has not received enough attention. Just a few doctoral theses have been written on the topic of controlling: [1] "From the monopolist controlling towards competitive controlling" (Bucharest, 2009) – thesis written by Sin (Cazacu) Violeta under the supervision of professor Dumitrana Mihaela; [2] "Bank controlling, integrated concept of performance-oriented management" (Bucharest, 2011) – thesis written by Mihaela Mioara Găman under the supervision of professor Țurlea Eugeniu; [3] "Controlling – A Management Instrument. Controlling in Romania" – thesis published in 2006 by Valentina Oargă in Timișoara (Oargă, 2006a)

The paper's objective is to perform a thorough literature review on controlling in Romania. The research is focused on papers published in well-renowned Romanian academic journals, as such papers gain the most international public and thus were considered by the author as being the most relevant. From a methodological point of view, the research consists in a literature review, whereas the reviewed papers belong to the journals that were classified as B+ by the Romanian authority and were published between 2004 and 2014. The paper is structured as follows. First, the author offers an overview of the research methods used. Secondly, a thorough literature review based on the identified papers is presented. Last but not least, the conclusions of the study are detailed.

### 2. Research design

The research objective was to identify and analyze the papers on the topic "controlling" that have been written in the past ten years,

between 2004 and 2014, in the Romanian academic literature. For this purpose, the author accessed all numbers and volumes of relevant Romanian journals in the area "business and economics" over the mentioned timeframe.

Relevance of journals was established based on the classification of the National Council of Scientific Research in Higher Education (CNCSIS – Consiliul National al Cercetării Științifice din Învățământul Superior). The most recent list of journals classified by CNCSIS in the category B+ was used. These journals meet performance criteria such as score, publication frequency, abstracts and keywords, website and, moreover, are indexed in at least one prestigious international database.

From these journals, the author selected for in-depth investigation those papers that mentioned the term "controlling" in their title and/or abstract and/or keywords and/or content. The focus of the research lies on papers and not on books or doctoral theses, because the papers are the ones that have the highest international visibility and thus are truly representative for the Romanian academic literature.

### 3. Literature review

This section presents the literature review performed in the field of controlling. Some papers initially identified as relevant according to the search criteria have been found as irrelevant at a more in-depth analysis. Such works have been excluded. There are papers such as [4] in which the term "controlling" is used as a Gerund from the verb "to control". In some other papers such as [5], the term "controlling" is wrongly used, for "control". In [6], controlling is used interchangeably with control. Some papers are not about controlling in the financial field, but about project controlling ([7]), marketing controlling ([8]; [9]) or quality controlling ([10], [11]). In [12], controlling is only mentioned tangentially.

Several other relevant papers emphasize the importance of controlling. [13] argues the significance of controlling, by underlining the challenges faced by managers nowadays (uncertainty, competition, new technology etc.) and the support offered by controlling in dealing with such challenges. [14] also

supports the idea that controlling is important, considering that it is indispensable for improving business performance and for maintaining the competitive advantage, as managerial support in strategic and operational decision making. The paper is also valuable because she clearly explains the difference between controlling and control.

An overview from the practice of controlling in Romania is given by [15], who states that currently, controlling is practiced in over 90% of German organizations, in more than 70% of Austrian ones and in over a third of Hungarian ones. Accurate data are not available for Romania, but it is likely that less than 10% of organizations use this management tool in their activity. A previous research of the author shows that controlling is applied in companies in the light industries such as textiles, paper, cellulose and cardboard manufacturing, textile, fur and leather materials manufacturers, the chemical industry (rubber and plastics manufacturing). The organizations that practice the use of controlling in Romania are usually local branches of international companies.

There are also empirical papers on controlling in Romania. Of particular interest is [15], which is one of the few empirical researches on controlling in Romania. The research method used was the in-depth interviewing of Alexander & Son Timisoara's controller. The interview was carried out with a controller who works in the company we are presenting. The interview took place in June 2009 over the course of five meetings, each meeting lasting an average of 2-3 hours. An open-ended questionnaire was applied, which allowed the respondent to provide answers in his own words. The paper describes the company. Alexander & Son Timisoara, Romania: the object of activity, the Customer Focus Team, production process and information flows, as well as the Controlling activity.

In this context, another relevant paper is [13], which is also practice-oriented. The research consists in a proposal for implementing controlling in a Romanian retail company. First of all, the author presents the company: name, location, activity, departments, and processes, management attitude and tasks. This investigation revealed the following strengths: the company has a form of



controlling, visible through the management orientation towards the objectives, the future, the discipline, the accuracy, the planning etc. However, there are some weaknesses, as well as management objectives still not met. Starting from this diagnosis, the author presents in detail each stage necessary for implementing controlling: the pre-stage, the introduction stage and the stage of assessing and improving the new implemented system.

[14] pleads for cost analysis relevant to the decision-making process and for the target - costing method as part of controlling. The main source of information for the controller is the accounting system. Thus, the activity of the controlling department depends on the ability of the accounting to provide accurate, complete and timely pieces of information. Therefore, traditional accounting should shift to management-oriented accounting. The target-costing method is considered appropriate within this framework. The controlling of target costs aims to ensure long term competitiveness of a new product released. A practical example of applying the target-costing method is described. The author's conclusion is that cost analysis and target - costing enable an effective controlling.

Rather modern in approach is the research in [16]. The research aims to enlarge the conceptual framework of controlling, to identify several human resources controlling specific aspects and to ensure a set of indicators for human capital assessment and socio-controlling. On the other hand, a traditional perspective on controlling is that in [17]. The author is in favor of "management by systems", according to which the economic entity is composed of several subsystems having determined actions and relationships between them, exchanges resources with its environment and is disturbed by internal factors (unsatisfied employees, damages to equipment) and by external factors (legal environment). The task of measuring the processes and relationships belongs to accounting. This paper introduces the notion of controlling in public institutions in Romania, as a mean to interpret accounting reports and give to the public management the necessary decisional infrastructure. First, the author defines each of the components of the measuring subsystem of the entity:

accounting, controlling and auditing. Then, the inter-connections between those three are underlined and argued.

#### **4. Conclusions**

As expected, the Romanian literature on controlling is scarce. Some authors mistake controlling for control or some papers first identified as having the topic "controlling" use in fact just a gerund of the verb "to control". The focus of the present research is controlling in the financial field, but some papers are about other kinds of controlling, such as project controlling, marketing controlling or quality controlling. A positive sign is that the papers that indeed deal with controlling emphasize its importance as managerial support. Moreover, there are also empirical papers that describe in detail the controlling system of a real company in Romania or that propose the implementation of such a system step by step. According to expectation, controlling is also linked to concepts from the managerial accounting such as target-costing or cost analysis. Surprisingly, controlling is also analyzed in connection to public institutions. There is also research that takes into consideration the last developments in controlling, dealing with the so-called socio-controlling. However, all in all, the literature review performed shows a serious gap in the academic literature on controlling in Romania.

#### **5. Acknowledgement**

This work was co-financed from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

## 6. References

- [1] Sin (Cazacu) V. (2009), *De la controlling-ul monopolist la cel concurențial*, doctoral thesis, supervisor Dumitrana Mihaela
- [2] Găman M. M. (2011), *Controlling bancar, concept integrat de conducere orientat spre obținerea de performanță*, doctoral thesis, supervisor Țurlea Eugeniu
- [3] Oargă V. (2006a), *Controlling – A Management Instrument. Controlling in Romania*, AUGUSTA & ARTPRESS Publishing House, Timișoara
- [4] Someșan C., Rosu A. (2008), SMEs Romanian Developing Trends in the Context of Globalization and European Integration, *Studia Universitatis Vasile Goldis" Arad Seria Stiinte Economice* 18/2008 Vol. I
- [5] Szabone Bohus M. (2010), The Reliability of Accounting Information, *Studia Universitatis, "Vasile Goldis", Arad, Seria Stiinte Economice*, Anul 2010, Partea I, Arad, pg. 48-52
- [6] CUCUI G., OBREJA C. (2009), Controlling, an indispensable activity for performance management, *Section Sciences Economiques*, No.29/2009
- [7] BUȘE F., SIMIONESCU A., BUȘE G.F., The fundamentation of taking decisions and coordinating for controlling in projects management, *Revista de Management și Inginerie Economică*
- [8] POP N. A., PELĂU C. (2005), Elemente de controlling în marketingul relațional – metode de evaluare a clienților, *Revista de Management și Inginerie Economică*, 4, nr. 3, pp.43-52
- [9] Pelau C. (2007), Structuri organizatorice la nivel de întreprindere pentru implementarea marketing-controllingului, *Management & Marketing*, pg. 133-142
- [10] Mateides A., Pohančanik P. (2007), Some aspects of quality controlling, *Studia Universitatis, "Vasile Goldis", Arad, Seria Stiinte Economice*, VOL I 17, 2007, Arad 2007, pg. 187-194
- [11] Krištofik P. (2007), Cost aspects of total quality management, *Studia Universitatis, "Vasile Goldis", Arad, Seria Stiinte Economice*, VOL I 17, 2007, Arad 2007, pg. 77-86
- [12] Puscas A. (2009), Rolul calculatiei costurilor in procesul decizional, *Studia Universitatis, "Vasile Goldis", Arad, Seria Stiinte Economice* 19/2009, Partea. I
- [13] Oargă V. (2006b), Proposal of Controlling Implementation in a Romanian Company, *Economie Teoretică și Aplicată*, Anul XIII, Nr 10(505), decembrie 2006, pag.61-66
- [14] TULVINSCHI M. (2010), Relevant Costs for Decision in an Effective Controlling System, *Theoretical and Applied Economics*, Volume XVII (2010), No. 5(546), pp. 49-58
- [15] Oargă V. (2009), "Controlling" as a Unit of Production Planning and Control. Romanian Case Studies", *The Romanian Economic Journal*, Year XII, no. 34, (4) 2009
- [16] DASCĂLU C., DUMITRANA M., CARAIANI C. (2007), Controlul de gestiune și gestiunea resurselor umane, *Journal of Accounting and Management Information Systems* 19-2007, pg. 42-58
- [17] DUMITRESCU A. (2012), Improving public sector performance by strengthening the relationship between audit and accounting, *Theoretical and Applied Economics*, Volume XIX (2012), No. 11(576), pp. 85-90

# Competition Structures and Trends in The Banking System of Romania

Munteanu Irena  
„Ovidius” University of Constanta  
[irena.munteanu@yahoo.com](mailto:irena.munteanu@yahoo.com)

## Abstract

*In time, the structures of the market and concurrency have represented the key points of the European economic and financial system.*

*Banking competition ensures the existence of superior quality products and services for the final consumer, a higher innovation degree, smaller prices. It also allows efficient banks to enter the market or to expand to the detriment of the inefficient ones.*

*Nevertheless, there are negative effects of competition, as well. Alan Greenspan once remarked the fact that intense banking competition could lead to a decrease in profit margins and could encourage hazardous investments, which could, in turn, generate financial instability and induce systemic risks. Therefore, there must be found a balance between ensuring banking stability and maintaining free competition.*

*The present article is an analysis of the competition tendencies in the Romanian banking system during 2012-2013 based on the data published by NBR.*

**Keywords:** banking competition, banking concentration, Herfindahl Hirschman index, banking system, concentration rate.

**JEL Classification:** L11, L22, L40, D4

## 1. Introduction

Banking systems, in general, and the Romanian system in particular, can be subjected to a series of characteristics, determined by a series of specific indexes, with the purpose of observing its level compared with third countries banking systems. Among these, there are: the diversity of a banking system, the level of development of a banking system, the concentration of a banking system, the credibility and diversity of a banking system,

the progress of purchase and merger operations.

All these characteristics could be commensurate by taking into account a series of specific indexes. These could be represented by structural indexes of the banking system, development degree measurement indexes of the banking system, as well as assessing its competition. Within this paper, the latter category indexes are going to be predominately analyzed.

Banking systems can contain universal or specialized banking institutions, large, medium or small banks in variable proportions, in greater or smaller amounts. The diversity of a banking system is also analyzed from the perspective of capital source (public, private, mixed, etc.), organization form, etc.

National and international legislative regulations decisively influence the diversity of a banking system. In Romania, the banking system includes universal banks; Romanian companies settled as stock companies; public, mixed or private capital banks and foreign banks branches.

The structure of the Romanian banking system maintained relatively unchanged in 2013 and in the beginning of 2014. The amount of credit institutions remained the same, the only change being the transformation of RS Bank from subsidiary to branch of a foreign capital bank. There are 40 banks activating in the Romanian banking system: 24 with majority foreign private capital, 4 with majority Romanian private capital, 2 with majority or entirely state capital and 9 foreign banks branches; these are completed by a credit cooperative organization. Over 2013, 18 institutions notified NBR of their intention to offer directly financial services on Romanian territory, based on the European passport.[1]

The Romanian banking system presents a high degree of connectivity with the

European banking system, being majority owned by foreign capital.

The credit institutions with majority foreign capital owned 81 percent of the actives of the banking system in June 2014.

## **2. Concentration and competition – conceptual delimitations**

The process of banking consolidation implies the formation of financial conglomerates. Financial conglomerates, or financial groups, are entities formed of different financial institutions operating on various segments of the financial markets. Banks are usually the ones initiating the formation of financial conglomerates as they wish to enter other sectors of activity. In this context there is an accentuation of the banking operations universalizing process and market competitiveness increase.

There is a double determination, cause – effect, relationship between banking environment influencing factors and banking competition as they intensify each other. Thus, financial innovation, purchases and financial consolidation appear as outcomes of competition manifestation in the banking field, but they also lead to its amplification.

Studies demonstrate that there is a correlation among banking markets competition, banking concentration and bank performance. [2]

Concentration and competition are connected to product market and geographical areas, both in theory and empirical analyses. Banks offer a variety of products that do not address a single market, thus defining a relevant market implies a preliminary decision regarding the potential relevant structural characteristics, such as concentration and competition. (Kottmann, 1974) [3]

Competition in the banking sector should produce the same effects as competition in other sectors, which is to improve efficiency and favor innovation, thus leading to a greater variety of products, lower prices, a greater access to financing and better services. [4]

The determination of the concentration degree and competition are presented as being of capital importance in the development of public policies aimed at

market structure and banking market behavior.

Specialty literature regarding competition assessment is divided into two categories: structural and non-structural methods. The main structural approaches are: "Structure-Conduct-Performance Hypothesis" (SCP) and "Efficient Structure Hypothesis" (ESH). The structural method, as the title infers, analyzes the banking competition starting from structure indexes, such as concentration rate (the market share owned by the first three or five banks in the system) or the Herfindahl-Hirschman index (HHI) and supposes that a great banking concentration within the banking system implies a weaker competition within the banking system and an increase of profitability. [5]. The SCP model was promoted for the first time in Bain (1956).

The second model, ESH, was developed by Demsetz in 1973 and Peltzman in 1977, and supposes that the superiority of the market leader profitability determines the structure of the market, suggesting that high efficiency leads to an increase of the concentration degree and a greater profitability.

There is a large number of studies approaching these banking competition and concentration assessment indexes. There have also been made country level studies, for instance: for Germany – Hempell in 2002, Gischer and Stiele in 2008; for Italy – Coccoresse in 2004, for Greece – Hondroyannis et al in 1999, Coccoresse in 2005; for Spain – Maudos and Perez in 2003 Carbo et al in 2003; for Finland – Vesala in 1995; for Canada – Nathan and Neave in 1989; for Japan – Molyneux et al, 1996. Some studies approach the banking competition in Central and Eastern Europe (CEE) using non-structural indexes, such as : Mamatzakis et al. (2005); Drakos and Konstantinou (2005); Delis (2010). Among the countries analyzed in these studies, there is Romania.

The studies made exclusively for Romania are very few. We mention Andrieș and Căpraru in 2011, which use the structural indexes (CR5 and IHH) in order to assess the banking concentration degree over 2003-2009 and come to the conclusion that, over the analyzed period, the banking concentration degree increased and was

characterized by a monopolistic-like competition. The study was expanded in 2012 by Mereuță și Căpraru. [6] [7]

### 3. Banking system competition analysis in Romania over 2002-2013

Among the most used concentration assessment instruments there are the banking Concentration Ratio, (CR) and the Herfindahl –Hirschman index (HHI).

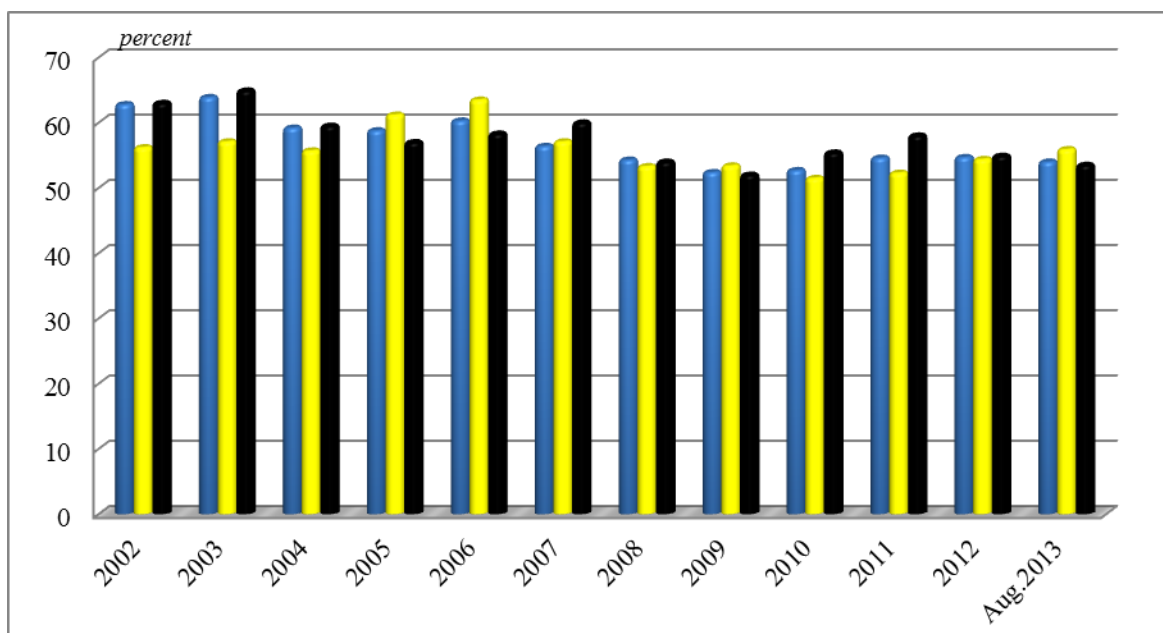
The present study analyzes the two indexes over 2002-2013.

The 2002-2005 period displayed a maintained high banking concentration degree. At the end of 2003 the first five banking institutions dominated the local market with a 61.7% of the total actives, growing with 1.1% compared with the previous year. These were: the Romanian Commercial Bank, BRD - Groupe Société

Générale, Raiffeisen Bank, Cec, ABN Amro Bank, holding the same positions at the end of 2004. At the end of 2005 the first five were the Romanian Commercial Bank (RCB), BRD - Groupe Société Générale, Raiffeisen Bank, HVB Bank, BancPost. They owned 58.8% of the aggregated balance actives, 57% of attracted deposits and 61.2% of the total given credits.

2006 was characterized by an increase of the banking concentration degree along with an increase of the majority foreign capital banks weight and of the HH index, although competition in the banking sector continued to grow. At the end of 2006 the first five positions, after actives size, were occupied by: RCB, BRD - Groupe Société Générale, Raiffeisen Bank, HVB Țiriac, Transilvania Bank. They owned 60.3% of the aggregated balance actives, 58.3% of attracted deposits and 63.5% of the total given credits.

Fig. 1. Romanian banking concentration over 2002-2013 (CR 5 Assets; CR 5 loans; CR 5 deposits)



Source: Own development based on the statistic information published by NBR

The entrance on the Romanian market of renowned foreign banks and the clearance of the banking sector led to a strong competition among the banking operators. In this context, the last years were characterized by the following situation; the market shares owned by the local banks were diminished in favor of the foreign segment. The accentuation of the competition environment imposed strategy changes for the small and medium

banks (through mergers and purchases) so as to reasonably increase their capital, as their long term self financing capacity got reduced compared with the big market players.

The 2007-2009 period was characterized by a decrease of the banking concentration degree. This diminution of the market shares in favor of the smaller banks happened over the increased attractiveness and diversification of banking products, of the

aggressive portfolio enlargement policy and the increase of the competition.

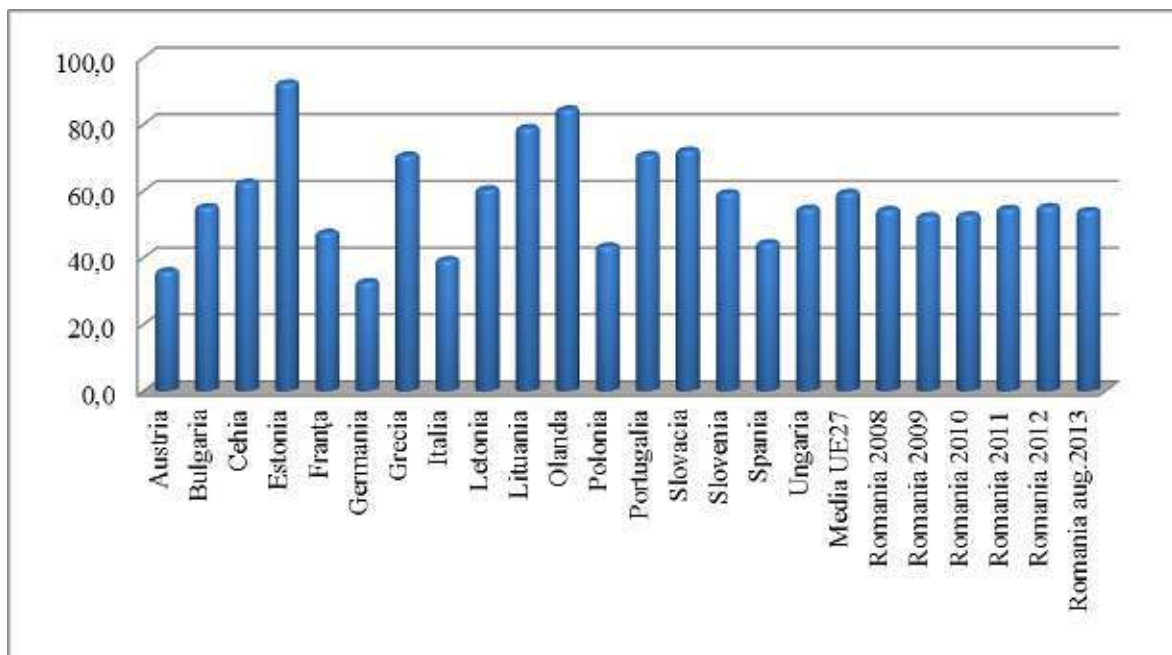
Over 2010-2012, the banking concentration degree registered a slight growth attaining 52.75% of the total actives in 2010 and 54.7% in 2012. This reveals the companies' and population orientation tendency towards positive visibility credit institutions. On the 31<sup>st</sup> of December, 2012, the top five Romanian banks were: RCB with 19.3% market share, then BRD with 13%, Transilvania Bank with a market share of 8.08%. This bank holds notable growths and is yearly consolidating its position regarding market share after the nature of actives. The fourth position is occupied by Cec Bank with 7.35% and the fifth place by UniCredit Ţiriac Bank with 6.85%., which switched places

with Raiffeisen Bank, occupying now the sixth place.

According to the published data for 2013, the top 5 most competitive banks after the nature of actives were: RCB (19%), BRD (12.7%), Transilvania Bank (8.5%), Raiffeisen Bank (7.1%), Cec Bank (6.7%) and UniCredit Ţiriac Bank went to the sixth place, compared with the fourth place in 2012, with a market share of 6.5%. (Fig.1)

Over the entire analysis period we can see that the Romanian Commercial Bank is the unchanged leader of the top most competitive banking institutions activating in Romania. Even after the finalization of the privatization process in 2006, it continued to be at the first in the top.

Fig.2. First five banks market share – international comparison (CR 5 assets)



Source: Own development based on the data published by NBR (data series 2011-2013)

The weight of the five largest credit institutions in aggregated actives situates Romania at a level inferior to the European Union member states average over the entire analyzed period (the data for EU are at 2010 level). Bulgaria's case is similar to Romania's banking system. It holds a moderately competitive banking market with a market share of the first five banks in total actives of 55.5% and the HH Index has a level of 789 units (Fig. 2) and a reduced

number of credit institutions - 30. Another comparable example is the Czech Republic which has a banking market clearly competitive inferior to the Romanian one. It has 37 banks and foreign banks branches and 17 banks, the market share of the first five banks in total actives of 62.4% and the HH Index has a level of 1,042 units, while the Romanian banking system consists of 42 credit institutions in December 2010, and the

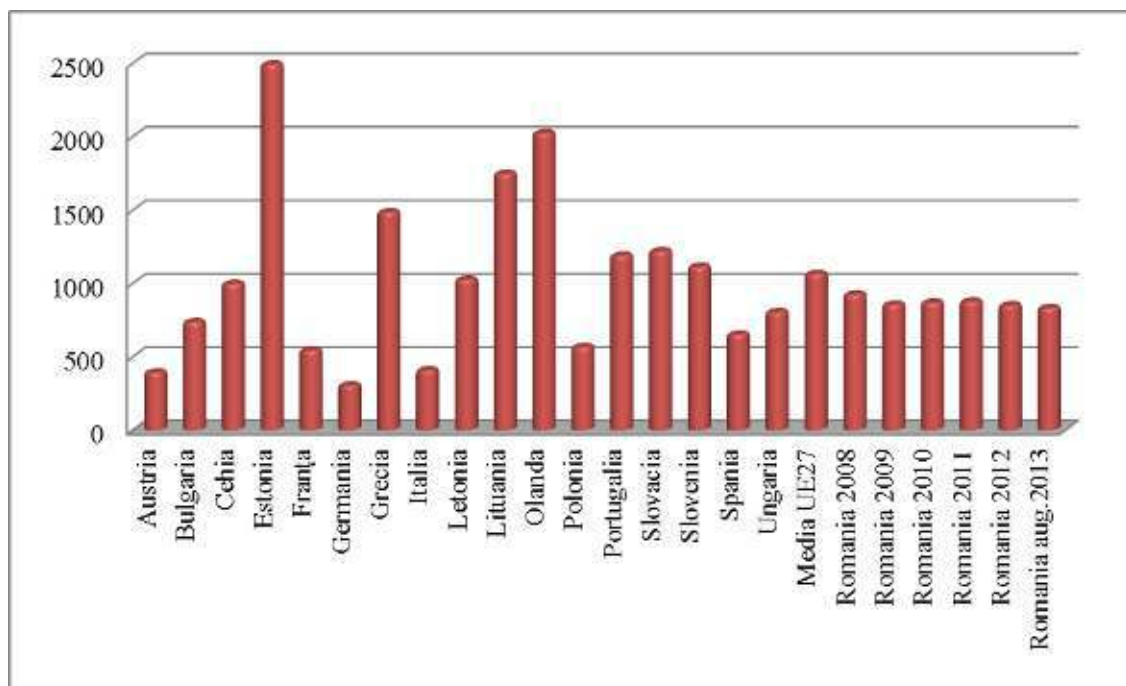
banking concentration indexes have the levels of 52.7% and 871 units.

If we relate to countries like Lithuania and Estonia, we observe that from the point of view of the banking concentration the Romanian banking market is much more competitive than that of these states. In Lithuania the market share of the largest credit institutions in total actives is of 78.8%, while the HHI has a level of 1,545 units and the banking system is formed of 9 commercial banks, 8 branches and 5 subsidiaries of foreign banks. All this indicates that the Lithuanian is very concentrated and the competition is weak.

But, if we relate to countries such as Germany, Great Britain or Austria, we note

that Romania has a much less competitive market than these countries. Thus, the German banking market is formed of 1,989 credit institutions and the indexes of banking concentration reveal levels of 33% and 307 units, while the Austrian banking market has 867 banking units and the indexes of banking concentration reveal levels of 36.5% and 395 units. All these figures prove the fact that the banking systems of countries like Germany and Austria are strongly competitive and situate the Romanian banking market below the level of these financially and economically developed states.

*Fig. 3 Herfindahl- Hirschman Index over actives*



Source: Own development based on the data published by NBR (data series 2011-2013)

The Herfindahl-Hirschman Index, calculated over the nature of the actives, confirms the moderately concentration level that places our banking system below the average of all the European Union member states. This index is at a superior level compared with developed community countries such as Spain, Germany, France, but also with Romania neighboring countries, such as Hungary, Bulgaria, Poland, which

means that in Romania there is a reduced number of banking institutions that own a significant influence in the local banking system compared with the above mentioned community states.

#### 4. Conclusions

A high degree of banking concentration points out that the same amount of banks has

the control over a larger market share and this could determine an uncompetitive behavior. In most cases there is a significant relationship between concentration and competition. Concentration has increased on the Romanian banking market, especially after the financial crisis, mainly due to the elimination of certain competitors.

The analysis of bank concentration revealed that the Romanian banking system has a concentration comparable to that of other EU countries. As to the concentration degree over the actives, it has registered the level of 62.8% in 2008, 54.7% in 2012 and 54% in 2013. These values indicate a moderately competitive banking market. We must mention the fact that Germany, a state with a financial intermediation degree net superior to that of Romania, has a banking concentration degree related to actives of 33%.

From the Herfindahl- Hirschman Index perspective, we discern a relaxation of banking concentration over the analyzed period: the HHI had 1381 units in 2002 and 834 units in 2013.

Since the banking concentration degree expresses the weight of the aggregated active, credit or deposits of the first five banks in a banking system in total actives, credit or deposits, respectively, following the analysis of the topmost five credit institutions, we have seen that the Romanian Commercial Bank and BRD – GSG occupied the first two positions in the top market shares holders after the nature of the actives, every single year. But, after the start of the financial crisis and its impact on the Romanian banking system, these banks have reduced their market shares and have even had losses and negative levels of banking performance assessment indexes in 2012. Nevertheless, the two banking institutions have remained at the top biggest banks, occupying the same positions that consecrated them.

As a future study direction, we set to approach the relationship between CR4 and IHH as the theme is of present interest. [8]

## 5. References

- [1] NBR - *Financial Stability Report*, 2014 pp. 21-22
- [2] Căpraru B., “*Activitatea bancară: sisteme, operațiuni și practici*”, Editura C.H. Beck, București, 2010, pp.27 -33
- [3] Jacob A. Bikker, Katharina Haaf, “*Measures of Competition and Concentration in the Banking Industry: a Review of Literature*”, *Economic & Financial Modelling*, 2002, pag. 2
- [4] OECD, “*Competition, Concentration and Stability in the Banking Sector*”, 2010, pag.18
- [5] Deltuaitė V., Vaškelaitis V., Asta Pranckevičiūtė “*The Impact of Concentration on Competition and Efficiency in the Lithuanian Banking Sector*”, *Engineering Economics*, Nr. 4, 2007, pag. 2
- [6] Mereuta C., Căpraru B., “*Competiția bancară în România. O nouă abordare structurală*”, pag.3
- [7] Andrieș A. M., Căpraru B, *Competition and efficiency in EU banking systems*, *Baltic Journal of Economics*, Baltic International Centre for Economic Policy Studies, 2012, vol. 12(1), pp 41-60,
- [8] Naldi M., Flamini M. *Corelation and concordance between the CR4 Index and the Herfindahl-Hirschman Index*, 2014, SSRN 2502764, 2014 - papers.ssrn.com



## Linguistic Issues Regarding the Financial Reporting in Romania

Nichita Elena Mirela  
Bucharest University of Economic Studies  
[mirela.nichita@cig.ase.ro](mailto:mirela.nichita@cig.ase.ro)

### Abstract

*Financial reporting and its quality is the subject of numerous studies and research in specialized accounting literature, particularly in recent years when the crisis caused a significant number of reorganizations and changes in the structure of the entities. Using a longitudinal qualitative research, this study reveals a short history of Romanian financial regulations regarding the financial reporting, and its impact on the evolution of numbers of entities in Romania. Modern financial reporting provides useful information to investors, but must be understood very well the economic, political and social environment. The research will present statistics about new-born companies and bankrupt (winding-up) companies in Romania, for the last years. This study will analyse the impact of changes in accounting regulations upon the investors' attitude to create or not a business in Romania.*

**Keywords:** Financial reporting, Romania, International Financial Reporting Standards, evolution

**JEL Classification:** M10, M40, M41

### 1. Introduction

The process of financial reporting of business activities underwent a great change over the last few decades. In this regard most countries in the world have revolutionized their accounting practices especially during the last few decades of the 21<sup>st</sup> century [1]. Such revolutions encompass the adoption and adaptation of local accounting practices and harmonizing it with that of the International Financial Reporting Standards (IFRS) formerly International Accounting Standards (IAS). This revolution is started in 2002 when European Union made it mandatory for

publicly traded companies to present consolidated financial statements in conformity with International Financial Reporting Standards starting from January 1<sup>st</sup>, 2005.

### 2. Financial reporting in Romania – at a glance

Coming back in history, the first Romanian state was created in 1859, being the union of Moldova and Walachia; now were issued The Organic Regulations that represent the first Romanian legal regulations for accounting. Researches cannot locate the first use of double-entry accounting in Romania; some evidences show that from 15<sup>th</sup> and 16<sup>th</sup> centuries, royal courts, monasteries and cities had an accounting memorandum system that was persisted and evolved until the 19<sup>th</sup> century. In the first half of 19<sup>th</sup> century large retailers used double entry accounting [2] [3] and the first book presenting this system was translated and published in the same period [4] [3]. At the end of 19<sup>th</sup> century and earlier of 20<sup>th</sup> century, the Romanian economy increased in industrialization. The Bucharest Stock Exchange (BSE) was established in 1882 and reached its peak in 1939 [3]. Inspired by French and Italian model, it was created first economic universities in Bucharest (1913) and Cluj Napoca (1920). In this period professors Iacobescu and Evian have an important contribution in developing accounting as an academic subject. The Body of Chartered Accountants was created in 1920. The World War II brings to Romanian economy a new model: soviet, centralized and planned model, focusing mainly on heavy industry sector. This model had a Marxist ideology: accounting represent a tool for controlling.

Fall of communism era in 1989 created chaos in Romanian economy: now, we turn toward a market economy; the costs are high:

inflation rates rose to 256% in 1993 (World Bank, 2003), and unemployment rate also rose, and political issues were more important than economical.

Some researchers [5] believe that financial reporting in Romania can be divided into three stages:

- E1 - period 1991-2000: continental accounting reporting;

- E2 - 2001 - 2005: accounting reporting Anglo-Saxon;

- E3 - 2006 - present: accounting reporting mixed with Anglo-Saxon accents.

First period it is French inspired accounting system; this system was compatible to Romania, due to the fact that the both countries had the Roman civil law, patrimony based accounting tradition and national chart of accounts. Both academic and regulators work together to implement this accounting model. Romania received French consultancy regarding the development of accounting system. Taking into the account the new political goal – EU accession (the negotiation process starts in 1993) in 1999, Romanian regulators propose a new system inspired by anglo-saxon model too; the researchers name this system *hybrid accounting system* [3]. Even the system is based on Chart of accounts and interlocking accounting system, the patrimony based perspective is abandoned. Year 2005 brings new changes in accounting regulations and a new order was issued: now, applying IFRS in individual financial statements is possible on a voluntary base (13 listed companies applied voluntary IFRS as a pilot test). Starting 2012, the listed companies have to prepare financial statements under IFRS – full IFRS implementation. The companies which apply for the first time the IFRS in individual financial statements will prepare comparative statements, as required by IFRS 1 First – time adaptation of IFRS.

The trend is to apply IFRS as base for financial reporting; applying standards requires some costs [6]. The research reveals that cost of adoption of IFRS represent 0.0035 % of operating expenses of investigated entities (62 companies, in 2004). The most important cost is related to personnel training (94.7%), adjustments of information system (71.1%) and consultants fees (65.8%). Another published paper [7]

confirms the components of costs of adoption of IFRS.

The benefits of IFRS implementations are:

a) Increase in transparency and greater relevance for users of accounting information;

b) Change in international perception towards Romanian economy;

c) Boosting the capital market and the insurance sector [8];

d) The possibility of accessing international financing [9], [10], [11];

e) The use of fair value [10];

f) Decrease in forecast errors, the use of fair value and extensive disclosure requirements [10].

### 3. Linguistic issues regarding the financial statements

According to Romanian Regulations, the financial statements are classified as:

a) Annual financial statements – for individual entities, applying order 3055/2009;

b) Simplified annual financial statements – for individual entities, that apply simplifies accounting regulation, especially SMEs;

c) Annual financial reporting – in case of winding – up process;

d) Financial statements compliant with IFRS – individual and consolidated statements of companies subject of order 1286/2012.

In order to determine what financial statements to prepare (annual or simplified financial statements) the Romanian regulator established size criteria:

- Turnover is greater than 3.650.000 EUR;

- Total assets are greater than 7.300.000 EUR;

- Number of employees is greater than 50.

The financial year covers 12 months, and ends at 31 December, exception for start-up and winding-up entities.

### 4. Classification of entities

The Law 246/2004 presents the types of Romanian entities by size, as follows:

Table 2. Classification of entities in Romania

	No of employees	Turnover <b>OR</b> total assets	
Micro entities	Less than 9 employees	Less than 2 millions EUR	Less than 2 millions EUR
Small entities	10 to 49 employees	Less than 10 millions EUR	Less than 10 millions EUR
Medium entities	50 to 250 employees	Less than 50 millions EUR	Less than 43 millions EUR
Large entities	More than 250 employees	More than 50 millions EUR	More than 43 millions EUR

Source: Author presentation based of Law 246/2006

These companies apply the rules provided by order 3055/2009. A complete set of financial statements comprises:

- The balance sheet (F10);
- The profit and loss account (F20);
- The statement of non-current assets (F30)
- Other information (F40): current / non-current liabilities, share capital; average number of employees;
- Accounting policies comprise information grouped as follows:
  - ▶ Note 1. Non-current assets;
  - ▶ Note 2. Provisions;
  - ▶ Note 3. Distribution of income
  - ▶ Note 4. Analysis of operating income
  - ▶ Note 5. Statement of receivables and liabilities
  - ▶ Note 6. Principles, policies and accounting methods
  - ▶ Note 7. Affiliates and financing sources
  - ▶ Note 8. Information related to employees and board
  - ▶ Note 9. Financial indicators
  - ▶ Note 10. Other information

### 5. Reporting for a special category of entities

A special category of entities characterized by:

- Turnover less than 35,000 EUR and
- Total assets less than 35,000 EUR apply simplified accounting system. The characteristics of this system are:
  - Simplified Chart of accounts;
  - Simplified balance sheet;
  - Simplified profit and loss account;

### 6. Reporting for winding-up entities

Into the bankruptcy phenomenon, 20 years post-revolutionary highlights two trends: first trend is taking place during 1995-2005 and is marked by the collapse of banks and industrial giants, and powerful second wave of bankruptcies is caused by the financial crisis started in 2008.

a. Thus, the first period (1995-2005) is characterized by failure of state banks, pyramid schemes and the disappearance of communist industrial giants, the largest bankruptcy taking place now. The largest bankruptcies Bancorex (2,000 million), Agricultural Bank (950 million), FNI (730 million) occur in this period.

b. The second period reflects the effects of financial crisis: Creditors not held accountable either name or size of company debt, such as companies entering insolvency: Diverta, Flamingo, PIC, Leonardo and K Tech Ultra Pro. Not just the big names have been affected by vortex debt; more than 55,000 new cases of insolvency were recorded during the financial crisis.

Characteristics of reporting for winding-up companies are:

- annual financial reports, deadline the end of March,
- the components of annual reports are: balance sheet, profit or loss account, statement of non-current assets;

### 7. Reporting for listed entities on Bucharest Stock Exchange

Starting 2012, the listed companies on Bucharest Stock Exchange are applying order 1286/2012 that is fully compliant with IFRS.

The financial statements are:

- The balance sheet
- The profit and loss account

- The statement of changes in equities
- The statement of cash flows
- Notes to financial statements.

## 8. Financial reporting in Romania - what next?

Recently, Minister of Finance posted on its website a new order regarding Accounting regulation (that will replace the order 3055/2009) and a new version of Accounting Law. The main changes refer to definition of micro entities. The business and academics are invited to comment upon the changes proposed by minister in order to improve financial reporting. The effects of the new order will be seeing in next year.

## 9. References

- [1] Nobes C., Parker R., *Comparative International Accounting*, Prentice Hall, 2004.
- [2] Ioachim VM, *Tratat de contabilitate cu aplicație în industrie*, Ed. Intreprinderile A. I. Botez, 1944
- [3] Ionascu M., Ionașcu I., Săcărin M., Minu M., „IFRS adoption in developing countries: the case of Romania”, *Accounting and Management Information System*, ASE Publishing House, Bucharest, Vol. 13, No. 2, 2014, pp 311-350
- [4] Demetrescu C. G. *Istoria contabilității*, Ed. Științifică, București, 1972
- [5] Deaconu A., Buiga A., „Accounting and the enviromental factors – an empirical investigation in post-communist Romania”, *Accounting and Management Information Systems*, ASE Publishing House, Bucharest Vol 10, No 2, 2011, pp: 135 – 168
- [6] Ionascu M., Ionașcu I., Olimid L., Calu D.A., „An empirical evaluation of costs of harmonizing Romanian accounting with international regulations (EU Directives and IAS/IFRS)”, *Accounting in Europe*, Vol. 4(2), 2007, pp: 169-206
- [7] Albu N. Albu C., „IFRS in an emerging ecoomy: lessons from Romania”, *Australian Accounting Review*, Vol. 22(4), 2012, pp: 341-352
- [8] Ionascu M., Ionașcu I., Săcărin M., Minu M., „Accounting professionals vs Accounting Regulators: an insight on the recent Romanian Accounting reform”, *Accounting and Management Information Systems*, ASE Publishing House, Bucharest , No 17, 2006, pp: 6-22
- [9] Dănescu T., Spatacean O., „Cercetări privind tranziția la IFRS a firmelor de investiții”, *Audit financiar*, no. 12, 2013, pp: 25-36
- [10] Ionașcu I., Ionașcu M., Munteanu L., „Motivații și consecințe ale aplicării IFRS: percepții privind factorii instituționali din mediul românesc”, *Audit financiar*, no. 12, 2011, pp: 33-41
- [11] Săcărin M., Bunea Ș. Gîrbină M., Perceptions of accounting professionals on IFRS application at individua financial statements: evidence from Romania”, *Accounting and Management Information Systems*, ASE Publishing House, Bucharest, Vol 12, No 3, 2013, pp: 405 – 423

## Saving in Foreign Currency

Nițu Oana

*Faculty of Economics, "Ovidius" University, Constanta, Romania*

[oana.oprisan@yahoo.com](mailto:oana.oprisan@yahoo.com)

Nițu Claudiu Valentin

*Faculty of touristic and commercial management,  
„Dimitrie Cantemir” University, Bucharest, Romania*

[valynitu@gmail.com](mailto:valynitu@gmail.com)

Tileagă Cosmin

*Faculty of Economics, "Lucian Blaga" University, Sibiu, Romania*

[cosmin.tileaga@yahoo.com](mailto:cosmin.tileaga@yahoo.com)

### Abstract

*Studying the ways of training, of the influence factors and of the ways to place people's savings by making such research, offers the possibility of scientific development and reasoning of the appropriate model of population on saving in the difficult conditions in which it is now Romania.*

*In Romania, in the current period, occurs a series of studies and analyzes, in which, statistically, they are assessed and defined multiple concepts of living. These studies were signed by researchers from the National Institute of Statistics, the National Bank and the Deposit Guarantee Fund in the Banking System.*

**Key Words:** savings, currency savings, dynamics, deposits

**JEL Classification:** D, D1, D13, D14, E2, E21

### 1. Introduction

Economic reforms in Central and Eastern Europe, launched in early 1990, were not itself a goal, but a necessity. This requirement was imposed by the communist regime collapse, the deepening economic crisis in these countries and the launch of economic growth.

Since the beginning of launching those reforms, the post-communist transformation process proved to be a much more complicated and complex than first thought. Price liberalization, stabilization and

privatization were essential for obtaining a market economy, but also sufficient to ensure the success. Long transition process is proved to be economically and socially costly, but also unpredictable as ongoing.

The main priority of these countries was the economic growth revival as a sustainable process and with real economic gains. Those countries are characterized by a higher degree of economic freedom and also recorded the highest economic growth rates, thus becoming more prosperous than others. There is a clear and very close connection between the degree of economic freedom and the economy process [1].

In most of the industrialized countries the domestic savings, especially private ones, played the main role to be the source of investment and economic growth. Foreign resources attracting was important for the economic development and growth. But for this to happen on a large scale, usually it should take the form of capital inflows attracted by profitable investment opportunities. Without taking into account the importance of external assistance, it appears that transition economies will follow that traditional way.

Moreover, while external assistance may involve the foreign policy conditionality when it comes to private savings and improvements in the investment, domestic policy becomes endogenous, assuming that the policy may or even affects the economy and investment behavior [2].

Economic growth prospects are given by the present characteristics in the process of saving, because present savings can be the funding source of both innovation for

increasing the productivity of capital, and the public debt service.

The economic downturn of recent years has reduced household incomes and therefore their capacity to save, but not equally in all states. In addition, saving is a process that depends on a set of cultural factors which the economic policies may or may not use them effectively [3].

The main sector of a national economy that does the saving is the households one. Therefore amid the current crisis the banks have changed their strategy to attract savings from the population, reducing the interests on deposits in local currency and slowly increasing the ones in foreign currency. Credit institutions now encourage long-term savings in foreign currency, while the analysts recommend *the diversifying of economies*.

In other words, saving trends of the population are reflected in the standards of living and welfare. Savings, as an influencing factor of the living standard and welfare, depends on the level of inflation, the interest rate liabilities and income, which suggests that, before drawing any conclusion about saving, savings size changes should be considered [4].

## 2. Empirical analysis of the determinants of growth in foreign savings

It can be performed an empirical analysis of the determinants of savings in foreign currency dynamics, approximated by currency deposits, formed through the banking system ( $dv$ ) - thus making abstraction of foreign exchange held "in the mattress", using a SVAR model type (Structural Vector Autoregression model) in which the vector of endogenous variables

$$X = [dv \ i_p \ \pi \ e]$$

includes the dynamic of currency deposits, the average interest rate on deposits attracted by commercial banks from non-bank customers, inflation and ROL / USD nominal exchange rate dynamics (Data for dynamic currency deposits, the corresponding exchange rate and inflation rate are annualized values, changes in foreign currency deposits and exchange rate are calculated by the formula:

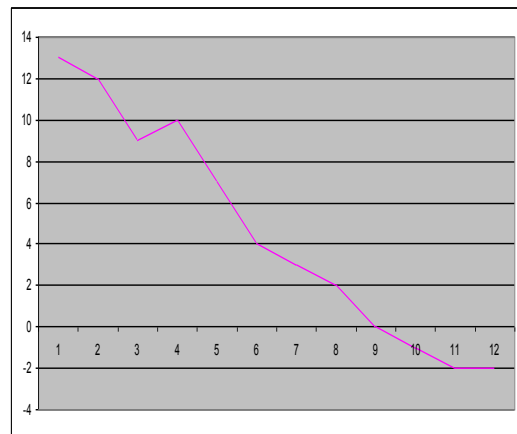
$$x_t = 1200 * \ln\left(\frac{X_t}{X_{t-1}}\right). \quad \text{Long-}$$

term restrictions considered matrix is:

$$C = \begin{bmatrix} c_{11} & 0 & c_{13} & c_{14} \\ 0 & c_{21} & 0 & c_{24} \\ 0 & 0 & c_{33} & c_{34} \\ 0 & 0 & 0 & c_{44} \end{bmatrix}.$$

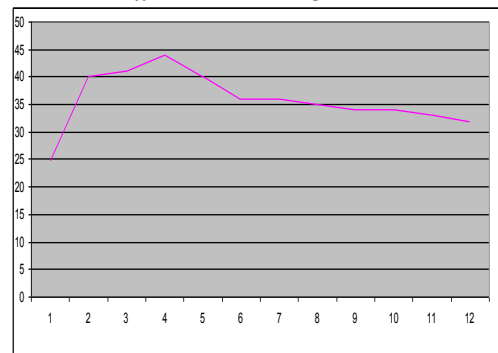
The considered analysis period is January 1993 to September 2012 only to highlight the long-term correlations, the involved variables are considered as level, and not as first order differences.

Fig. no. 1 – The effects of a currency saving determinants shock on the saving dynamic (factors structural decomposition – cumulative effects) - Interest Rate



Source: the generalized impulses model- Generalized One SD Innovation

Fig. no. 2 – The effects of a currency saving determinants shock on the saving dynamic (factors structural decomposition – cumulative effects) – Exchange Rate



Source: the generalized impulses model- Generalized One SD Innovation

It may be noted that:

- An inflationary shock causes initially (within 1-2 months) a decrease in the growth of the savings rate in foreign currency, then, within 3-6 months, this shock is the origin of an acceleration of the foreign currency deposits formation (the effects stabilizing after the entire period of two quarters);
- An increase in the nominal interest rate causes an "immediate" decrease in foreign exchange savings rate, its effect being absorbed within about two quarters.
- An external shock involves an "immediate" adjustment of the currency deposits (which adjustment, within 1-2 months, exceeds 25%), its effects being extinguished within the same interval of two quarters.

### 3. Determinants factors of currency deposits evolution volatility

It may be noted that the factor with the highest contribution in explaining the volatility in foreign exchange saving process (over 60%) is figured by the changing of the nominal exchange rate, followed by the nominal interest rate and only to a limited extent the inflation rate (Which can be explained by persistent inflationary expectations of economic subjects, "sticky" anticipations to the current changes in price dynamics).

*Current saving is a source of consumption and future investment financing. We believe that for the presentation of the effects exerted by the changes in previous periods of saving over current consumption and investment, its breakdown is useful according to the sectorial criterion, in economy of firms ( $S_f$ ), respectively, of households ( $S_g$ ). The main "work" assumption is that if the firms savings in foreign are for their future import operating performance (while those in domestic serving for the future expansion investment financing by the acquisition of local resources and capital goods), domestic and foreign economies are used to purchase consumer goods, domestic and foreign, but acquired mainly in domestic (in other words, apart from the phenomenon of dollarization, it is assumed that only a small fraction of household expenditure is made directly in*

foreign - mostly in some consumer durables (eg. cars, electronics, luxury goods, etc..), mainly due to reduced bility of the population, customs barriers and imperfect legislative and economic integration in international transactions).

If this hypothesis is "reasonably" viable, then the most important consequence of this is that there is a testable **two-way links** between the dynamics of currency and inflation dynamics: **not only** from inflation rate, via real interest rate, **but** from the changes in foreign currency deposits, **via** consumption expenditures of households, to the rate of inflation.

### 4. The connection between the bank deposits dynamics and the inflation ones.

This link between the deposits and inflation dynamic can be illustrated:

- a) Using a model of VEC type (Vector Error Correction Model) that includes a correction mechanism

$$\text{such as } vecm_{\pi} = \pi - dv$$

Table no. 1 - co-integration JOHANSEN test (without data trend; constant (no trend) only in co-integration relation, not in the VAR, 4 lags):

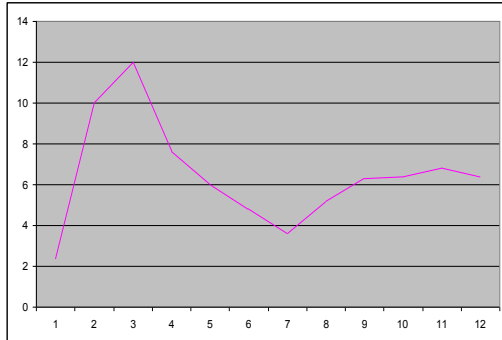
Number of co-integration relations (threshold of 5%)	(Log) likelihood function	Akaike information criterion	Schwarz information criterion
0	- 890.8306	17.95704	18.37132
1	- 876.2460	17.76725*	18.31098
2	- 871.7553	17.77733	18.45053

Significant result for the 5% threshold

It may be noted that in accordance with Akaike criterion between these two variables there is a long term co-integration relation [5]. In these circumstances it can be highlighted that the inflation rate responds "immediately" to a shock occurred in the foreign currency deposits, this effect reaches a "peak" in about a quarter (about 12%, annualized values), experiences a moderation

in within 2 -3 quarters and stabilizes thereafter.

Fig no. 4 - The response of inflation to a change in the growth rate of the volume of deposits in foreign currency



b) Using a test existence of a causal relation of GRANGER type based on a relation of the form:

$$\Delta\pi_t = \alpha_0 + \sum_{i=1}^r \beta_{\pi} \Delta\pi_{t-i} + \sum_{j=0}^s \beta_{dv} \Delta dv_{t-1} + \delta_1 \pi_{t-1} + \delta_2 dv_{t-1} + \varepsilon_t \quad (1)$$

If in the relation (1) the parameters  $\delta_1, \delta_2$  are significant non-zero, then there is a long-term relation between inflation rate and the foreign currency deposits dynamics (with this dynamic as "decisive") [6].

Table no. 2 – The link between inflation rate and the foreign currency deposits dynamics

Regression	$\delta_1 = \delta_2 =$	Number of lags (r, s)	Conclusion
$dv \rightarrow \pi$	<b>No*</b> <b>F-statistic=31.51</b> <b>P=0.00000</b> $\chi^2 = 63.02$ <b>P=0.00000</b>	(1,1)	$dv \Rightarrow \pi$

\* Based on WALD test.

c) Using a regression of the type:

$$\pi_t = \delta_1 \pi_{t-1} + \delta_2 dv_{t-1} + \varepsilon_t \quad (2)$$

Table no. 3 - The link between inflation rate and the foreign currency deposits dynamics

	coefficient	standard error	z statistics	probability
$\delta_1$	0.504163	0.029407	17.14453	0.0000
$\delta_2$	0.343258	0.026201	13.10100	0.0000

	Final level	RMSE	Z Test	Probab ility
$\varepsilon_t$	<b>0.000000</b>	<b>15.09124</b>	<b>0.000000</b>	<b>1.0000</b>
Maximum level of (log) probability function:	<b>-433.9613</b>	Akaike information criterion		<b>8.323073</b>
		Schwarz informational criterion		<b>8.398900</b>
		Hannan-Quinn criterion		<b>8.353800</b>

Source: WALD Test Calculations

it can be noted that, according to these results, an increase (delayed by a period) of the rate of formation of deposits in the foreign currency leads, in *caeteris paribus* conditions, to a significant increase (about 35% - annualized values ) of the inflation rate, this result is (according to z test) statistically significant [7].

## 5. Conclusions

In conclusion, these test methods indicates that, statistically, there is a significant correlation between the dynamics of foreign currency and inflation rate that seems to support the theory postulated correlation [8].

It can be argued that, because the dynamic of currency deposits have a significant effect, via household consumption, on the dynamics of inflation, it is useful exercising a form of influence over those by the monetary authority (including the application of mandatory reserves, particularly in this line of argument, on the forex deposits of households (advanced analysis ignores the possibility of the development of an indirect effect of the foreign currency deposits on inflation, exercised through exchange rate changes in the volume of foreign currency deposits contribute to changes in supply and demand on the currency market and therefore affect the exchange rate. However, this variable is one of the most important determinants of domestic price dynamics ( $\Delta dv \rightarrow \Delta e \rightarrow \Delta \pi$ ). Consideration of this



issue would allow an alter of the conclusion in the sense of widening the recommendation on the overall control of foreign currency deposits, not being, besides other unmentioned reasons, useful in our opinion giving the reserves mechanism up for foreign currency deposits).

Despite the existence of ambiguities and unstable results, theoretical and empirical research in countries in transition to a market economy, seem generally to support some opinions that say that: capital accumulation is the engine of economic growth and that the most of the domestic savings leads to high levels of investment and in this way contribute to long term economic growth [9].

## 6. References

- [1] Angus Deaton - „*Saving in Developing Countries*”, World Bank Economic Review, 1995.
- [2] Angus Deaton - ”Understanding Consumption”. Oxford: Oxford University Press, 1992.
- [3] Arro, Robert J. - “World interest rates and investment”, Scandinavian Journal of Economics, 94 (2), 1992.
- [4] Bayoumi Masson, and Samiei - “Saving Behavior in Industrial and Developing Countries”, International Monetary Fund, 1996.
- [5] Banca Națională a României – Rapoarte anuale 1998-2012
- [6] Comisia Națională pentru Statistică – „Aspecte privind calitatea vieții populației în perioada 1998-2012”
- [7] Fondul de Garantare a Depozitelor în Sistemul Bancar - „Buletine Trimestriale”, “Buletine lunare”, 2006-2012
- [8] Lipsey Robert and Stone Tice Helen - “Empirical Tests. In The Measurement of Saving, Investment, and Wealth”, Chicago: University of Chicago Press, 1989.
- [9] Kitov I.O. - „A model for microeconomic and macroeconomic development” , Working Papers 05, ECINEQ, Society for the Study of Economic Inequality, 2005.

## Financial Investments in Emerging Economies

Păiușan Luminița

"Vasile Goldiș" Western University of Arad, România

[paiusan\\_luminita@yahoo.com](mailto:paiusan_luminita@yahoo.com)

Boiță Marius

"Vasile Goldiș" Western University of Arad, România

[bmarius1963@yahoo.com](mailto:bmarius1963@yahoo.com)

### Abstract

*The transition to a market economy involves a change of perspective on the notion of investment, due to the movement of capital in the market, the battle of competition, gains expected etc.*

*Under these circumstances, the issue of investments is approached from the source that covers those costs.*

*Investing means allocating resources to enhance the capital existing at a given time. In a business, the business investment plays the role of an impuls which leads to its creation, it helps to initiate and develop growth.*

*Financial investment comprises two major categories of functions:*

■ *purchase of financial assets by those who own capital, they invest in order to gain rights to the issuer (investment securities);*

■ *distribution of securities by people looking for capital, for an investment and issuing financial securities that they offer to the owners of capital (equity investment).*

**Keywords:** *emerging economies, financial investments, transition, capital*

**J.E.L. Classification:** E62, H20

### 1. Introduction

Emerging markets have emerged in the context of the development of the international capital market as a result of the migration of capital in search of higher returns and to areas with high potential in this regard, Lehmann [4] demonstrated that American firms investment profitability in twenty emerging markets during 1989-1998 exceeded the return on investment in industrialized countries. Deutsche Bundesbank

(2003) provided empirical evidence that the private capital flows to emerging economies were due to the slow growth of GDP in industrialized countries.

### 2. Materials and Methods

**2.1. Emerging markets** are generally defined as "transition economies from centralized form of land to the industrialized free market" [5]. This category includes countries in various areas: Latin America (Argentina, Brazil, Chile, Venezuela, Uruguay), Eastern Europe (such as Russia, Ukraine, Lithuania, Romania, Bulgaria, Slovenia, etc.), Asia (China, Korea South, Taiwan, Malaysia, Thailand, Indonesia, Armenia, Kazakhstan, etc.) and Middle East - Africa (Egypt, Jordan, Lebanon, Morocco, Tunisia, UAE, South Africa).

These countries have a number of features in common which allows their grouping: they have a *Gross National Product (GNP) lesser than* developing countries. Thus, as defined by MSCI (Morgan Stanley Capital International), these countries have a GDP per capita of about \$ 3,100 comparing to \$ 20,535 that have an average group of the most developed 21 countries. According to the International Finance Corporation (IFC) is considering to be emerging economies where GDP per capita is below the level of \$ 8626;

■ They are not comparable with developed countries in terms of foreign investment rules, transparency of financial statements, the free movement of capital, stock market maturity or restrictions on the repatriation of dividends or capital gains;

■ Emerging markets are *less free in terms of information* which leads to a higher overall uncertainty;

■ *The country risk* for the emerging countries is higher than that of developed countries. It is the political risk components and risk of hyperinflation and social unrest, the defining feature of the transition process.

■ However, *the factors that lead to inflows of foreign direct investment* in emerging markets are: growth rates in these economies are higher than in developed countries; Correlations of emerging markets with the developed markets are low because they are not yet connected to the international economy. The financial investments in these markets is part of the strategy of providing investors with a diversified international portfolio in terms of risk and a higher return;

■ The main interest of financial institutions is in the activities of the most important companies in the emerging markets. In this context many of the companies with growth potential are undervalued, a favorable situation for aggressive investors;

■ Diversity of financial securities in these markets is increasing as they are becoming more regulated in terms of transparency, security, and how trading operates. There are a number of theoretical and empirical studies on the effects of capital flows on emerging economies.

Among them we mention: the existence of foreign direct investments affect productivity of domestic firms in emerging economies [2]. For example, [6] have demonstrated a strong positive relationship between the diversity of origin of foreign direct investment and productivity of large Chinese firms in the period 1998-2003; The emergence of positive external factors that benefit local firms due to the presence of foreign investors [1]. After [2] foreign direct investment has positive effects on firms in emerging markets but other studies [3] failed to demonstrate with certainty the existence or absence of these effects. Capital inflows to emerging markets lead to increased activity in these markets and a general increase in the prices of financial assets. To what extent these increases are justified by higher growth rates in these economies largely depends on the nature and purpose of that capital. Significant volumes of capital can be attracted by temporary circumstances such as higher interest rates without any

improvement in macroeconomic variables of the recipient country. Therefore, it is essential that governments take action to promote long-term investment (investment in the real economy) and not short-term or speculative. 1997 Asian crisis showed how large the impact of sudden outflows, massive capital market. Affected countries were characterized by fundamentally healthy macroeconomic variables: domestic debt was small, the budget deficit was low, inflation was under control, the exchange rate maybe slightly overstated. Their vulnerability was coming just from the capital inflows which was mostly short term. [5] proposes the following criteria to be fulfilled by the capital markets of emerging countries in order to cope with the influx of capital:

■ Clear definition of the financial system, its basic structure, its roles of market participants (banks, brokerage companies, etc.);

■ Ensuring correct trading procedures and high transparency of the economic and financial situation of each participant;

■ Standardization of accounting principles and financial reporting formats to provide accurate and easy information for investors;

■ A very strict legal environment to ensure contractual discipline;

■ the offer of financial titles or derivatives instruments that allows absorption of normal capital for investment.

## **2.2. Recent developments in financial investment flows in emerging economies**

In approaching the current situation of investment flows in emerging economies we will look at the BNY Mellon Study (2009) on institutional investment in emerging markets. It revealed that capital flows to emerging markets have increased since 2009. If in 2008 there were outflows of USD 49 billion in those markets in September 2009 capital inflows reached USD 52 billion. The main beneficiaries of these new flows of capital were emerging markets in Asia and Latin America. Thus, Asia (excluding Japan) had attracted \$ 14 billion; and Latin America USD 3.5 billion by September 2009. It also notes that major financial centers that have invested in emerging markets are the United States and Great Britain. The study of those from BNY Mellon has surpassed the

optimism of the investors, highlighted by the fact that 60% of investors surveyed wanted to increase their investments in emerging markets in the next six months.

### 2.3. Essential financial characteristics

Depending on their nature and innate financial characteristics, financial instruments are divided into four categories:

1. Primary Tools (Basic) shares, corporate bonds, government securities, units in collective management by financial investment. These are issued by:

- Applicants capital (capital companies and administrations) capital company issued shares and bonds to meet different needs: processes of the organization, operation and development, creation or increase of equity and borrowings.

Governments issued bonds to finance the budget deficit or public interest objectives. Depending on the nature and essential financial characteristics, financial instruments are divided into four categories:

- specialized financial institutions (funds and investment companies) in collecting and investing savings. They issue shares and provide professional management for capital collected, placing it in the existing instruments in the capital markets.

The services they offer are those that provide access to retail investors in capital markets.

2. Special *tools* (preference rights and rights of attribution).

Accompanying primary or basic financial instruments that can be traded on the market within a certain period of time.

Rights of *preference* are issued by the capital companies during capital increase and issued to the old shareholders. They give their holders the right to purchase in a certain period, shares at a price lower than the market price of the shares.

Rights *Award* are issued together with increasing capital by incorporation of state reserves and profits, all in the favor for old shareholders

3. Derivatives financial instruments are divided into:

- Simple derivatives instruments (classical) were created to cover all or part of the risks assumed by the primary holders of financial instruments. Futures contracts and

options consist of selling or buying a certain underlying asset at a fixed future date at a predetermined price. A futures contract gives the holder the obligation to buy or sell, while the option holder has the right but not the obligation to buy or sell; Derivatives combined instruments are next-generation tools: options on futures contracts based on indices, options on futures contracts based on interest rates, options contracts based on contracts interest rate swap contracts, options on the contracts of forward rate agreements, futures contracts or options on the contracts of goods.

The main characteristics of these types of instruments are:

- the conclusion of the contract does not result in transferring the primary instruments;

- compared to other types of contracts the initial net investment is low;

- derivatives value changes depending on the price of a primary instrument or a forward contract (another derivative), the evolution of a stock index or interest rate fluctuations or exchange rates;

- buyers hope that the future cash flows will compensate for changing unwanted cash flows related transactions on the spot market.

4. *Other* financial instruments: swap contracts, forward rate agreement contracts and operations derived from options. They are only traded on OTC (Over-the-counter) markets.

- *Swap* contracts provide risk sharing between operators who buy and sell simultaneously an asset of equivalent value, providing both parties better conditions than those they would have received if he had not done the swap transaction. For example swap operations regarding interest is performed by two partners who have committed loans in the same currency but with different types of interest (one fixed rate and floating rate other). The two sides exchanged not between them debts, which remain the same, but the interest payment obligations.

- *Forward rate agreement* contracts are agreements between the parties by which they mutually guarantee for a future date, a certain rate of interest relating to a loan that would take, respectively, the interest on the loan that would grant.

- *Operations derived from options* enable the parties to limit risks by simpler methods than those used on the organized market.

These operations can provide such borrowers protection against increases above a certain threshold of interest rates ("caps") and lenders against an interest rate drop below a certain threshold ("floor").

### 3. Conclusions

In this context, we note that the recent mortgage crisis in the USA and the international spread of its effects again highlighted the importance of government intervention in prudential regulation, accounting, risk management and monetary policy in order to strengthen the financial system and ensure macroeconomic stability.

Therefore, we believe that if these measures are taken, emerging economies will be much better prepared to deal with financial and economic spillovers inherent in integration into the international economy. At present, we note that the first countries to show concrete signs of recovery from the recent crisis are emerging ones.

The main factors underlying the rationale of investment decision are: infrastructure development, increasing domestic demand and demographic indexes - all factors related to fundamental analysis. In addition, there may be risks to emerging economies of incorrect behavior of market participants due to poor market regulation; political issues; fluctuations of the exchange rate or interest rate; inflation risk; the evolution of exports and imports; and protectionist policies of governments, etc. Therefore, investors make decisions only if investment return will cover these risks.

### 4. References

- [1] Blomström M., „*Foreign investment and productive efficiency: the case of Mexico*”, Journal of Industrial Economics. 35(1): 97-110, 2006
- [2] Buckley , P.J., Clegg, J., Wang, C. „*Is the relationship between inward FDI and spillover effects linear? An empirical examination of the case of China*”, Journal of International Business Studies, 38(3): 447–459, 2007
- [3] Feinberg S.E., Majumdar, S.K., „*Technology spillovers from foreign direct investment in the Indian pharmaceutical industry*”, Journal of International Business Studies, 32(3): 421-437, 2001

- [4] Lehmann “*FDI in Emerging Markets: Income, Repatriations and Financial Vulnerabilities*”, IMF Working Paper 02/47, Washington D.C., 2002
- [5] Zoicaș-Ienciu A., “*Characteristics of capital investment in emerging markets*”, Journal Theoretical and Applied Economics, 2: p.13-18, 2006
- [6] Zhang et al., Phys. Rev. Lett. 103, 159302 – Published 6 , 2009

# The Impact of Financial Crisis over the Audit Reports Issued for Listed Companies in Romania

Paunescu Mirela

*Business Academy of Economic Studies*

[Mirela.Paunescu@gmail.com](mailto:Mirela.Paunescu@gmail.com)

## Abstract

*The current global financial crisis began in 2007 and is considered one of the worst financial crises national economies had suffered. Romanian economy still struggles to pass over this crisis and it is not the only one not recovering from the recession. Romanian companies suffered and reported important losses due to the downturn. Many entities declared bankruptcy while others found the power to stay in business.*

*The going concern assumption is an essential principle used to prepare financial statements issued by an entity.*

*The auditor has the responsibility to evaluate the appropriateness of management's use of the going concern assumption in the preparation of the financial statements. If the management assessment is not appropriate (which is more likely in the times of financial downturns), the auditor may modify his opinion expressed in the audit report.*

*In this article we intend to analyzed the Romanian listed companies for the years 2010-2013 and to quantify how many used the going concern assumption and also how many audit reports were modified due to uncertainties regarding the going concern principle.*

**Cuvinte cheie:** going concern, auditor, audit opinion, modified report.

**Clasificare J.E.L.:** M 42

## 1. Introducere

The going concern assumption is an essential principle used to prepare financial statements issued by an entity. Basically, when the going concern assumption is complied with the entity is considered as continuing in business for the foreseeable

future with neither the intention nor the necessity of liquidation or ceasing trading. As a result, assets and liabilities are reflected in financial statement on the value the entity estimates that it will be able to obtain for its assets and to discharge its liabilities in the normal course of business. If the going concern assumption is inappropriate in the circumstances of the entity the management should disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

According to ISA 570 *Going concern* [1], general purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In this case, when going concern is not an assumption in financial statements, the user should be notified clearly as all the measurement basis are different than usually.

The management of the entity is responsible to assess if the going concern assumption is complied with and also to assume responsibility for this assumption made in financial statements. This estimation of the entity's ability to continue as a going concern involves making a judgment about inherently uncertain future outcomes of events or conditions.

The only auditor's responsibility is to acquire sufficient appropriate audit evidence about the suitability of management's use of the going concern assumption and to decide whether there is a material uncertainty about the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements.

In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management but this period should be of at least twelve months from the date of the financial statements.

If there is no material uncertainty the auditor may express an unqualified opinion (and may issue an unmodified audit report). If there is a material uncertainty but the auditor concludes that the use of the going concern assumption is appropriate in the circumstances than he or she shall determine whether the financial statements adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and whether they disclose clearly that the entity may be unable to realize its assets and discharge its liabilities in the normal course of business.

If the disclosure is adequate the auditor shall express an unmodified opinion and include an *Emphasis of Matter* paragraph in the auditor's report to highlight the existence of a material uncertainty and to draw attention to the note in the financial statements that discloses the matters related to the going concern assumptions.

If adequate disclosure is not made in the financial statements, the auditor shall express a *Qualified opinion* or *Adverse opinion*, as appropriate, depending on the impact of this error on the financial statements.

If the financial statements have been prepared on a going concern basis but, in the auditor's judgment, management's use of the going concern assumption in the financial statements is inappropriate, the auditor shall express an *Adverse opinion*.

## 2. Literature review

During the time, more increasingly after the deepening financial crisis, a question about the role of auditor was raised. The market was dissatisfied as expected for the auditor to deduce and to signalize the failure of the companies facing financial difficulties or being at risk to face such difficulties in the foreseeable future. Many authors addressed this question trying to challenge the auditor's position (for example Sikka, 2009 [2]).

The most frequent research questions were the link between an modified audit

opinion and likelihood for the company to go bankrupt in the next year or to get financially sound and continue as a going concern, the link between the audit fees and the probability for the auditor to qualified his opinion, reasons for an auditor to issue a modified opinion and others, for example the relation between gender diversity on the board of directors and audit committee and the likelihood that a company receives a going concern audit opinion.

Carson et al (2012) [3] synthesized and discussed academic literature pertinent to the auditor's decision to issue an opinion modified for going-concern uncertainty

Cheffers et al (2010) cited by Carson and al (2012) [4] monitored the audit opinions during 2002 and 2009 and found out that the modified opinions for going-concern uncertainty raised from 16.39 % in 2002 to 19.87% in 2007 (and then decreased to 19.45% in 2009).

Carson and all [3] found that firms receiving an opinion modified for going-concern uncertainty which do not fail within a short horizon (one to two years) is around 80-90%. Further, these rates appear fairly consistent over multiple time periods.

On the other side, Nogler (1995) [4] studied over 150 companies receiving qualified audit opinions due to going concern problems during 1983 – 1991 and he followed each firm to the final resolution of their going-concern uncertainty. As one can notice, his time horizon was significantly larger than a couple of years (as in case of Carson and all). Also important, his definition of corporate failure is broader than just bankruptcy. Nogler found that from the companies identified 33.1% eventually filed for bankruptcy, 31.8% were acquired or merged with other firms, and 35.0% remained viable and received an unmodified opinion in the subsequent years.

According to Carey, Geiger and O'Connell (2008) [5] in the context of reporting on going-concern-related uncertainties, there are two types of audit reporting misclassifications: (a) companies that receive a going-concern-modified audit opinion but remain viable (and they called that Type I misclassification), and (b) failed companies that did not receive going-concern-modified audit opinion prior to

failure (and they called that Type II misclassification).

Neither of these misclassification may not be considered an error as long as the auditor is not required to guess the future and tell what is going to happen next year. When a company receives a modified audit report it means that based on the professional judgment of the auditor the company is not likely to continue as a going concern for the future year. It is possible for the company to cease trading in the future but not in the following year. Such a modified report is not a pass to a fast death for a company. More difficult and dangerous for everybody is the case when the auditor fails to notice that the company has some difficulties and issues an unmodified report. Studies were conducted and proved that it is more likely for the auditor to be sued and the penalties he faces significant penalties as the interested parties (such as shareholders of the disturbed companies or creditors) consider that the audit has failed but not being able to signalize the going concern issue.

Issuing a modified opinion is not always very easy and it always has consequences over both the auditor and the auditee. The auditor risks to lose his client and his fee (studies were conducted in order to analyze this risk and to identify the potential loss for the auditor. The audit client is at risk to actually become bankrupt (self prophecy risk, which basically refers to the fact that it is more likely for such a company to have more severe problems once the public was notified about the uncertainties) or, if not, to pay increased costs in the future (for example the interest rate is likely to grow as the bank will consider that company more risky and will balance that credit risk with a risk premium incorporated in the interest).

The incentive factors that may influence the auditor's decision to disclose uncertainties with respect to a client's going-concern status was researched by Louwers (1998) [6]. His results showed that auditors appear to focus on the client's financial condition and the existence of other indicators of financial distress, not on factors related to litigation or loss of client revenues.

Some researchers analyzed if there was a link between the number of going-concern modified reports and the type of auditors issuing such opinions. For example, Geiger

and Rama (2006) [7] examined both types of going-concern reporting errors (i.e., type I errors—modified opinions rendered to subsequently viable clients; and type II errors—unmodified opinions rendered to subsequently bankrupt clients) over an 11-year period. They also examined reporting error rate differences between the national second-tier firms and regional/ local third-tier firms.

Geiger and Rama (2006) [7] proved that over an extended 11-year period, auditors issue modified opinions to only about half of their client's who file for bankruptcy in the succeeding year and they suggested that there is room for improvement in auditors' models related to going-concern-related decisions as prediction models using financial data alone do not outperform audit opinions for bankruptcy prediction, but models using financial and market data outperform audit opinions over a wide range of cost ratios.

Citron and Taffler (2001) [8] consider that a low qualification rates by auditors (which disregards the requirements of the Code of Ethics issued by IFAC) are consistent with a belief in the self-fulfilling prophecy argument. Moreover their view is that even if going concern disclosures do not in themselves bring about company failure, the problem of the persistence of the belief in the self-fulfilling prophecy effect remains.

Chapple, Kent and Routledge (2012) [9] examined the relation between gender diversity on the board of directors and audit committee and the likelihood that a company receives a going concern audit opinion. They found that boards with at least one female director were less likely to receive a going concern opinion. They justified their result to the improved monitoring and risk aversion of female directors. However, even if they concluded that the presence of an audit committee is associated with an increased likelihood of a going concern opinion (this indicating the important role that the audit committee played in ensuring the integrity of financial reporting), as a surprise, they also found that the existence of a female audit committee member did not strengthened this relation.



### 3. Research methodology and results

For the years 2011-2013 we have examined the audit reports of Romanian quoted entities (listed on Bucharest Stock Exchange). Two companies which were not Romanian companies and were audited abroad were removed from the population. In 2013 and 2012 there were 82 companies for which we were able to identify audit reports. For 2011 only 80 audit reports were identified. For two companies in 2011 we were not capable to find available financial statements after more than reasonable efforts.

We have classified auditors in 4 groups: Big 4 companies, other large international companies, local companies and sole traders. Obviously Big 4 companies are made of Price Waterhouse Coopers (PWC), KPMG, Deloitte and Touche Tohmatsu (Deloitte) and Ernst and Young (EY). Other large international companies group together all subsidiaries of companies which are ranked in TOP 40 international networks, association and alliances by Accountancy Age. Local companies – this group stands for other Romanian audit companies, affiliated or not to an international network (but not one from the Top 40 list).

It is to be noticed that we used 4 classes instead of three which were used by other Romanian researchers as, for example, Berinde in 2013. We have chosen to monitor companies belonging to other Top 40 international networks in order to observe if they are likely to form an independent category, different by both local small companies and Big 4 Companies and we have decided that they are a separate independent class of entities.

After analyzing and identifying only audit reports which were modified due to going concern issues in at least one of the years scrutinized, we were able to retain only 23 companies out of 80. Basically it means that during 2011 and 2013 28% from the listed Romanian companies have their audit reports changed due to going concern issues. We consider this percentage to be very high and justified by the global financial crisis which also affected Romanian entities.

In 2011, from 21 audit reports one had an adverse opinion, one was qualified (4.76% from the sample and 1,25% from the population represented by the listed

companies), three were modified audit reports in which the auditor expressed an unqualified opinion but added the Emphasis of Matter paragraph to draw the attention of the user (this is 14.3% the sample and 3,75% from the population) and nine were modified audit reports in which the auditor expressed a qualified opinion and also added the Emphasis of Matter paragraph (this is 42.86% the sample and 11,25% from the population).

In 2012, from 23 audit reports in one of them the auditor issued a Disclaimer of opinion, considering that, among other, due to significant doubts on going concern assumption, he could not obtain enough audit evidence to based his opinion on. The number of Adverse opinions increased from one to four ( which is 17.39 % from the sample and 4,88% from the population represented by the listed companies) while qualified reports increased significantly from one to six (this is 26.09% the sample and 7,32% from the population). There was no change in the number of unqualified opinions with Emphasis of Matters but the number of qualified reports with Emphasis of Matters regarding going concern issues decreased from nine to seven.

In 2013 in three cases the auditor issued a Disclaimer of opinion qualified considering that, among other, due to significant doubts on going concern assumption, he could not obtain enough audit evidence to based his opinion on (13.04% from the sample and 3,66% from the population represented by the listed companies). Only one Adverse opinion was noticed while the qualified opinions decreased from six to three. However, in 2013 in ten cases ( 43.48 % from the sample and 12.2% from the population) the auditor issued an unqualified opinion but added an Emphasis of Matters regarding going concern issues. In only six cases the auditor issued a qualified opinion and also added an Emphasis of Matter.

As for the structure of the auditors we found out that is more likely for Big 4 companies and domestic companies to modify their opinion than for sole-traders ( in only one case in 2012 we found a modified report in our sample issued by a sole-trader) and other international companies. The difference between domestic companies and other international companies is insignificant.

Basically, even if in 2011 Big 4 Companies issued more modified reports than the rest of the auditors together, starting with 2012, the situation changed and the numbers show almost a break even score between companies (sole traders are completely different).

None of the companies receiving a modified audit opinion from 2011 ceased trading but some of them have been declared insolvent or even were insolvent when the audit report was issued.

We have also tried to see if it is more likely for a company receiving a modified report to change its auditors. In 2012 seven companies changed auditors while in 2013 only five of them decided to rotate auditors. In percentage this is 22% in 2013 and 33% in 2012 from the companies receiving going concern modified opinions. By using our previous results, we can say that in 2012 the auditors were changed for fourteen listed companies and in 2013 for nine listed companies. As one could easily see apparently there is a link between a going concern modified audit report and the rotation of auditors. This is because from fourteen changes of auditors seven were reported for companies receiving modified opinion in 2012 and for 2013 from nine changes, 5 were reported for companies receiving modified opinion.

As for the wording of the reports, especially among domestic companies, the language is perhaps not always the most suitable one. For example, domestic auditors made reference to the financial loss reported by the entity (even if during the year the company reported a profit and not a loss) in the Emphasis of matters paragraph. Other auditors, for a majority of their listed clients used a standard paragraph drawing the attention of the users over the financial crisis and the fact that it was impossible for the auditor to guess the recoverable value of the company's assets in the future. We could even find auditors mentioning the fact that current assets are lower than current liabilities and the company may face cash flow difficulties. On the other side, companies belonging to international networks of audit companies used the standard wording as illustrated by International Auditing Standards. It is our opinion that creativity when it comes to

wording the audit report is more likely to confuse the users instead of giving them more useful information.

#### 4. Conclusions and limitations

As a brief conclusion, we observed listed companies during 2011 and 2013 and identified a little more than twenty companies receiving modified going concern opinions. None of those companies went bankrupt in the period of observation even if some of them have been declared insolvent and are administrated by using a special procedure, as per the Romanian laws. We also analyzed the types and structure of modified audit reports published and their dynamic over the years.

Our results show that it is more likely for a large audit company to modify its opinion than for small auditors when it comes to going concern issues.

Not less important, apparently there is a link between a going concern modified audit report and the rotation of auditors which means it is more likely for an auditor to be changed when he qualifies his opinion.

We also admit that there are limitations to our research, from which: the low number of companies observed the short period of time covered. We intend in the future to also analyze the rest of the companies listed on other stock exchanges (such as RASDAQ).

#### 5. Acknowledgements

This work was cofinanced from the European Social Fund through Sectorial Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

#### 6. References

- [1] International Standards on Auditing 570 *Going concern*, IFAC, available on-line at [www.ifac.org](http://www.ifac.org)
- [2] Sikka, P. „Financial crisis and the silence of the auditors” *Accounting, Organizations and Society*, 2009
- [3] Carson, E., Fargher, N., Geiger, M., Lennox, C., Raghunandan, K., Willekens, M., „Audit Reporting for Going-Concern

- Uncertainty: A Research Synthesis", *Auditing: A Journal of Practice & Theory*, 2012, Electronic copy available at: <http://ssrn.com/abstract=2000496>
- [4] Nogler, G. E., Schwartz, K.B., "The resolution of auditor going concern opinions", *Auditing: A Journal of Practice and Theory*, 1995
- [5] CAREY, P., GEIGER, M., O'CONNELL, B., "Costs Associated With Going-Concern-Modified Audit Opinions: An Analysis of the Australian Audit Market", *ABACUS*, vol. 44, 2008
- [6] Louwers, T., "The Relation between Going-Concern Opinions and the Auditor's Loss Function" *Journal of Accounting Research*, Vol. 36, Published by: Wiley on behalf of Accounting Research Center, Booth School of Business, University of Chicago Stable URL: <http://www.jstor.org/stable/2491325>
- [7] Geiger, M., Rama, D., "Audit Firm Size and Going-Concern Reporting Accuracy", *Accounting Horizons*, Vol. 20, 2006
- [8] Citron, D., Taffler, R., "Ethical Behaviour in the U.K. Audit Profession: The Case of the Self-Fulfilling Prophecy Under Going-Concern", *Journal of Business Ethics*, 2001
- [9] Chapple, L., Kent, P., Routledge, J., "Board Gender Diversity and Going Concern Audit Opinions", presented during *Financial Markets & Corporate Governance Conference*, 2012,  
URL: <http://ssrn.com/abstract=1979040>

## Crisis Influence over the Aviation Market Segment

Paunică Mihai

*The Bucharest University of Economic Studies  
Accounting and Management Informatics Systems*  
[mihai.paunica@medu.edu.ro](mailto:mihai.paunica@medu.edu.ro)

Honu Monica-Veronica

*The Bucharest University of Economic Studies  
Accounting and Management Informatics Systems*  
[veronique\\_hmv@yahoo.com](mailto:veronique_hmv@yahoo.com)

### Abstract

*Today's economy is based on technology and innovation. The muzzle velocity has the daring task of defining the required standards and the necessary business-effectiveness. And what better example than one of the relatively recent industries that has shown a positive development over the years, taking into consideration the impact on human life: aviation industry.*

*The purpose of this paper is to analyse the economical influences of the recent crisis on the national aeronautical industry. Therefore we will follow the movement of 30 companies in this particular segment, chosen due to the impact it has on the economy.*

*In order to assess the influence of the crisis, we took into consideration some basic indicators such as market segmentation index and other concentration indices.*

*Following market dynamics we observe an unconventional behaviours that betrays a high degree of assimilation between international decline and the aviation market economy.*

**Key words:** aviation industry, market segmentation, crisis.

**J.E.L. Classification :** M31, L22

### 1. Introduction

Ever since the debut on the global market, the financial crisis has proven to be a worthy subject to be analysed due to the fact that many industry sectors—including business aircraft—went into a nosedive and have been in recovery mode ever since. (Velocci, 2014)

[1]

Moreover, Ferizovic (2013) [2] states that after a quick look over the years we witness that they occur in shorter and shorter periods of time, but with all the more powerful and damaging effects.

In this paper we will present the effects that the global financial crisis had on one of the productive markets in our economy: the aviation industry. We chose this type of industry because it has given us a rather distinctive example when it comes to market segmentation. Therefore, we selected a sample of 30 companies to be analysed over a period of 8 years that present the pre and post crisis period of time.

### 2. Literature review

Since Wendell Smith (1956) [3] introduced the term, market segmentation has arguably received more scholarly attention than any other managerial marketing concept. (Quinn, 2009) [4]

A more recent definition describes the market segmentation as the process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs, wants, or demand characteristics. Its objective is to design a marketing mix that precisely matches the expectations of customers in the targeted segment. (Business Dictionary, 2014, Stranton, 1991, Kotler and Armstrong, 2004) [5], [6], [7]

The importance of segmentation is that having a perspective view of the market can craft a mixture of proper marketing instruments to suit your desires for a better use of its resources. (Cano et al, 2013) [8]

### 3. Research design

Nowadays the aviation sector continues to be one of the top industries founded by high class investors. This, combined with the due diligence of the management, led to a promising and steady aeronautic market. The companies that have applied to this market are presented in the following table:

*Table 1 Companies on Romanian aeronautical market*

No.	Company Name*	Year of	
		Entry	Exit
1	Romaero SA	1920	
2	Construcții Aeronautice SA	1925	
3	Aerostar SA	1953	
4	Avioane Craiova SA	1972	
5	Turbomecanica SA	1975	
6	Aero consulting SRL	1998	
7	Rus Avia Impex SRL	1999	2009
8	GM & T International 2000 SRL	2000	
9	<b>Ilsor Cona SRL</b>	<b>2002</b>	
10	Eurocopter Romania SA	2002	
11	Unison Engine Components-Bucharest SA	2002	
12	<b>ICA-RO</b>	<b>2003</b>	
13	Arpiem Servicii de aviatie SRL	2004	
14	Motorstar SRL	2004	
15	Aircraft Models SRL	2005	2013
16	Aer-Tech Impex SRL	2006	
17	Flug Werk International SRL	2006	
18	<b>GFG Tools E&amp;M SRL</b>	<b>2006</b>	
19	Tim Aero Meca SRL	2006	
20	Zenair Romania SRL	2006	
21	Haede Aeromodele SLR	2007	2012
22	N&I Better Business Center SRL	2007	2013
23	Reims Aerospace Danube SRL	2007	2010
24	Aeronamic Eastern Europe SRL	2008	
25	Leon Group Tehnic SRL	2008	
26	<b>Moa-Avio SRL</b>	<b>2008</b>	

27	Aernnova European Components SRL	2009	
28	Premium Aerotec SRL	2009	
29	<b>Airplanes Industry SRL</b>	<b>2010</b>	
30	<b>Lifter One SRL</b>	<b>2011</b>	

Source: Own processing based on data posted on [www.mfinante.ro](http://www.mfinante.ro)

(\* Entities in bold have not registered any turnover in the year ending 2013)

As we explore the current situation for the aeronautic industry, we observe that of 30 companies that have registered activities as manufactures of aircrafts and spacecrafts (NACE code 3530) [9], more than 16% have declared bankruptcy and other 20% haven't registered any revenues in 2013.

The turnover is a relevant factor to be taken into consideration in this research of the effects of global crisis. In a previous research, it was proven that there is a direct relationship between sector turnover and the national GDP – element known to be directly affected by the decrease in revenues. (Honu, M.V., 2013) [10]

Moreover, if we take into account the net turnover, we can observe three types of companies in relation with the international crisis:

- Companies that are not influenced by the external economic descent (e.g. Aerostar SA, Unison Engine Components)
- Companies that experience the economic effects later on, but still recover (e.g. Eurocopter, Romaero, Avioane Craiova)
- Companies that don't survive the financial global crisis or will slowly exit the market if not assisted (e.g. Tubomecanica )

Porter (1979) [11] states that market competitiveness can be influenced by a number of factors such as entry and exit barriers, bargaining power of clients and suppliers and, none the less, substitutes. To determine the importance of factors influencing company activity, we will analyse the competitive position, market structure and sector diagram.

Any business can be analysed from several points of view. Taken by itself it can

illustrate satisfactory features harbouring upward trends. However, consider other entities in the same sector, it can shed light on items from the grey area of the evolutionary process. For this, it is essential that we apply a new investigatory research of the business to consider both the micro-economic level and meso-economic.

We proceed towards a sector-wide analysis including comparative research with other entities. The main indicator for identifying competitive position is the market share of the enterprise, which can be of two types: absolute market share and relative market share.

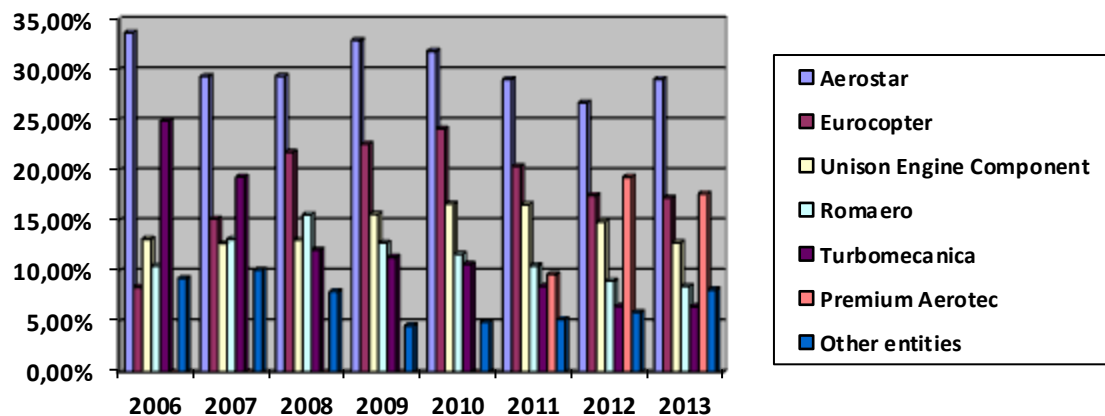
The financial dictionary defines the market share as it refers to a company's portion of sales within the entire market in which it operates. This metric indicates a company's size within its market. (Financial Dictionary, 2014) [12]

Unfortunately there are some cases where the companies did suffer significant losses (Romaero and Turbomecanica) and even to the point that they had to declare bankruptcy (mostly small businesses).

As seen in Figure 1, Premium Aerotec is one of the companies that submitted a very powerful rise: construction started in 2008, and opened for business in late 2010, it managed to become number 5 on the market the following year. This is due to both being a subsidiary of Airbus Group and closing a 650 million euro contract with the government.

Identifying the type of market in which the companies producing aeronautical assemblies and subassemblies is only the first step in market analysis. Meso-economic level brings forth the identification and assessment of other groups of stakeholders that can influence decision making process. Among

Figure 1 The development of the aeronautical industry competitive position



Source: Own processing based on data posted on [www.mfinante.ro](http://www.mfinante.ro)

As presented in Figure 1, the evolution of the competitive position gives us a different perception than the one expected. At a closer look, we notice that Aerostar, Eurocopter and Unison Engine Components present increased market shares in critical years, but starting 2010, they present a short decrease in the following 3 years in favour of Premium Aerotec and smaller entities.

The main reason for this particular behaviour might be that the illustrated companies are subsidiaries of major conglomerates like Airbus or GE.

these are:

- Bargaining power of suppliers
- Bargaining power of customers
- Competitive intensity
- Potential new competitors
- Threat of substitute products
- Government influence

Suppliers can be classified according to their main activity and the contribution to the entity examined. Thus, there are provider of raw materials and auxiliary materials (technical capital providers), financial capital providers and labour suppliers.

The specificity of this sector is given by the manufacture's impossibility to offer substitutes. This changes the rules of supply and demand. Thus, by analysing separately

each category of suppliers identified above, we conclude that this group of stakeholders has a significant impact on work and business continuity of analysed business', for which they portray a high bargaining power.

The bargaining power of customers is determined by the relatively small number of clients for a given product, that determines their control over the share in sales. Since marketing strategy type is Build-to-order and manufacturing costs of a single product are high, sales prices are equally lofty, it can be concluded that the bargaining power of customers is very high.

Competitive intensity is determined by analysing the direct and indirect competitors on any given market. Evaluating the aviation manufacturing sector in Romania it is noted that each firm is specialized in producing a particular type of product, which shows a moderate national intensity, up from last year due to the heavy investments made by companies such as EADS, GM. This massive investment is supported by global requirements and the need for improvement and upgrading of existing technologies on the market.

As noted above, for the entrée on the aeronautical assemblies and subassemblies market, any potential competitor faces a number of entry barriers such as mass production, the degree of product differentiation, the amount of capital required, access to the distribution network and legislative restrictions.

Regarding market exit barriers, there are economic (providing the degree of specialization of assets), strategic (searches / observed complementarities between one sector and another), political / social (governmental considerations) and psychological barriers (behaviour evaluates managers).

A detailed analysing illustrate that the entry and exit market barriers are quite sturdy due to the economic activity rendered which can translate to higher yields accompanied by equally elevated risks.

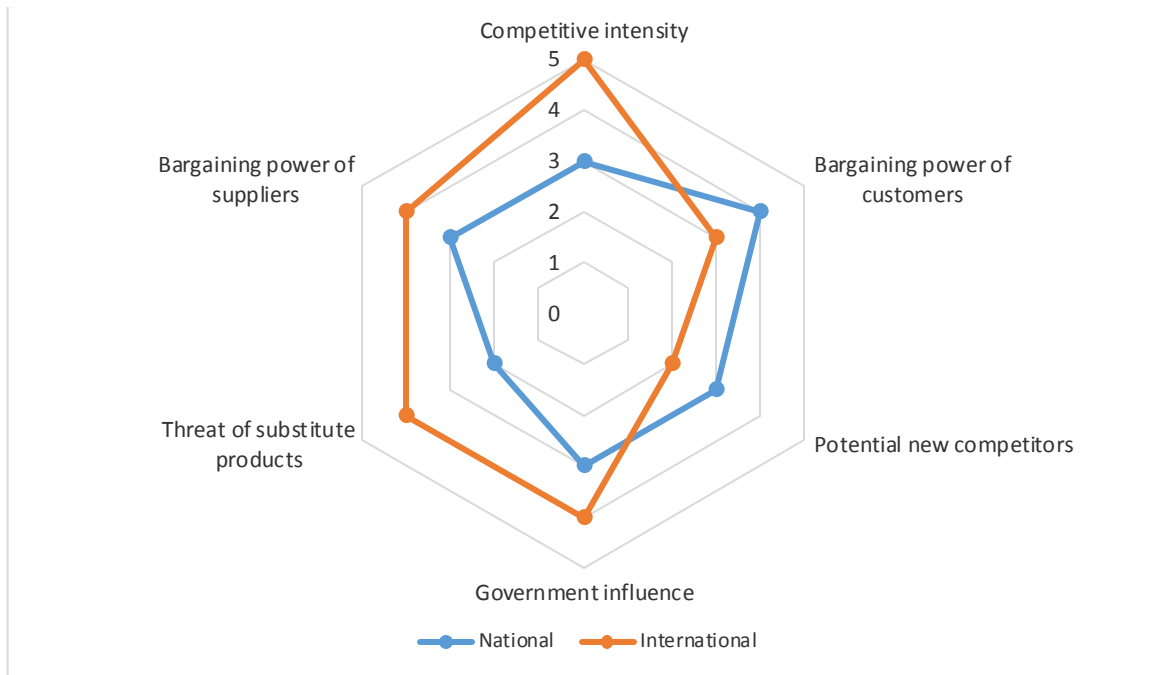
Considering substitutes products of national aeronautics we detect an average influence on the entity's market position. Internationally, the existence of several competitors of the same profile increases the risk of substitution products. Due to the complexity of the industry, this situation is not fully exploited, maintaining the ability of investors to additional allocate funds.

The influence of the government in this sector is achieved through tax and contribution collections, but also through subventions. In the national aeronautical industry there are no differences regarding the influence of these factors. Though, currently, we note a diminished influence of the government in economic activity.

As a parallel note on the type of stakeholders that may influence market proficiency, we should take into account the human capital.

Gesiene (2013) [13] believes that investment in human capital is a very important factor of regional development, which stimulates economic growth and regional competitiveness. The more educated live in the country, the higher labour productivity and labour efficiency are observed in the country, technical change (new technologies) are assimilated much faster. In the regions with higher investment in human capital, GDP per person is growing more intensively.

*Figure 2 Aviation industry's sector diagram*



According to the tendencies identified above, we create the *aviation industry's sector diagram* (Figure 2) and by using extrapolation of data, we formulate an overview of the global market of aeronautical assemblies and subassemblies.

Internationally, a similar situation states itself, due to the existence of a large number of companies which increases the range of competitors, suppliers and customers, thus changing the impact on sector diagram. The only factor that does not depend on extending the market for analysis is the government influence. This however is more intense on the international market.

#### 4. Conclusions and further research

The global crisis of 2008 - 2009 has influenced many economies: it had a negative impact on the quality of life of households, increased the rate of unemployment and decreased gross domestic product (GDP). (Giziene, 2014) [13]

This paper investigates the effects of the global crisis over the Romanian aeronautical industry.

With the purpose of demonstrating the research hypothesis, we gathered the required data from Ministry of Finance and Bucharest Stock Exchange. Therefore, we collected data for the major companies in this sector, entities operating in the aviation industry that are listed on the Bucharest Stock Exchange

(Tier I, II and III).

The analysis performed revealed that the crisis had a more significant effect over the smaller companies. Some of them were forced to declare bankruptcy and some changed the NACE classification.

Companies forming the top tier on the market have managed to keep up float or even to thrive in a grim financial environment.

There are a few drawbacks to this revision. First of all the population is undersized, but the fact that the same companies were considered for the entire period stated in the study, it increases the relevance of the observations.

Regarding further research, there is a wide range of possibilities. For our next study, we will investigate the effects on a similar market (well seen and well funded), one from the service area, like IT. Nonetheless we cast about to follow the effects of the global crisis on emerging markets by taking into consideration national account indices.

#### 5. References

- [1] Velocci, T., „Business Aviation Productivity Play”, Forbes, 2014, p117-122
- [2] Ferizovic, M., Ferizovic, N., „Understading of financial crisis”, Business Consultant, Poland, 2013, pp. 11-22
- [3] Smith, W., “Product differentiation and market segmentation as alternative marketing



- strategies”, Journal of Marketing, 1956, pp. 3-8
- [4] Quinn, L., „Journal of Marketing Management”, Great Britanie, 2009, pp. 253-273
- [5] <http://www.businessdictionary.com/definition/market-segmentation.html> (25.10.2014)
- [6] Stanton, W., Etzel. M.J., Walker, B., „Fundamentals of marketing”, McGraw Hill, New York, 1991, pp. 191- 207
- [7] Kotler, P. y Armstrong, G. „Marketing principles”. Theora, Bucharest, 2004
- [8] Cano, L.Z., Mojrejon, V.M.M., Sandoval, E.C, „Case study: analysis of implementation of market segmentation as a strategy for small business”, Revista Internacional Administración & Finanzas, 2013, pp. 109-119
- [9] [http://ec.europa.eu/environment/emas/pdf/geral/nacecodes\\_en.pdf](http://ec.europa.eu/environment/emas/pdf/geral/nacecodes_en.pdf) (27.10.2014)
- [10] Honu, M.V. „The relationship between Romanian aviation industry turnover and national GDP”, Journal of Economic and Social Development, Vienna, 2014, pp. 31-37  
avialable online at [http://www.esd-conference.com/JESD\\_2014\\_01\\_02.pdf#page=36](http://www.esd-conference.com/JESD_2014_01_02.pdf#page=36) (27.10.2014)
- [11] Porter, M.E., How Competitive Forces Shape Strategy, Harvard Business Review, 1979, pp. 137-145
- [12] <http://www.investinganswers.com/financial-dictionary/businesses-corporations/market-share-778>
- [13] Giziene, V, Palekiene, O., Orekhova, T., „Regional Recovery from economic Crisis: Assessment Opportunities”, Economics & Business, Latvia, 2013, pp. 34-39

# Romanian Macroeconomic Vulnerability in Terms of Credit Risk – a Restructuring Procedures Perspective

Săveanu Cristina

„Alexandru Ioan-Cuza” University of Iași, Doctoral School of Economics

[cristinasaveanu@yahoo.com](mailto:cristinasaveanu@yahoo.com)

## Abstract

*Access to finance remains one of the fundamental problems of Romanian economy and part of a series of indicators that determine the macroeconomic vulnerability. This paper aims to assess a state of vulnerability using IMV (Macroeconomic Vulnerability Index). This index is modified in order to reflect the influence of credit risk, from a particular point of view – the restructuring procedures perspective. Lending to firms that are facing a restructuring process is a very risky goal for banks, but at the same time a must for overcoming the financial crisis. The results are significant for the economic context and lead to the conclusion that lending for restructuring is an opportunity for growth.*

**Cuvinte cheie:** credit, risk, economic vulnerability

**Clasificare J.E.L.:** E51,G32, E44

## 1.Introduction

The credit risk is the main feature of the company's funding relationships. Access to finance is a very important factor for companies, especially SMEs, in order to maintain business and to achieve long-term goals. This is the reason for considering credit risk a signal of macroeconomic vulnerability. An appropriate indicator of macroeconomic vulnerability is the IMV. This paper tries to analyze the concept of vulnerability in a different perspective, assessing the impact of lending to companies that are facing restructuring processes.

In this approach we start our analysis using the same way of judgement as the one used in the credit accelerator theory proposed by Bernanke et al. (1999) [1], which shows

that increasing the flow of credit (Credit accelerator) cause an increase in consumption and investment, and subsequently an increase in value added in the economy reflected by GDP.

In this study, we try to quantify the impact of lending to restructuring companies over the vulnerability of the economy.

## 2.The IMV (Macroeconomic Vulnerability Index), concept and formula

In this paper we start our analysis from the idea of credit based economy. From this perspective there are signals of vulnerability coming from the banking market.

The economic literature refers to different ways of assessing these feelings of vulnerability.

One of the indicators is the Macroeconomic Vulnerability Index or the IMV.

The motivation for using the Macroeconomic Vulnerability Index is based on several considerations. The first of all is the fact that currency and macroeconomic vulnerability is caused by significant share of foreign currency lending to companies. Foreign currency lending is generally considered more risky than lending in RON. According to the Financial Stability Report/2014 published by the National Bank of Romania[2], the phenomenon of non-performing loans is more related to loans in foreign currency, the rate of non-performance being 23% compared to 20% for loans in lei.

The explanation derives from the coverage to currency risk, which in the case of SMEs is much lower compared to corporations. This fact determines a different approach for increasing the prudence to borrowers uncovered or poorly covered to currency risk.

The IMV index was constructed by Herera and Garcia in 1999 [3], and is

calculated as the sum of the ratio of M2 and foreign reserves, the monthly inflation rate, the monthly evolution of non-governmental credit and real effective exchange rate.

The mathematical formula for the IMV is:

$$IMV = \frac{M2}{res} + I + \Delta\%CN + REER$$

where,

IMV – the Macroeconomic Vulnerability Index

M2/res- the ratio between M2 and foreign reserves

$\Delta\%CN$ - the monthly variation of credit

REER - the Real Effective Exchange Rate

We will base our analysis on this formula.

The formula was used in the study of Codirlasu in 2005 [4], targeting factors that cause financial foreign crises and the possibilities of their prevention.

The relevance of this indicator is derived from the consideration that it includes REER (Real Effective Exchange Rate) an indicator which facilitates the measure of competitiveness.

The judgment of a state of competitiveness and after that, determining a state of vulnerability, can not be made solely on the basis of REER. This is the reason for the use of the IMV index. The present research will try to determine how the restructuring type operations influence the vulnerability of the economy at a time.

Lending to companies that are facing a restructuring processes represent an aspect of vulnerability for the Romanian economy. According to the Financial Stability Report [2], issued by the National Bank of Romania, there are several reasons for this statement:

- the insolvent companies create significant distortions in the payment mechanism of the economy, generating 26 % in debts to suppliers and 40 % in debts to the state;
- these firms have an important role in generating major payment incidents, about 55 % of the total amount in 2013;
- insolvent firms have negative effects on foreign creditors, given that 1.5 billion have received loans from foreign financial

institutions and the mother-daughter loan type worth euro 0.9 billion (June 2014).

The companies that have filed for insolvency have some common features, such as [2] :

- negative equity values;
- low capacity of recovery (the duration of receivable is 285 days, compared to the average of the economy which is 103 days);
- significantly lower asset rotation speed than average for the economy (39 % compared with 85 % in December 2013).

Insolvent or bankrupt companies have an important role in diminishing the loan portfolio quality of banks and NBFIs (nonbanking financial institution), their share in total NPLs (nonperforming loans) increasing from 68 % to 78 % for banks and for the NBFIs from 60% to 67% from December 2012 to August 2014.

### 3. Data, particular adjustments and results

Due to the availability of data and for the purpose of more accurate reflections, we have used annual data. The reference period is 2007-2013, trying to capture elements of specificity for lending to this segment (firms in restructuring procedures) both during the financial crisis and thereafter.

For the present study the macroeconomic vulnerability will be analyzed in terms of risks deriving from lending to the companies that face a restructuring process.

To calculate the economic vulnerability index in this context we achieve computations of economic vulnerability by modifying the original equation model in order to encompass and signal credit crisis cases related to restructuring.

In determining the IMV series we have made a number of adjustments in the calculation model.

All data sets used were expressed in annual values.

Thus, M2 annual values were those recorded in December of the reference years.

The foreign reserves values were determined as annual averages.

The inflation rate is communicated and published by the Eurostat and had the same expression in annual average value.

For the evolution of the government credit have used an annual credit flow expression or loans accelerator for companies in restructuring procedures.

The loan accelerator is the first order difference of annual credit flow, expressed as a percentage of Gross Domestic Product GDP [5].

For the present study, the variation of credit flow will be represented by first order difference of the flow of loan companies that are in restructuring procedures.

The financial accelerator mechanism, financial market and real economy influence each other, and the imbalances created on one market are offset and reduced by the other markets, based on the need of lending companies that want to take advantage of investment opportunities.

The particularity of the model derives from the attempt to calculate the vulnerability generated by a special category of companies (firms in restructuring procedures).

The results for the reporting period are the following:

Table no.1 The evolution of IMV index during 2007-2013

Year	IMV
2007	7,554066
2008	10,60788
2009	8,197929
2010	8,811499
2011	8,40209
2012	7,491961
2013	6,672712

Source: own calculations

Using IMV (Macroeconomic Vulnerability Index) as a warning signal requires more than determining its values in the reference period. It requires extra calculation of the mean and standard deviations of the IMV series.

These values are integrated into mathematical relations and specific decision models.

There are, as mentioned in the work of Codirlasu (2005) [4], four different procedures based on which evaluates the state of vulnerability/crisis: simple model,

deviations from trend, Chartist model, ARIMA model errors.

For this study we use a simple model of decision. In this model, signals of crisis occur when the following relationship takes place:

$$IMV_t > \mu + 1.5\sigma$$

where  $\mu$  is the mean and  $\sigma$  the standard deviation of the IMV series.

For the assessment of mean and standard deviation we have used the descriptive statistic method in SPSS.

The IMV series in SPSS processing leads to the following result for the reporting period, 2007-2013:

Table no.2 Descriptive statistics for the IMV series 2007-2013

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
imv	7	6.672712	10.607883	8.248306	1.254824053
Valid N (listwise)	7				

Source: own calculations using SPSS

Testing the crisis signal condition for the reporting period, the results are:

Table no. 3 Fulfillment of the crisis signal condition for the IMV series 2007-2013

Year	IMV value	$\mu + 1.5\sigma$	Crisis signal condition (Yes/No)
2007	7,554066	10,130542	No
2008	10,60788		Yes
2009	8,197929		No
2010	8,811499		No
2011	8,40209		No
2012	7,491961		No
2013	6,672712		No

Source: own calculations

The results reveal that signals are found during the crisis of 2008, a year characterized

by high inflation rate in the period under review, according to data provided by Eurostat, the annual value being 7.9%.

The situation is justified by low levels of M2 compared to the years that followed and a negative value of loans accelerator used in the index calculation relation of the IMV.

The year 2008 is a year of maximum vulnerability and the year of onset of the global financial crisis, felt even at a national financial level. Enhancing the credit risk management measures even in the case of companies under restructuring procedures is reflected by the fact that in following years, the condition of vulnerability is no longer met.

#### 4. Conclusions

The aim of our approach in this paper was the determination of the existing links between lending and economic vulnerability. This could lead us to the conclusion that lending has an accelerating effect at a macroeconomic level. Every fluctuation in the level of lending is transferred to the entire economy.

According to Mises [6], credit expansion can only lead to a crisis, and this is the reason for never overestimating it.

#### 5. References

- [1] B.Bernanke, M. Gertler, S. Gilchrist, „The Financial Accelerator and the Flight to Quality”, 1996, [www.jstor.org](http://www.jstor.org)
- [2] Herera S, Garcia C., *User's Guide to an Early Warning System for Macroeconomic Vulnerability in Latin American Countries*, econ.worldbank.org
- [3] Banca Nationala a Romaniei, Raport asupra Stabilitatii Financiare, 2014, [www.bnro.ro](http://www.bnro.ro).
- [4] Codirlasu A, *Factorii care determină crizele financiar-valutare și posibilități de anticipare și de prevenire a acestora*, Referat , Scoala Doctorala de finante-banci, Facultatea de Finante, Asigurari, Banci si burse de valori, ASE Bucuresti, iunie 2005;
- [5] Moinescu B., Canalul creditului și soldul bugetar: evidențe empirice din noile state member ale Uniunii Europene, *Economie teoretică și aplicată, Volumul XX (2013), No. 3(580), pp. 15-28*
- [6] L.von Mises, *Ciclul economic si expansiunea creditelor:consecintele economice ale banilor ieftini*, 1978, [www.mises.ro](http://www.mises.ro)

## Aspects Regarding the Accounting Information

Sălișteanu (Ștefan), Simona - Florina  
„Valahia” University of Targoviste  
[simona.salisteanu@gmail.com](mailto:simona.salisteanu@gmail.com)

### Abstract

*The aim of this paper is to make a review of the aspects that regard the financial - accounting information. I started by presenting the apparition of the term "the information", and I continued by revealing the role of the financial-accounting information. Because information have a major importance for the company's management, as well as for the external users, the disclosure of good quality So, I presented aspects about the quality of the accounting information and about the definitions proposed by academic researchers.*

**Keywords:** accounting, management, accounting information, quality of information.

**J.E.L. classification:** M40, M41

### 1. Introduction

The notion of accounting information begins to take shape in the eighteenth century. At that moment, the accounting was not a frequent practice, and the bookkeeping had no rules and no periodicity. The Colbert's ordinance appearance in 1673, ordinance that was making referring to the overland trade and in which were included rules applicable to all commercial trade, regardless of their quality, constituted the first step towards the emergence of accounting information. After that, accounting became mandatory, following to constitute evidence in courts in the event of litigation. Another result was the publication, by the authors who participated in drafting the ordinance, of some accounting books in which were presented modalities for registration of the economic "transactions". So, it is outlined the need for structuring and processing of existing accounting data - namely the emergence of the accounting

information. The accounting provides information considered to be the most appropriate to reflect the reality of the company and possibly to influence the choices and actions of internal and external users. Dissemination of accounting information is a "regulation" which ensures the sustainability of the relationship between the enterprise and its environment. Publication of transparent accounting information is important because it highlights the degree of adaptation to the economic reality of accounting systems, ensuring a smooth functioning of financial circuits and also being a sign of power and influence.

### 2. The role of financial-accounting information.

In the current context of diversification and development of market economy and of enterprises activities, it is noted corresponding evolution of the economic and financial information. This information reflects the financial situation of the company, how the material and human resources are used and the results of financial and economic activity, both for intern needs and for external ones (shareholders, customers, banks, tax bodies, other economic agents).

The rapid development of modern society requires a continuous improvement of the economic and financial information. It must be built in order to respond to the management's requirements for decision making, as well as to the informational needs of the enterprise partners [1].

The information provided by accounting thru content, destination or time of production, allow only partially solving the problems of management of economic units. The insufficiency of them for the needs to rapid resolution the problems on cost management, requires the organization of the managerial accounting, the second circuit

of accounting, circuit which has the freedom of choice of means and methods of information in accordance with the peculiarities and specific of the information requirements for all hierarchical levels of the management.

The internal accounting information is designed for the internal use or for managers. This information is non-standard, often non-monetary, and includes information on the unit cost of products, the behavior of costs relative to the volume of business or the products profitability. Reports are submitted to the management at short time intervals - monthly, weekly or daily - and are circumscribed to some subdivisions of enterprise called responsibility centers or profit centers [2].

The accounting information provided by the synthetic and analytical accounts are serving to economic and financial analysis as raw material in elaborating of some powerful diagnostics, based on the economic and financial reality accurately surprised in the concerned accounts. For analyzing the overall efficiency of an enterprise is very important the quantity and quality of financial and accounting information existing at a specified time in the economic system of the enterprise, preferably at levels more analytical. [3]

Knowledge and use of accounting information relevant for the enterprise is a fundamental matter in making all management and investment decisions on the capital markets.

The performance of an investment is related to the quality of financial information and faithful image of the reality of the transactions performed. Investors continuously evaluate current and potential listed companies in order to make the best decisions that will bring benefits and that will satisfy their present and future interests.

The investment decisions can be taken as a consequence of studying the capital market, but also from the perspective of financial analysis based on accounting information [4].

The users of accounting information have to take decisions constantly by using and understanding the accounting information provided from financial statements. The accounting information can be the best friend of the actual and potential investors if are used and understood properly [5].

For financial analysts, use of information relates to four key issues:

- Growth prospects of the economy are based on future expectations in terms of the economy as a whole, industry generally and society analyzed, particularly paying attention to the factors that have the greatest influence on the expected future performance (profit, dividend and share price);
- The significant factors in the financial market, with a focus on identifying factors that influence the company's market position;
- Investment parameters, being taken in consideration dividends and market price in conjunction with the accepted risk;
- The investment strategies, when the recommendations to invest on short, medium or long term, relies on two aspects: the expectations in the behavior of the shares and the synchronization in what regards the company performance [6].

Therefore, financial and accounting information as a means of representation of the economic reality of an entity is the key that opens and solves the economic problems, by providing the necessary support for taking the right decisions at the right time.

### **3. The quality of accounting information**

The quality of accounting information is evaluated based on its ability to reproduce the enterprise's reality without relying on issuer's perceptions and decisions. Quality can also be addressed from the point of view of users, and must respect the constraints of time and cost.

Over time, the notion "information's quality" was presented in several ways.

The characterization of quality is closely related with the conceptual frameworks, in particular with that of the FASB (Financial Accounting Standard Board), who first proposed a definition.

The proposed definition presents a set of features, hierarchical, which are designed to assist investors in making decisions to invest resources in a particular enterprise. Four features are required as follows:

- Relevance - represents the quality of the information to provide answers in a given situation;
- Reliability - is the ability of the accounting information to ensure a true, objective, verifiable and comprehensive overview of an economic events;
- Intelligibility - is an essential quality of the information provided by financial statements and means that they can be understood easily by users, for this purpose, users must have reasonable knowledge of business and economic activities and accounting concepts;
- Comparability - enables users to compare the information contained in the financial statements of various companies, in order to evaluate their financial position, performance and evolution of the

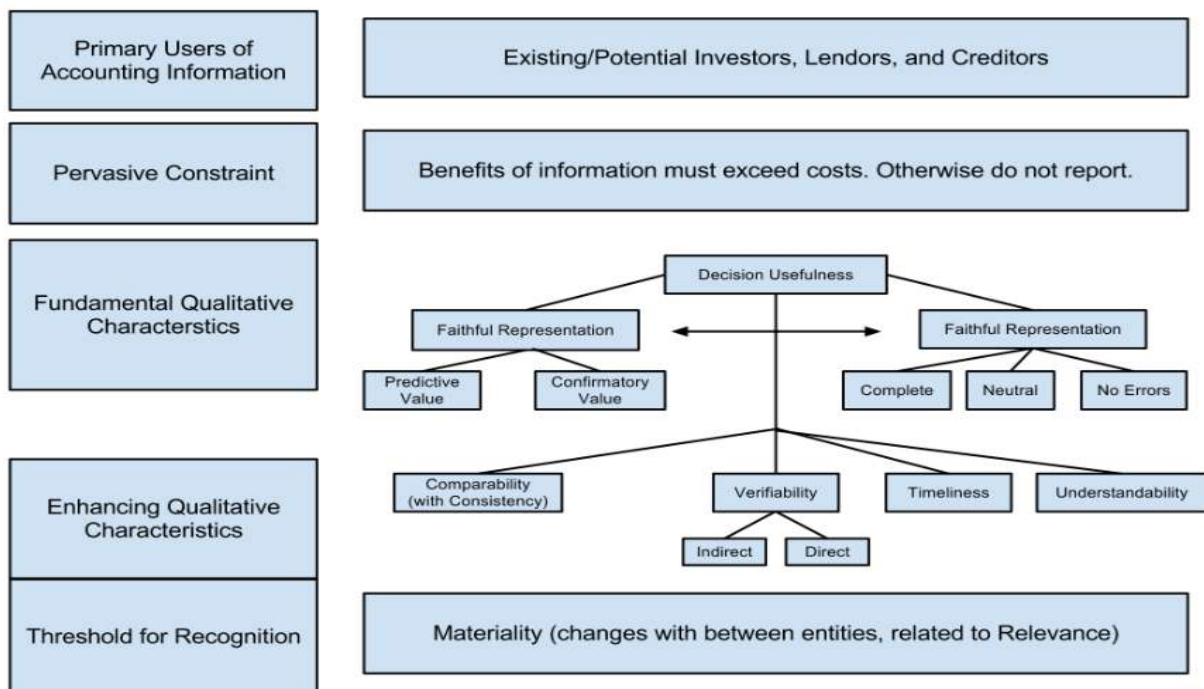
financial situation.

These four quality criteria are difficult to carry out. It is first necessary to determine the relative importance of information, the minimum quality accepted and the compromises that are made to achieve an acceptable overall level of quality.

In order for accounting information to be useful, it must contain certain qualities and meet certain standards.

The conceptual framework of FASB proposed the following hierarchical scheme for the quality characteristics:

Figure 1: Hierarchy of Accounting Qualities



Source: <http://ryandavidschreck.files.wordpress.com/2012/02/hierarchyofacctgqualities.png>

The academic research is widely interested in defining the quality of accounting information: on one hand as a reaction to the definitions proposed by the conceptual frameworks (for example, Vickrey (1985) offered one definition of the quality based on the limitations perceived

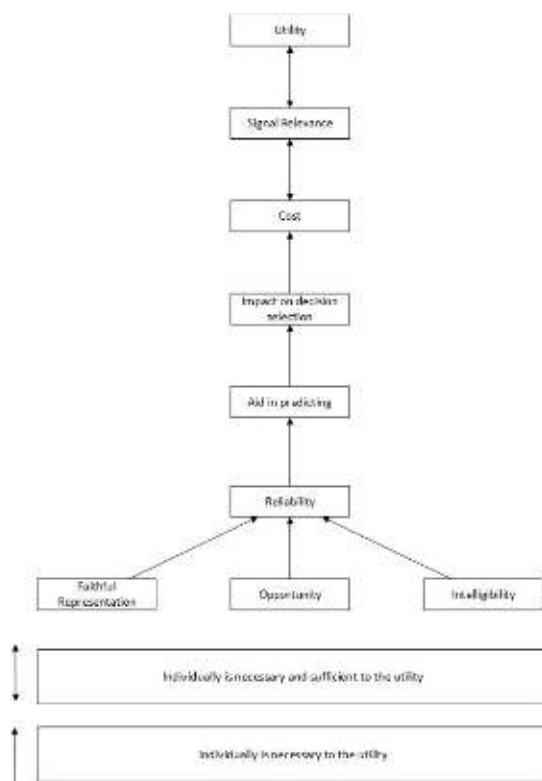
from the hierarchy proposed by FASB) ; on the other hand, because of the role played by the accounting information in optimal allocation of financial resources on the market (and the regulation of agency conflicts) [7].

Vickrey offers his own criteria for



classification quality of accounting information and their interrelationships, in a different reflection of the FASB. He proposed he proposed the next classification schema:

Figure 2: Hierarchy data quality criteria by Vickrey (1985)



Source: Michailenco; C., "Qualité de l'information comptable. Encyclopédie de Comptabilité, Contrôle de gestion et Audit", Economica, Paris, 2009, pg. 1225

Many others researchers tried to define the quality of accounting information and its characteristics. Hall sustained that useful information has the following characteristics: relevance, timeliness, accuracy, completeness, and summarization [8]. Hicks, notes in 1993 that relevance, timeliness, accuracy and the verifiability are criteria for the information quality. Maurice in 1994 and O' Briens & Marakas in 2010 summarizes the importance of information and classifies them into three dimensions, namely: time (consist of: timeliness, currency, frequency, time period); content (accuracy, relevance, completeness, conciseness, scope, performance); and form (clarity, detail, order,

presentation, media).

#### 4. Conclusions

The information generally, and especially the accounting ones, are experiencing a major change of the influence area, taking count of the current economic situation. Development of correct decisions that be consistent with reality and contribute to solve the problems from the financial and economic work of enterprise relies on the quality and quantity of information provided by economic information system.

The value of information is directly linked to how it helps decision makers achieve their organization's goals.

The notion of quality is inseparable from a conception of the role of accounting information and of the represented enterprises. It becomes even more problematic if the accounting cannot construct a reality of the business satisfactory to all.

#### 5. References

- [1] Mihalcuic, C., "Informația contabilă – suport pentru determinarea rentabilității întreprinderii", *Annales Universitas Apulensis series Oeconomica*, Alba Iulia, Nr. 8/2006, volumul 1.
- [2] Caraiani, C., "Bazele contabilitatii", Editura Infomega, București, 2005.
- [3] Crecană, C., „Rentabilitatea întreprinderilor mici și mijlocii”, Editura Economică, București, 2000.
- [4]/[5] Vătășoiu, M., Gheorghe, M., Motoniu, D., Boca, I., "Informația contabilă – baza analizei financiare în deciziile de investiții", *Analns of University "Constantin Brâncuși"*, Târgu Jiu, Economics, Nr. 4/2010.
- [6] Feleagă, L., Feleagă, N., "Contabilitate financiară, o abordare europeană și internațională", vol. I, Editura Infomega, București, 2009.
- [7] Michailenco; C., "Qualité de l'information comptable. Encyclopédie de Comptabilité, Contrôle de gestion et Audit", Economica, Paris, 2009.
- [8] Hall, J., "Accounting Information Systems", South-Western, Cengage Learning, 2011.

## Internal Audit and Relevance Within Companies

Seria Crina

*The Bucharest University of Economic Studies*

[crina.s239@gmail.com](mailto:crina.s239@gmail.com)

### Abstract

*The paper intends to emphasize the evolution of internal audit and its role throughout years from fraud detection, checking records, compliance procedures to adding value to the companies and providing assurance related to the policies and controls to safeguard data security.*

*The article also captures the way internal audit function interacts with external auditors. It is presented the relationship between internal and external auditors, considering the fact that companies could benefit from their cooperation, taking into account that they should complement each other in order to avoid the duplication of their efforts.*

**Keywords:** internal audit, external audit, evolution, role.

**J.E.L. Classification:** M42.

### 1. Introduction

Internal audit's role is of great importance, taking into account the fact that it must support the achievement of the company's objectives.

Internal audit is an important tool for stakeholders, taking into account their need to receive guidance in facing strategic business risks. As a consequence, in order to meet shareholders' expectations, internal auditors' role has to shift from the traditional approach to the value added approach.

When considering the agency theory, internal auditing is seen as being introduced to certify to shareholders whether company's management acts in a way that leads to the maximization of shareholders' wealth, while exerting their responsibilities in a proper manner. One role of the internal audit is to control the labor process within companies, and consider the risk management [1].

### 2. Evolution of internal audit's role

It is interesting to observe the evolution of internal audit role throughout years, considering the changing environment, needs of companies and stakeholders' perceptions and demands. Its routes can be traced at the commencement of the 13<sup>th</sup> Century, when the first two official state auditors: an external and internal auditor were nominated in the city of Pisa, as Filios mentions in 1984, being cited by Swinkels in 2012, leading to keeping for audit purposes two sets of books. Before the 16<sup>th</sup> century, when it was established the association of professional auditors in Venice, Bologna and Milan, internal auditors were merely state auditors. They were, in the past, acting on behalf of the state or the king [2].

The internal audit scope has extended, including transactions related to a society focused on business on 16<sup>th</sup>-18<sup>th</sup> centuries. The 19<sup>th</sup> century was relevant because it traced recent origins of internal audit function. Due to the occurrence of diverse operations related to U.S. and U.K. railways and the corresponding development of accounting systems, as mentioned by Spraakman in 2001 and cited by Swinkels in 2012, new procedures were developed. In the 1840s the mentioned firms started to carry out financial transactions on a large scale and that was translated into the need to nominate internal auditors that were asked to oversee the processing of these financial transactions, like station revenues, payment vouchers, as Swinkels mentions [2]. At that time, the work of internal auditors was equivalent to the nowadays scope of financial audit, being oriented towards financial processes.

Ramamoorti, in 2003, added that in the 19<sup>th</sup> century, internal auditors were also examining non financial data, like the adherence to schedules or the products quality [3].

Internal audit became more important as a result of the economic crisis in 1929 in the United States of America [4]. Starting to 1930s, companies willing to be registered at the Stock Exchange were asked by the Securities and Exchange Commission to provide audited financial statements [2]. As a consequence, due to the higher level of work, external auditors started to conduct their work using samples, considering the lack of time for conducting an exhaustive examination of the recordings. It appears that a detailed examination of transactions became the internal auditors' responsibility.

As a consequence, at that moment, the internal audit function was perceived as being an extension of the external audit. Sawyer in 1996, outlined the fact that the role of internal audit function has increased, considering the larger size and complexity of companies and the limited ability of the management to keep under systematic review the entities' operations [2].

The main function of internal audit before 1940 was checking propriety of records and transactions, a form of fraud detection [1]. A relevant step for the internal audit role development was in Florida in 1941, when it was created The Institute of Internal Auditors [2], an organism that throughout years has become the main international organism that coordinated the internal audit function.

Nowadays, it is considered that the presence and control activity of internal audit should be observed at all levels of an entity, meaning strategic level, management level and process level, contrary to the old vision on internal audit scope [2].

Moreover, internal audit has an important role in the IT area. Internal auditors must guarantee and ensure data security and privacy, as a PricewaterhouseCoopers study states. Internal audit is in the position to deal with any critical risk to the company, one of these weighty risks areas being information security and privacy, considering their capacity to cause reputational and financial injuries [5].

Internal auditors have become effective business partners. As specialists observed, there was a transition from compliance and routine controls to enhancement of business value, leading to a new image of internal auditors. The complexity of internal audit function is translated into certain abilities and

skills internal auditors must have [6].

Another important role internal audit has is related to ethics. The Institute of Internal Auditors mentions the fact that internal audit can play an important role in evaluating the objectives, activities and programs related to ethics, considering their design, implementation and effectiveness [7].

It is important that internal auditors themselves and all stakeholders understand the dual role internal audit has to exert in relation to the company's value. Internal auditors must protect the value of the company, by mitigating the waste of resources and fraud and by enabling and facilitating the safeguarding of the assets of the company. More than that, internal audit must behave as an advisor whose aim is to enhance the value of the company [8].

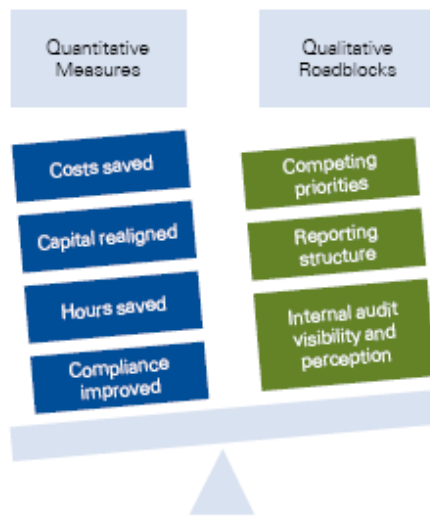
### **3. Internal audit in 2014 and in the near future**

A survey conducted by The Institute of Internal Auditors (IIA) highlights the need for analytical and critical thinking, being the ability of making good judgements in the business area [6]. The importance of critical thinking in internal auditing, as an open minded approach used for analyzing tasks and contexts, is stressed by a study realised by KPMG in 2014, called "Transforming Internal Audit Through Critical Thinking" and it is considered as being able to place the internal audit to a superior level. This approach implies a step-by-step practice of identifying new relationships and detecting current links and connections that can represent a source of valuable information. This information can be a support in managing risks and in appreciating the opportunities [6].

The figure number 1: "Quantitative measures and qualitative roadblocks" sheds light on the benefits of a critical thinking approach audit. An important aspect is value creation for the company, measured through indicators like number of hours saved, lower costs and an improvement in compliance.

On the other hand, there are some related challenges. One of them is the perception of internal auditors. When referring to internal audit's role is relevant to consider the perception of this type of audit inside the companies.

Figure 1. Quantitative measures and qualitative roadblocks



Source: A study conducted by KPMG, "Transforming Internal Audit through Critical Thinking", U.S.A., 2014 [6].

In order to observe the worldwide nowadays reality that describes the relevance and importance of internal audit, it was conducted a study by Thomson Reuters Accelus in 2014 [9]. This study is based on a survey that can be considered as being relevant, taking into account the fact that more than 900 internal auditors from 50 countries from Europe, Australia, Africa, America and Middle East participated and shared their experience and perception related to their work. These auditors were part of different industries, such as manufacturing, education, energy, financial services.

From the participants' answers it can be concluded that the most time and resources consuming area is the assurance on internal control processes for the last three years, followed by IT security and risk and process level risk management.

The figure number 2:" Areas to which internal audit's time and resources are primarily" included in this paper, emphasizes the areas that are less covered by internal auditors activity. These are: global expansion, corporate strategy, whistleblowing, customer outcomes, capital and liquidity [9].

The conducted study tried to capture the perception of internal auditors on the top priorities that firms' internal audit function should seek. The most two important

priorities perceived by internal auditors are the same areas where they spend their most time and resources, namely assurance on internal control processes and IT security and risks. However, internal auditors are aware of the importance of corporate governance, emphasizing the need to allocate more time and resources on this activity, when making a comparison with the present.

Some authors considered relevant to analyse tendencies for 2015. As Stanciu points out, while executive management and internal audit expect an advisory role and a concentration of efforts on operations referring to processes and IT, audit committee expects from internal audit activities align with the assurance role and a focus on finance and IT [8]. In order to meet the expectations and requirements of all stakeholders, internal auditors have the mission to militate for the equilibrium between assurance and advisory role. Specialists observe that the related perception is different between the users of internal audit information [8].

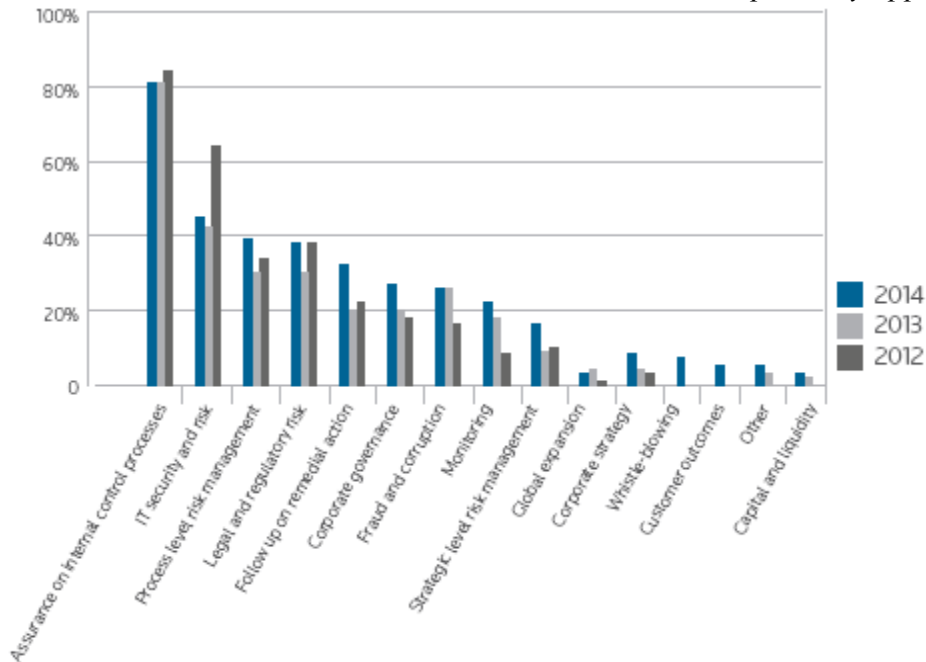
They can be viewed as policy enforcers or having a more flexible approach, as business consultants, when referring to their role. The perception also depends on their experience and skills, so that they can be considered as being experienced or not [6].

#### 4. Relationship with external audit

It is important to capture the connection and relationship between internal and external audit, in order to highlight their roles and relevance for companies and stakeholders.

The evolution of internal audit is connected to the existence of external audit. To a point, internal audit was only a prolongation of external audit, but afterwards, its area of applicability has extended. The relationship between these two types of audit represents a matter of interest for many specialists. For instance, Mihret and Admassu, conducted a questionnaire survey of 119 external auditors from Ethiopia in order to analyse the external auditor reliance on internal auditors work. The authors concluded that the most important factor determining the degree of external auditors' reliance on internal audit is the internal audit work performance [10].

Figure 2. Areas to which internal audit's time and resources are primarily applied



Source: Cowan, M., Camfield, H., English, S., Hammond, S., "State of Internal Audit Survey 2014: Adapting to Complex Challenges?", Thomson Reuters Accelus, 2014.

A side of the relationship between internal and external auditors is regulated through the International Standards on Auditing, no. 610, being revised by International Auditing and Assurance Standards Board, called „Using the work of Internal Auditors”, that regulates the reliance of external auditors on internal audit. The relevance of internal auditors' role is assessed by external auditors, in order to determine if their work, which consists in conducted tests, documentation, business analysis represent a relevance source for information and a premise for a minimization of their efforts. Prior to using the work of internal auditors, external auditors should take into account the objectivity, work performance and competence, as Gramling et al, stated in 2004, being cited by Aldred et.al. [11].

There are some effects generated by the relationship between internal and external audit based by reliance on internal audit function. As examples, aspects like audit fees, the quality of financial statements and internal control and audit efficiency. Aldred et. al (2013) concludes that the reliance of external auditors on internal audit leads to lower audit fees.

Some studies focused on the similarities and differences between internal and external

auditors. As a resemblance, internal and external auditors activity is regulated by international standards issued by professional organisms. Another common aspects are the underlined importance of independence and the presentation of their assessment, through audit reports [12].

Despite of the similarities, there are many differences between these two types of audit, considering the distinct role these two function must play within the companies. The differences come from the place within the company, their objectives, the approach on internal controls, on risk and fraud and the frequency of audit [12]. Moreover, internal and external auditors provide information for different stakeholders.

Internal auditors should be more connected to the activity, processes, risks and events related to the organization than the external audit, considering their position within the entity, being part of the organization. In terms of independence, internal audit is expected to be independent from the activities subject to auditing, while external auditors must be independent from its client and organization [12]. Moreover, other two differences are related to the associated skills needed to fulfil their roles and the attitude related to improvements.

Internal auditors must possess skills that allow them to understand the company's corporate governance and risks like operational, compliance, strategic and business risks, while external auditors must only understand the business in order to question the use of accounting standards [13].

## 5. Conclusions

Although internal audit appeared as an extension of external audit, its scope became broader and can be considered as being a business partner for entities.

If in the past internal auditors' time was spent on a detailed examination of transactions, nowadays, internal auditors spend almost a half of their time on IT security and risk. This is consistent to the fact that internal auditors should have a more significant contribution to information security. Moreover, the results of a study conducted by a group of specialists on 900 internal auditors showed that more than 40% of the interviewees interact with risk management on a monthly basis.

The new trend in internal auditing is that a critical thinking integrated in the audit process makes internal audit be considered a valuable business partner.

Recent studies underline the fact that the majority of internal auditors focus on offering assurance on the internal control process efficacy.

The relationship between internal audit and external audit is important, considering the benefits derived from their cooperation but also because of the resemblances and divergences between these two types of audit. For a proper efficiency, internal and external audit should complement each other.

## 6. Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”

## 7. References

- [1] Mihret, D.G., “How can we explain internal auditing? The inadequacy of agency theory and a labor process alternative”, *Critical Perspectives on Accounting*, Elsevier Publishing, 2014, pp.1-12.
- [2] Swinkels, W., *Exploration of a Theory of Internal Audit*, Eburon Academic Publishers, 2012.
- [3] Ramamoorti, S., „*Internal auditing: History, evolution, and prospects*”, The Institute of Internal Auditors Research Foundation, Florida, 2003.
- [4] Petraşcu, D., “Internal audit: defining, objectives, functions and stages”, *Studies in Business and Economics*, Lucian Blaga” University Publishing House, Sibiu, 2010, pp.238-246.
- [5] PricewaterhouseCoopers, „Fortifying your defenses: The role of internal audit in assuring data security and privacy”, 2012.
- [6] KPMG, “Transforming Internal Audit through Critical Thinking”, U.S.A., 2014.
- [7] The Institute of Internal Auditors (IIA), „Sustaining an Ethical Culture”, *Tone at the top*, 2014.
- [8] Stanciu, V., „Internal audit – Rising to the challenge”, paper presented at the 7th International conference „Accounting and Management Information Systems”, Romania, 2012.
- [9] Cowan, M., Camfield, H., English, S., Hammond, S., “*State of Internal Audit Survey 2014: Adapting to Complex Challenges?*”, Thomson Reuters Accelus, 2014.
- [10] Mihret, D.G, Admassu, M.A., „Reliance of External Auditors on Internal Audit Work: A Corporate Governance Perspective”, *International Business Research*, Canadian Center of Science and Education, Canada, 2011.
- [11] Bame - Aldred, C.W., Brandon, D.M., Messier, W.F., Rittenberg, L.E., Stefaniak, C.M., „A Summary of Research on External Auditor Reliance on the Internal Audit Function”, *Auditing: A Journal of Practice & Theory*, 2013, pp.251-286.
- [12] Pop, A., Boţa-Avram, C., Boţa-Avram, F., “The Relationship between Internal and External Audit”, *Annals Universitatis Apulensis Series Oeconomica*, 2008.
- [13] European Confederation of Institutes of Internal Auditing, „Position Paper: Improving cooperation between internal and external audit”, The Institute of Internal Auditors, Belgium, 2013.

# Performance Audit of Resource Utilization During the Economic Crisis

Stefan Liviu

*University of Economics Studies Bucharest*

[Stefan\\_2L@yahoo.com](mailto:Stefan_2L@yahoo.com)

Păunică Mihai

*University of Economics Studies Bucharest*

## Abstract

*During economic crisis, the public institution's performance has become an important aspect. In this context, performance audit is a tool for the detection of risks to which companies are vulnerable, trying at all times to respond to the strict minimum necessary that increases performance. Audit shall assess the performance criteria established if the implementation of the objectives and strategies for the organization and operation are correct and suitable comply with performance indicators..*

**Key words:** economic crisis, performance indicators,,audit

**JEL Classification:** E62, H6, J21..

## 1. Introduction

Article discusses the measures taken by public institutions on increasing convergence of government on how to finance the public sector in order to overcome the financial crisis and budget deficit reduction, initiated in 2008. In this respect, the role of performance audit follow in evaluating and analyzing key financial indicators of the public sector, following the way of realization of revenues and expenditures, the relationships established between them and influence on political decisions, economic and social

The general budget is an instrument of fiscal policy that are related not only revenue and expenditure of the state budget (central budget and local budgets) but also their connections, especially the budget deficit, the balance of the current account deficit of the balance of payments with the gap between

investment and savings. Currently, knowledge and concern for reducing the budget deficit continues to be of great importance for Romania, the more that our country faces great difficulties in economic change. On the other hand, as a member state of the European Union, Romania must comply with the condition imposed by the Treaty of the European Community to limit the budget deficit to 3% of GDP and public debt at 60% of GDP.

## 2. The effects of the international economic crisis on Romania

According to the National Statistics Institute (INS),[1] in 2008 the Romanian economy grew 7.1%, 1.1 percentage points higher than in 2007 but below the estimate National Prognosis Commission (NPC) of 7.9% .

This difference stems largely from poor outcome recorded in the last three months of last year, when the economy grew 2.9%, the weakest pace of appreciation in the last nine years. Industry was the main victim of the economic crisis, which saw a decrease of 7.7% compared to the same period in 2007, while real estate activities, financial, renting and business services also declined by 1.5% compared to the same reference period.

While the industry was affected by the decrease or even cancel orders for export or local consumption has also decreased due to declining revenues. Higher rates on loans taken in foreign banks, the trend saving and freezing or lowering wages in the private sector, if not job loss have reduced the final consumption of households by 4.7%, the largest decrease being in the case of services provided to the population, those of 14.7%.

Due to the economic crisis and declining purchasing power of the population they

turned their attention to the products lower in terms of quality and so due to financial crisis became oriented entities sustainability and to strengthen, streamline production costs and maturing in terms of view of investment.

Since July of 2008 crisis, the number of registered unemployed increased to up to a maximum point (765 000 people) in March 2010; in the months that followed, the indicator has seen a steady decline, so that by the end of the year, the evidence for employment agencies has registered 627 thousand people unemployed, 11.6% less than at the end of 2009.

The global economic downturn has affected all Romanian companies, access to financing from banks has been blocked by the state. Basically, through the Ministry of Finance has borrowed from private banks almost the entire money supply in the market in order to pay public sector salaries and pensions, the government blocked indirectly national economy.

Public administration in Romania and its administrative and political structures started to become ineffective with emphasis on labor migration abroad, independence of public and private sector also preferentially future employees for a job in the private sector which is considered as such be more dynamic and competitive.

"Performance" is one of the most commonly used concepts in institutions. It aims to increase efficiency in the process of implementation and revenue collection and increased spending in the economy. To achieve these objectives it is necessary to establish a set of performance indicators for each department according to the general objectives set.

### **3.Application performance audit of resource use in a public entity**

Performance audit is an examination or an independent and objective evaluation of the extent to which a program or activity of a public entity operates efficiently and effectively in compliance economy, efficiency and effectiveness. International standards define INTOSAI performance audit [2] as "an audit of economy, efficiency and effectiveness with which the audited entity uses its resources to fulfill its responsibilities."

INTOSAI (Standards International Organisation of Supreme Audit Institutions) establish that the performance audit includes examining economy, efficiency, and effectiveness of the "3 E" as follows:

- Audit economy of administrative activities in relation to the principles and practices of management,
- Audit efficiency human resource, financial and other resources, including examination of information systems, how to measure and track performance indicators, and the procedures followed by the auditee to address any deficiencies identified;
- Auditul Effectiveness of performance on the objectives of the audited entity and audit of the actual impact of the entity compared to its planned impact.

#### **3.1.The level of achievement of purposes**

This examination is performed to assess the following issues[3]:

- The degree of fulfillment of the objectives of the programs and activities financed from public funds.
- Evaluation of the structural organization of the entity in order to carry out the work, programs or projects;
- Evaluating the design and implementation of sectoral programs and strategies
  - Evaluating the implementation of specific programs or activities
  - Evaluating the establishment and maintenance of relationships with NGOs in the country and abroad, working in the field.
- Evaluate how management entities exercise their powers on planning, implementation, monitoring and evaluation of programs and activities which it is responsible. Examine if necessary corrective measures have been taken and evaluated those management actions that have a significant impact on the economy, efficiency and effectiveness of the entity's business program.

#### **3.2. The performance audit aims to[4]:**

- Examine the internal control system of the audited entity, aiming to whether the objectives of internal control aimed at preventing obtaining a poor managerial performance,
- Evaluate the decision to chose the best option to run a program or a activities and have been established or not, the appropriate



criteria for choosing the optimal alternative to achieve the objectives set,

- Analysis of the administration of a program or activity and evaluation of the performance measurement system. If the program or activity being audited were established performance indicators, assess the extent to which they have been properly designed and monitored and that all necessary measures have been taken to achieve them.

### **3.3. Measurement and evaluation of economy, efficiency and effectiveness**

Measurement and assessment of economy, efficiency and effectiveness of both the legislature and the executive need information on the measurement and assessment of economy, efficiency and effectiveness of programs and activities designed to make decisions and take measures to improve performance[4].

It should be noted that the information provided are meant to show the extent to which programs or activities of public institutions and have attained scheduled. If the objectives of a program or activity were not met or were partially implemented, auditors must determine the causes that led to this situation and at the same time make recommendations to improve performance.

Both the performance audit and evaluation studies conducted outside the scope of the audit are intended to assess the functioning and developed some specific programs. It is also important to take into consideration the relationship of the functions of measurement and performance evaluation

### **3.4. Performance measurement**

Through performance measurement means that constant process of monitoring, evaluation and reporting of the way in which the programs or activities at all stages of their performance[5].

Performance measurement is based on examining how a program has achieved its objectives or requirements by continuously reporting the performance standards set.

A special task for performance audit is to evaluate the performance measurement systems of government programs and activities, in terms of implementation and operation of efficient and effectively.

### **3.5. Identify and evaluate the following risks[6]:**

- Incorrect substantiation necessary funds to finance a program/activity
- Failure to comply with the legal provisions concerning the award of contracts for procurement of goods, works and services.
  - Making legal commitments above the approved budgetary provisions.
- Make payments for expenses unrelated to the purpose, objectives and legal duties of public institution.
  - Failure to comply with the principles of economy, efficiency and effectiveness in the use of public funds to finance a program
- Failures in service of goods purchased, the non acceptance of the works performed, the non-provision of services.
  - Failure to complete and / or Non-receipt of capital repair works and investments..
  - Failure to properly control or failure by the public institution of the use of funds
  - Failure to monitoring by the public institution of the performance indicators.

### **4. To better understand the role of performance audit in mitigating the effects of the economic crisis I will present the following case study.**

Economy, efficiency and effectiveness of funds allocated from the state budget for national minorities purpose programs and projects implemented by institutions to finance work on supporting national minorities, is the promotion and organization of programs on the guarantee, preservation, expression, promotion and development of ethnic, cultural, linguistic and religious identity of national minorities, both by the competent authorities in Romania and by associations and their representative organizations.

According to HG 52/2014 [7] the amounts to support organizations of national minorities, and to fund projects and programs to combat intolerance and ethnic, approved by Government Decision .

### **4.1.Results expected from the implementation of these programs are:**

The preservation, promotion and development of ethnic identity of national minorities;

- Fostering shared values, combating discrimination and prejudice, promoting cultural diversity, linguistic and confessional;
- Developing programs and activities initiated by ethnic organizations, associations, foundations and public institutions;
- Establishing and maintaining relationships with NGOs in the country and abroad, working in the field of national minorities and anti-discrimination on ethnic grounds.
- Identify specific problems and solving them minorities, in collaboration with local government authorities, the representatives of territorial jurisdiction;
- Establishing a legal framework affecting the rights and duties of persons belonging to national minorities.

#### **4.2. The objectives of the audit, aimed at increasing the performance of the use of funds during the economic crisis**

According to OUG 114/2009 [8] considering the evolution of the economic crisis in 2009 and its extension in 2010 , it must take urgent action in order to ensure compliance with the commitments assumed by Romania by signing loan agreements with international financial institutions, agreements absolutely necessary for Romania's economic stability , to achieve the targets of the general government deficit in 2010.

Taking these measures urgently required in view of the need to adopt as soon as possible in the State budget law and the law on State social insurance budget, the sine qua non for the maintenance of agreements with international financial institutions.

##### **4.2.1 The overall objective is the legality, reality, economy, efficiency and effectiveness of the use of funds allocated to support national minorities:**

- **assess savings** in managing funds allocated to support national minority organizations and projects and programs audited, ie the extent to that the principles and management practices to ensure cost

minimization allocated resources, without compromising the smooth achievement of objectives;

- **assessing the efficiency** of human, material, financial, including examination of information systems on the performance indicators, internal control system and procedures followed by the auditee, respectively maximize project results in relation to the resources used and establish the relationship between results and cost resources used to achieve these;
- **assessing the effectiveness** of public funds, namely the establishment of the achievement of the stated objectives of the project and compare actual impact achieved the desired impact;
- **evaluating the internal control** system; compliance with legal regulations on inventory and evaluation of public and private property to the state under the administration of the entity;
- checking the transactions related programs and projects with the law and regulations

##### **Specific objectives of performance audit:**

- Assessment of substantiation achievement of the budget objectives and targets;
- Evaluation of the structural organization of the entity in order to to conduct business , programs or projects;
- Evaluating the design and implementation of sectoral strategies and programs for national minorities;
- Evaluating the cultivation of common values, to combat discrimination and prejudice, promoting cultural diversity, linguistic and confessional, how to monitor the indicators used in this sense;
- Evaluating the implementation of programs and activities initiated by ethnic organizations, associations, foundations and public institutions;
- Evaluating the establishment and maintenance of relationships with NGOs in the country and abroad, working in the field of national minorities and anti-discrimination on ethnic grounds;
- Assess how to identify specific problems and solving them minorities, in collaboration with local government authorities, the representatives of competent authorities;
- Assessing the legality of procedures for the award of public procurement contracts for goods, works and services;

- Assessment of highlighting the real costs of projects / programs in order to increase transparency in the use of public funds;
- Assessment of settlement goods, services and works by the institution with associations, foundations, organizations, institutions or individuals and legal representative of national minorities, within the approved budget and in compliance with the principles of economy, efficiency and effectiveness in the use of funds;
- Evaluation of control by the the institution of the use of funds to support the program on national minorities.

#### **4.2.2. Performance indicators in order to assess performance were determined following specific indicators:**

- efficiency indicators
  - number of collaborations with academic institutions (eg UN Alliance of Civilisations initiative was launched in Romania)
  - number of projects ethnic achieved
  - number of legal documents and monitoring reports (decisions by the Government that have been promoted and adopted by the Government for approval of the distribution and use of amounts to support national minorities);
  - official views on various legislative proposals in the field of protection of rights of national minorities;
  - number of contacts and international cooperation (Romania's participation in the UN Alliance of Civilisations initiative, monitoring of international conventions of the Council of Europe system and other two from the United Nations).
- Effectiveness indicators ::
  - number of research studies, surveys and statistics made (works monitoring European conventions eg 2010, monitoring of the Transylvanian Saxons);
  - degree of achievement of educational and cultural-ethnic projects (eg minorities stand Guadeamus- book fair in November, Bucharest minority Theatre Festival held in Arad and Eurothalia -Timișoara festival, Festival Peninsula - Tg.Mureș, ethnic Film Festival - Tulcea);
  - number of books, publications, multimedia materials made (eg brochure Guide ethnic

minorities in Tulcea County, bilingual, textbooks in Hungarian);

- number of legal documents drawn up, viewpoints, responses to inquiries;
- number of methodological documents, monitoring and evaluation reports prepared,
- number of contacts and cooperation with international institutions and organizations;
- number of articles published, including on the website (boxes on the web page related activity; specialty materials for the use of radio and television who specialized in minority issues);
- number of people prepared through training programs, exchanges.

## **5. Conclusions**

The role of performance audit on reducing the economic crisis, highlighted in the case study is outlined by the following aspects:

- adds value to the work undertaken by the institution, by implementing methods to enable compliance with the criteria of economy, efficiency and effectiveness the use of public funds, namely: reducing costs, increasing resource efficiency and achievement of goals;
- identify the solutions that lead to the use of public funds on the basis of sound financial management and to increase the transparency of the use of public funds;
- remove non-compliances identified in the institution, which were due to non-compliance or legal entity is conducting business in a legal framework with gaps, inconsistencies and imperfections.

The contribution of performance audit in mitigating the effects of the financial crisis, by reducing public spending and eliminating gaps for the activity of the institution in terms of legality, economy efficiency and effectiveness, it highlights the following recommendations:

### **5.1. In order to draw up the budget for the work undertaken by the institution on principles of efficiency and economy:**

- foundation necessary for carrying out the institution's budget based on programs, each program is based on the amounts and types of project activities;
- substantiation budget proposals based on policies and results;

- to construct a feasible budget estimate as accurately as possible for all categories of spending necessary to achieve the object of activity;
- to decrease the pressure on the public budget is necessary budgetary projection stage to require the organizations statement of all revenue received by them, so that funding allocations from budgetary sources to complement them;
- to substantiate the budget to take account of the condition of "partiality" provided in regulations so that public funds to be allocated a share of "co" and not a full funding;
- initiate action to issue a regulatory action for "specific law" to be included in the budget in terms of the legality of the amounts needed to finance organizations;
- budgeting of all activities within programs and limiting the potential "contingency".

### **5.2. To overcome the shortcomings noticed and for the activity of the institution in terms of economical efficiency and effectiveness:**

- financing activity programs within each program with the possibility to carry out several projects;
- establishing the program of SMART objectives namely: specific (S), measurable (M) reached (A), achievable (R) and planned time (T);
- detailed planning of activities, with a clear and an estimate of achieving real time, in a logical sequence and in conjunction with the project;
- clear details of eligible expenditure which is to be financed under the project and specify express non-eligible expenses;
- budgeting activities and setting ceilings for different types of expenses (eg up to 10% of the project ...)
- promotion of cultural and intercultural programs specific at EU and at national and subjecting them to the approval of the Secretary of State coordinator;
- tracking indicators to ensure correlation with the approved make, and its coverage as expressly provided in the job task project coordinators.
- completion activities in the institution with "Activity Reports" related;

- prioritizing activities / projects / programs undertaken by the institution and their financing by priority

### **5.3. To overcome the shortcomings noticed and for the activity in terms of legality and regularity**

- Content management protocols concluded between the institution and representatives of national minorities is consistent with legal provisions and with the statute under which it operates these organizations;
- Completion of content protocols concluded between the institution's management and representatives of national minorities for the latter obligation to respect the principles of legality, economy, efficiency and effectiveness in the use of public funds;
- Develop a procedure for monitoring the use of funds allocated to organizations of citizens belonging to national minorities, in respect of legal destinations, involving not only the verification of data reported by the beneficiary organizations, but these organizations and request spot checks and documents justifying the use of the funds as intended legally established;
- Initiate a law to complete annual government decisions governing the division also states the use of amounts of budget laws for minorities, with express provisions regarding the obligation of opening of accounts by organizations (foundations, associations) who receive income from the state budget treasuries territorial administrative units across which they reside.

## **6. References**

- [1] [www.insse.ro](http://www.insse.ro)
- [2] INTOSAI ISSAI 3000, Performance Audit Guidelines
- [3] [www.rcc.ro](http://www.rcc.ro)
- [4] INTOSAI's Auditing Standards and practical experience
- [5] *Journal of Public Finance and Accountancy*
- [6] Performance Audit Manual, the Court of Accounts, 2013
- [7] HG 52/2014 of the approval of the distribution and use of amounts to support the organizations of national minorities
- [8] OUG 114 /2009 financial and budgetary measures for 2010

# The Evolution of the Fair Value Accounting – A Response to the Global Financial Crisis

Stoica Anamaria

*The University of Economic Studies, Faculty of Accounting, Bucharest*  
[stoica.anamaria20@yahoo.com](mailto:stoica.anamaria20@yahoo.com)

Buculescu (Costică) Maria Mădălina

*The University of Economic Studies, Faculty of Accounting, Bucharest*  
[buculescumadalina@yahoo.com](mailto:buculescumadalina@yahoo.com)

## Abstract

*The global financial crisis is a reminder of the fact that no matter how much we know, we don't know enough. Starting from this statement, the current research paper aims to observe the evolution of the concept fair value accounting and to analyze it from a cause - effect perspective, in the context of the global financial crisis.*

*On the one hand, from a cause perspective, the paper analyzes the opposite opinions present in the specialty literature regarding the influence of this valuation method in the evolution of the crisis.*

*On the other hand, from an effect perspective, the authors focused on the related legislation and upon the evolution of standards issued by the regulatory institutions, at a global level.*

**Key words:** fair value, financial crisis, IFRS 13, FASB, IASB

**J.E.L. Classification:** M41

## 1. Introduction

The dimension and the effects of the financial crisis have triggered the efforts of business and academic environment to analyze the causes of the situation and the solutions to cope with it.

The crisis is often considered an effect of the United States housing bubble, even though such a complex event is the result of a multitude of factors, among which we can highlight the micro and macro policies, together with the poor regulatory framework. Previous research papers are also counting

the fair value accounting as a triggering factor for the recent financial crisis.

Considering the literature review, the study briefly introduces the concept of fair value accounting, aiming to understand how this value measurement concept is perceived in the specialty literature, analyzing the reactive attitude of the regulatory institutions to the financial crisis and the evolution of the standards issued to support the dynamism of the business environment.

The current research paper is structured in 2 parts. The first part is presented as a review of the literature, with the purpose of identifying the most mentioned potential causes of the recent financial crisis, followed by an analysis regarding the evolution of fair value concept and ending with a comparison between different perceptions upon the impact that the fair value accounting had in the context of the financial crisis.

The second part of the paper is represented by a legislative research aiming to identify the evolution of international standards that were issued as a response to the economic and financial changes that are taking place in society, looking through the loop of a crisis period and observing the elements from the cause –effect perspective.

## 2. Potential causes of financial crisis

The aftermath made in order to determine what are the causes of the financial crisis is quite complex and subjective, depending on the perspective from which the event is analyzed. Blundell-Wignall and Atkinson (2008) are considering the financial crisis as an event generated on the one hand by the global macro policies affecting the available

liquidity and on the other hand by a poor regulatory framework. [1]

De la Dehesa adds to the list of causes: the surpluses available in emerging markets together with easy loans conditions in developed countries, the complexity of the financial instruments linked to the mortgage activity, the excessive leverage together with the excessive risk-taking attitude of managers plus the theoretical factors that consider that markets are efficient and the agents are rational. [2]

In the context of the financial crisis, the integrity of the accounting information offered to investors was also questioned, considering the fact that the quality of the financial reporting is crucial for building a global economy. [3] Under such conditions, the fair value accounting is frequently described as an important link in the string of events that created the premises of the financial crisis [4]

### **3. Defining Fair Value**

The fair value concept is defined in the specialty literature in several ways, each definition bringing to the prior one, either an important element necessary to complete the definition, or a clarification, in order to avoid confusion among users. In order to understand the evolution of the fair value concept, the authors stopped at 3 definitions that they considered the most relevant.

According to Tournier (2000) fair value is considered the price for which an asset can be changed in terms of an equilibrated transaction. [5]

This definition is completed later by Holmes (2002) that adds the fact that the parties have to be informed and determined, underlying here that the fair value concept is not the result of opinions, assumptions or perceptions, but the result of the information accumulated prior to a specific transaction. [6]

The regulatory institution, International Accounting Standard Board (IASB, 2007) added a new element to the attempt to define the fair value concept, the clarification that this fair value is also applicable for liabilities and not only for assets, defining the concept as the amount of money to which a certain asset can be traded or a liability can be discounted between informed parties,

considering that the exchange is realized at an objectively determined price. [7]

We might say that fair value accounting is a recent concept, seen as the result of a change requested by the market, that is seeking for a value closer to the economic reality, that can reveal to stakeholders in which way the value is generated. [8]

The sustainers of this evaluation method is the International Accounting Standard Board (IASB), the body responsible for issuing accounting standards entitled IAS/IFRS, which are perceived of heavily relying on fair value measurement, contrary to the previous national standards that were relying more on prudential accounting, the historical cost.

Starting with 2005, 100 countries around the world became familiar with the fair value measurement through IAS/IFRS usage and 7,000 listed companies from European Union started using it due to mandatory IFRS application for the member states. [4]

### **4. Correlations between fair value accounting and financial crisis**

The quite recent concept of fair value accounting raised the interest of the business and academic community due to the impact of the change that it represented, from a prudential accounting to a market price accounting.

Moreover, during the financial crisis period, the focus upon fair value increased due to the high applicability in the banking environment, which was considered one of the main players in complex event represented by the financial crisis.

Starting with 2008, the research papers splitted in two opposite viewpoints in the academic literature, regarding the role of the fair value accounting during the financial crisis. Some research papers sustain that the fair value usage was one of the triggers of the financial crisis, while other research papers plead for a small impact of the new evaluation method in the context of the financial crisis.

On the one side, among the research papers that sustains the fact that the fair value was a catalyst of the financial crisis is the one written by Plantin et al (2008), which considers that this type of value measurement leads to inefficiencies by injecting artificial

risks, which is generating a degradation of the information with respect to the value of prices, leading to sub-optimal decisions.

The framework constructed in the research paper, emphasized that the marking to market is generating the greatest damaged when claims are: senior, illiquid and long-lived, these 3 attributes being the main attributes of the balance sheets of financial institutions like: banks and insurance companies. [9]

The same theory is sustained also by De Grauwe (2008) which considers that financial institutions are very precise instruments to co-ordinate the economic activities and the intrusion of the fair value accounting doesn't bring any benefit, on the contrary, the banks are forced to record losses on their balance sheet for the assets that are caught by the liquidity solvency spiral, even though the assets are sound. Such events are creating panic in the economic environment and the effect is a downward accelerated spiral. [10]

On the other side, among those that consider that fair value accounting was not the cause of the credit crunch that worsened the financial crisis is the Institute of Chartered Accounts from England and Wales (2009) and furthermore they consider wrongly to abandon the current use of fair value applicable for financial instruments.

From their perspective the fair value will keep the transparency of the financial information at high standards, and in this way the confidence will be restored, the problems will be assessed easily and can be addressed faster. [11]

The same opinion is sustained by Laux and Leuz (2009), which based on the analysis performed they can conclude that it is fairly unlikely that fair value accounting to have a major impact on the severity of the financial crisis. The analyzed descriptive and empirical evidences revealed there is few evidence that fair value accounting leads to an excess of write-downs of banks' assets. On the contrary the data indicated in the opposite direction, towards an overvaluation of the assets. [12]

## 5. Evolution of the fair value standards

The opinions expressed in the literature review are revealing different perspectives upon the importance of fair value in the

context of financial crisis, some papers sustain this valuation method is one of the most important triggers of the crisis, while others consider the implication is minimal, but all of them agree on the point that the fair value accounting has an impact, no matter the size.

On the same direction, the IASB also considers that one of the most important lessons that the global financial crisis taught us is the importance of having a common fair value measurement and disclosure requirement – with identical wording- in both referential: IFRS and GAAP. [13]

Over the years, International Accounting Standard Board (IASB), Financial Accounting Standard Board (FASB) and International Valuation Standards Council (IVSC) showed an increasing interest in the concept of fair value reflected in the developed standards, that are providing necessary details for a correct usage of the concept of fair value accounting.

In this direction, starting with 2005 IASB and FASB joint the efforts in order to create a common set of high quality global standards, because having the same fair value measurement reduces the diversity when the standards are applied, the comparability and transparence of financial statements improve. [13]

### 5.1. FASB (FAS 157 and FAS 159)

FASB - Financial Accounting Standard Board is an institution which activates in the private sector and its main activity is represented by issuing accounting standards for financial reporting in United States.

The mission of the Financial Accounting Standard Board is stated on their official web site and consists in establishing and improving standards of financial accounting and reporting, that foster the financial reporting by nongovernmental entities that provides useful information, from a decision stand point, to investors and other users of financial reports.

One of the objectives attached to the mission presented above is an increased consistency and comparability in the fair value measurements. This objective was addressed by the release of 2 accounting standards FAS 157 Fair Value Measurement and FAS 159 The Fair Value Option for

Financial Assets and Financial Liabilities plus the Accounting Standards Update (ASU) 2011-04 - Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs [14]

The accounting standard FAS 157 was issued in September 2006 and defines the concept of fair value as being the price that would be received to sell a certain asset or the price paid to transfer a liability in a transaction between the market participants at the measurement date.

To assure that this concept is correctly understood and applied, a very detailed explanation is offered for every word used in the definition, but also the hierarchy of the words is emphasized.

In this context, through hierarchy we understand a ranking of quality and reliability of information used as inputs for the valuation techniques, and its main purpose is to increase the degree of consistency and comparability of fair value measurements and to corresponding disclosures.

On February 2007, six months later after FAS 157 was released, the Financial Accounting Standard Board - FASB issued a new standard - FAS 159.

The difference between FAS 157 and FAS 159 is that the latter applies to stocks, bonds, loans, warranty obligations and provide entities the possibility to measure at fair value the financial instruments and some other items.

The objective of this standard is to improve the financial reporting documents by offering to entities the chance to mitigate the volatility in reported earnings, due to measuring relates assets and liabilities.

In May 2011, the Statement Accounting Standards Update (ASU) 2011-04 was issued and it was entitled Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs, in order to assure the same understanding of the concept of fair value with the IFRS 13. [15]

Prior to this update, the different existing definitions and guidance for fair value application were creating inconsistencies among financial statements and FASB considered that the update ASU 2011-4 will

increase the consistency and comparability of fair value measurements.

The new update didn't extend the use of fair value accounting but provided direction on how it should be applied when already required or permitted. [15]

## 5.2. IASB (IFRS 13)

The IASB (International Accounting Standards Board) is an independent not-for-profit private sector organization working in the public interest, committed to develop, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements.

This international organization showed her interest for the fair value measurement through several accounting standards developed. The first attempt to present the fair value concept is visible in IAS 39 – Financial Instruments: Recognition and Measurement, through an amendment made on 15 June 2005 - Amendment to IAS 39 for fair value option. On 12th of November 2009 IFRS 9 Financial Instruments issued, replacing the classification and measurement of financial assets provisions of IAS 39. [16]

Under IAS 39 and IFRS 9 fair value accounting is defined as being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

On 12<sup>th</sup> of May 2011, it is issued IFRS 13, which introduces a new definition of the concept of fair value accounting, which replaces the previous definitions stipulated in IAS 39 – Financial Instruments Recognition and Measurement and IFRS 9 – Financial Instruments. [17]

IFRS 13 is replacing the existing standards regarding the fair value with a single definition of fair value and a single evaluation frame at fair value and presentation of the corresponding information. This new standard is applicable to assets, liabilities and to own capital instruments owned by an entity, for which, according to other standards, it is required or allowed the evaluation at fair value or it is necessary to present information related to the fair value.



The accounting standard is defining the fair value as being the price that can be received as a result of a sale of an asset or the price that can be paid to transfer a debt through a normal transaction between the participants of a certain market at evaluation date. [18]

### 5.3. IVSC

The International Valuation Standards Council - IVSC is an independent, not-for-profit, private sector organization that intends to develop high quality standards and offering the necessary support for their adoption and use by facilitating the collaboration and cooperation among its member organizations, but also with other international organizations. [19]

In March 2014, IVSC and IASB announced a joint statement of protocols in order to assure an effective cooperation between the organizations. The statement is the result of a shared interest of the organizations, to have a consistent measurement of fair value for financial reporting. On the one hand, IASB published the IFRS 13 – Fair Value Measurement, setting in this way the principles for measuring the fair value and on the other hand IVSC assures the collaboration and cooperation between the member of organization to help ensure consistent application. [20]

Based on the actions taken by the regulatory institution and by the manner in which, on the one hand, IASB and FASB are collaborating, in order to achieve an unique fair value statement and on the other hand IASB and IVSC are cooperating to assure an effective implementation of the standards, we can say that the effect of the financial crisis was the understanding of the importance transparency in the today's market place.

## 6. Concluding Remarks

The conclusions drawn from this research are mainly referring to the causes of financial crisis, the impact of the fair value accounting on the crisis and the measures taken by the regulatory institutions as an effect of the turmoil.

The global financial crisis is a complex event that is the result of a multitude of

elements among which the most important are the micro and macro policies, the poor regulatory framework and fair value accounting.

The impact of fair value accounting upon the severity of the recent financial crisis has been documented in several research papers and the results are relative, depending on the perspective from which the analysis is made. Some research papers are revealing a poor connection between the fair value accounting and global financial crisis, while others are in the opposite corner, pleading for a strong connection.

The fair value accounting is analyzed from a cause-effect perspective. When we analyzed the fair value as a cause of the financial crisis, the literature review was quite impartial, in the sense that the number of research papers sustaining the strong connection was similar with the number of research papers sustaining a poor connection.

When analyzing the effect that the financial crisis had over fair value accounting, the results are leading to a single direction, in the sense that the regulatory institutions took the necessary actions to have a unique fair value statement, with the same wording, in order to avoid confusion or differences between the way in which the international standards are applicable worldwide.

The effects of the global financial crisis had, on the one side, a negative impact upon the business environment, financial stability, upon society – these are the majority of the cases, on the other side, a positive impact upon the future changes.

The current research paper is an example that the regulatory institutions have learned from what didn't go right before and made the necessary changes in order to avoid such situation.

The processes of aligning the international standards is not yet close to an end, but at least in the area of fair value accounting we are seeing an evolution towards an unique standard.

## 7. Acknowledgment

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number

POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”

## 8. References

- [1] Blundell-Wignall, A., Atinson, P., Lee, S.H., “The current financial crisis: causes and policy issues”, *Financial Market Trends*, 2008, pp. 1-23.
- [2] De la Dehesa, G. “La primera gran crisis financier del siglo XXI. Origenes, detonantes, efectos, requestas y remedios”, *Alianza Editorial*, 2009.
- [3] Gorgan, C., Gorgan, V., Dumitru, V.F., Pitulice, I.C., “The evolution of the accounting practices during the recent economic crisis: Empirical survey regarding the earnings management”, *Amfiteatru Economic*, Bucharest, 2012, pp. 550-562.
- [4] Glavan, S., “Fair value accounting in banks and the recent financial crisis”, *Establidad Financiera*, 2010, 53-70
- [5] Tournier, J.C., “La revolution comptable – du cout historique a la juste valeur”, *d’Organization*, Paris.
- [6] Holmes, G., Sugden, A., “Interpreting company reports and account”, *Prentice Hall Publications*, Edinburgh.
- [7] International Accounting Standard Board, “International Financial Reporting Standards”, CECAR Publishing House, 2007
- [8] Deaconu, A., “Valoare justa. Concept contabil”, *Economica*, Bucharest, 2009
- [9] Plantin, G., Sapra, H., Shin, H.S., “Fair value accounting and financial stability”, *Financial Stability Review*, 2008, pp. 85-94
- [10] De Grauwe, P., “Act now to stop the markets vicious circle”, *Financial Times*, 2008.
- [11] The institute of chartered accounts in England and Wales, “Fair value accounting and the financial crisis”, Press Release, 2009.
- [12] Laux, C., Leuz, C., “Did fair-value accounting contribute to the financial crisis”, NBER Working Paper No. 15515, 2009.
- [13] International Financial Reporting Standards, “IFRS 13 Fair Value Measurement”, Project Summary and Feedback Statement, 2011.
- [14] Davis, A.C., “FASB moves closer to fair value consistency, comparability”, *California CPA Magazine*, 2007.
- [15] Financial Accounting Foundation, “Fair value measurement (topic 820) – Amendments to achieve common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs”, *Financial Accounting Series*, 2011.
- [16] Unknown author, “IAS 39 – Financial instruments: recognition and measurement”, official website: [www.iasplus.com](http://www.iasplus.com).
- [17] Unknown author, “A closer look- Fair value measurement of financial instruments under IFRS 13”, official website: [www.deloitte.com](http://www.deloitte.com).
- [18] KPMG, “IASB a emis IFRS 13 Evaluarea la valoare justa – Un cadru unificat pentru evaluarea la valoare justa si prezentarea informatiilor”, *Accounting Advisory Newsflash*, 2011
- [19] Official website: [www.ivsc.org](http://www.ivsc.org)
- [20] Unknown author, “IFRS Foundation and IVSC co-ordinate on fair value”, Press Release, 2014.

# Confidence Indexes and Their Influence on Macroeconomic Information on the Romanian Market

Țițan Alexandra Gabriela

Faculty of Finance, Insurance, Banking and Stock Exchange,  
Bucharest University of Economic Studies  
[alexandra.titan@gmail.com](mailto:alexandra.titan@gmail.com)

## Abstract

*Investors' behavior is considered one of the factors influencing the economy in general. Whether their behavior is rational or irrational is an extensively discussed subject, presented on a large body of literature.*

*This paper presents a research of how financial analysts' opinions may affect the future of the Romanian economy. We use the CFA Romania Macroeconomic Confidence Index in an empirical research to find whether the past values of the CFA Index have a significant influence on the future values of macroeconomic information on the Romanian market.*

*After performing normality tests and after testing the data for autocorrelation, cross correlation, multicollinearity, regressions were performed. Using regressions' indicators, projected data was obtained and compared with real data. Tests were realized to determine whether the projected data are significantly different from the real data or not. The conclusion is that part of the macroeconomic data is influenced by analysts' opinions regarding the evolution of the Romanian market.*

**Keywords:** Behavior finance; investors' confidence; CFA Romania Macroeconomic Confidence Index

**JEL Classification:** G1

## 1. Introduction

According to Statman [1], traditional finance is based on models with relaxed assumptions, like Miller and Modigliani principals, Markowitz portfolio theory, capital asset pricing model, Black, Sholes

and Merton option pricing model, etc. Still, in the real world, more strict rules apply and conclusions are very distinct from the hypothetical world.

As a result of the contradictory opinion's, behavioral finance appeared, being a subject more and more discussed and analyzed by researchers all over the world. Despite the impressive body of specialized literature, no specific conclusion was reached regarding the factors influencing investors' behavior.

Behavior finance uses more relaxed assumptions regarding maximized utility and rationality of investors as compared to traditional finance (Simon [2]). Also, investors are not risk averse according to Friedman and Savage [3]. Instead, behavioral finance considers sentiments affect investors' decision making process; also markets are imperfect, with no complete efficiency, causing limits of arbitrage to appear.

Investors' behavior is considered to be one of the most powerful mechanisms influencing the evolution of economies in general. In his paper published in 2000, Shiller [4] considered that the US market increase from 1990s was mostly caused by investors' irrational exuberance.

In this paper, we analyze whether the evolution of some macroeconomic indicators of Romanian economy (like RON/EUR exchange rate, overnight interest rates and BET – Bucharest Exchange Trading index of Bucharest Stock Exchange) are influenced by past opinions of financial analysts. In doing this, we use the CFA Romania Macroeconomic Confidence Index as a proxy for financial analysts' confidence on the evolution of Romanian market.

The conclusion is that past confidence of financial analysts is one of the factors influencing some of the macroeconomic indicators (ex. ROBOR O/N), but are poor

estimates for future evolution of other indicators as exchange rate.

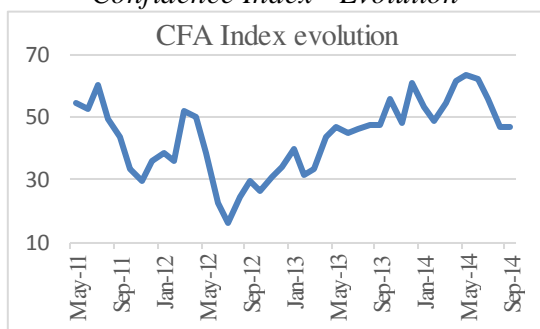
## 2. CFA Romania Macroeconomic Confidence Index

The CFA Romania Macroeconomic Confidence Index was launched in May 2011. The index has monthly frequency and the respondents are CFA Romania members as well as CFA Level II and CFA Level III candidates. The index determines financial analysts' expectations of the Romanian economy for a 12 months period. The survey is realized in the last week of each month and the results are released on the first week of the next month.

The survey includes qualitative questions about current economic conditions (business conditions as well as employment situation), and about expectations on short term (business conditions, employment situation, personal income, personal wealth, annual inflation rate, short-term and medium-term interest rates, BET stock market index, foreign exchange rate).

The values of the index range from 0 to 100, with 0 representing the lowest confidence and 100 the highest confidence. 50 points represent neutral confidence. The evolution of the CFA Index since its establishment is depicted below.

Graph 1. CFA Romania Macroeconomic Confidence Index - Evolution



Source: www.cfasociety.org

## 3. Empirical study – Methodology and results

In the investigation of the influence that financial analysts' opinions have on the future evolution of macroeconomic indicators on the Romanian market, we considered the following macroeconomic indicators: the

foreign exchange rate, the overnight Romanian interbank offer rate (ROBOR) and the Bucharest Exchange Trading index (BET). The first two sets of data were found on the site of National Bank of Romania (www.bnr.ro), while data about BET index were found on Bucharest Stock Exchange website.

All the available monthly data range from May 2011 until September 2014 for CFA Index and from June 2011 to October 2014 for the macroeconomic indices. This data was found on CFA Romania website and was split into 4 samples as presented into the table below.

Table 1. Data presentation

	Sampl e 1	Sampl e 2	Sampl e 3	Sampl e 4
Date (dd.mm)	05.11 - 03.14	05.11 - 02.14	04.14 - 09.14	03.14 - 08.14
No. observatio ns	35	34	6	6
Regression	1	2	3	3

Source: own contribution

The relationship between the CFA Romania Macroeconomic Confidence Index and the macroeconomic data is given by the equation below, where the CFA Index was considered to be the dependent variable, while the macroeconomic indicators were, by turn, the independent variables.

$$CI_t = \alpha + \beta X_{t-1} \quad (1),$$

$X_{t-1}$  is the yearly percentage change in each of the macroeconomic data. Yearly percentage changes are computed as the value of the previous month's indicator divided by the value of the indicator for the same month of the previous year.

Because there is a high probability for lag to appear between the financial analysts' opinions and their influence on macroeconomic indices, we also considered a two period-lag regression in dependent variables:

$$CI_t = \alpha + \beta X_{t-2} \quad (2)$$

Yearly percentage changes are computed as the value of the month before the previous month's indicator divided by the value of the

indicator for the same month of the previous year.

The research sample for the above regressions consists of 35 monthly data for the CFA Index, from May 2011 until March 2014 for the one-lag regression, and of 34 monthly data for the CFA Index, from May 2011 until February 2014 for the two-lag regression.

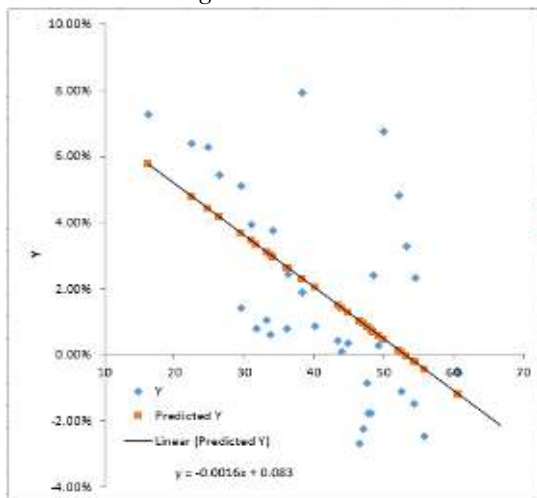
The results of both regressions may be consulted into the tables 2-7 and graphs 2-7 below, obtained in Excel.

Table 2. Regression results for foreign exchange rate independent variable.

	FX 1 lag	FX 2 lags
R square	0.339191	0.460081
F-test	16.9388	27.26813
Significance F	0.000242	1.042E-05
Intercept	0.082959	0.094325
t-stat	5.038247	6.178555
X variable	-0.00156	-0.00186
t-stat	-4.11568	-5.22189

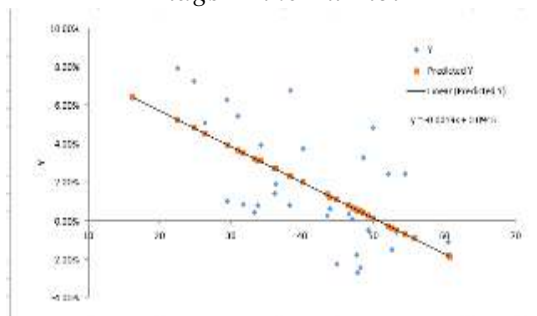
Source: own contribution

Graph 2. Foreign exchange rate variable 1 lag - Line Fit Plot



Source: own contribution

Graph 3. Foreign exchange rate variable 2 lags - Line Fit Plot



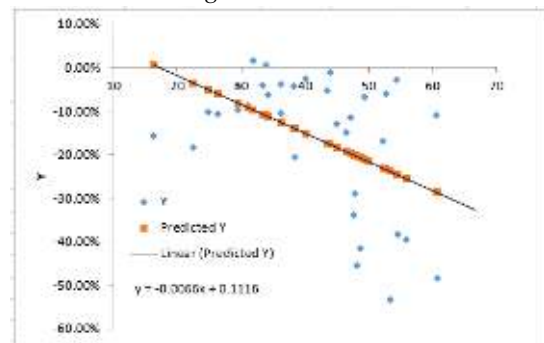
Source: own contribution

Table 3. Regression results for overnight interest rate independent variable.

	ROBOR O/N 1 lag	ROBOR O/N 2 lags
R square	0.232575	0.279175
F-test	10.00094	12.39361
Significance F	0.003348	0.001318
Intercept	0.111629	0.133685
t-stat	1.243832	1.514487
X variable	-0.00656	-0.00725
t-stat	-3.16243	-3.52046

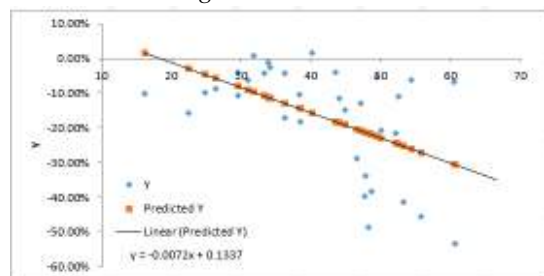
Source: own contribution

Graph 4. Overnight interest rate variable 1 lag - Line Fit Plot



Source: own contribution

Graph 5. Overnight interest rate variable 2 lags - Line Fit Plot



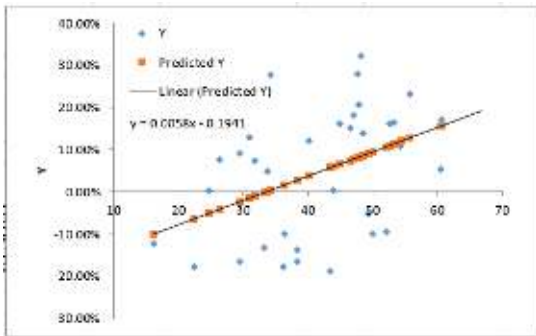
Source: own contribution

Table 4. Regression results for Bucharest Exchange Trading Index independent variable.

	BET 1 lag	BET 2 lags
R square	0.182966	0.062145
F-test	7.389973	2.120418
Significance F	0.010372	0.155089
Intercept	-0.19413	-0.09638
t-stat	-2.11341	-0.95614
X variable	0.005773	0.003423
t-stat	2.718451	1.456166

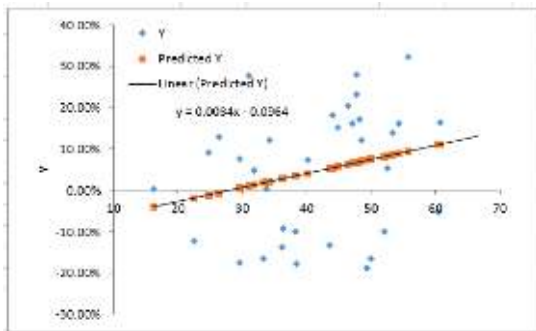
Source: own contribution

Graph 6. BET variable 1 lag - Line Fit Plot



Source: own contribution

Graph 7. BET variable 2 lags - Line Fit Plot



Source: own contribution

After performing the regressions (1) and (2) presented above, the resulting coefficients were used to project the next 6 months of macroeconomic indicators. These projected data were compared to the recorded real data based on the following regression:

$$PX_t = \alpha + \beta RX_t \quad (3)$$

where  $PX_t$  is the projected value of each of the three macroeconomic indicators, and  $RX_t$  represents the real values of each of the three macroeconomic indicators.

In case the CFA Index is a good proxy for the future evolution of the macroeconomic indices, the intercept coefficient from regression (3) should not be significantly distinct from 0, while the coefficients of the independent variables should not be significantly different from 1.

The results of regression (3) are presented into the tables below:

Table 5. Regression results for foreign exchange rate

	FX 1 lag	FX 2 lags
R square	0.194852	0.497661
F-test	0.968033	3.962755
Significance F	0.380875	0.117361
Intercept	-0.00493	-0.00637
t-stat	-1.00785	-1.28716
X variable	-0.33484	-0.59751
t-stat	<b>-3.92223</b>	<b>-5.32227</b>

Source: own contribution

Table 6. Regression results for overnight interest rate

	ROBOR O/N 1	ROBOR O/N 2 lags lag
R square	0.01012	0.371317
F-test	0.040895	2.362505
Significance F	0.849609	0.199096
Intercept	-0.22359	-0.09912
t-stat	-1.33653	-0.82145
X variable	0.093349	0.511783
t-stat	-1.96412	-1.46627

Source: own contribution

Table 7. Regression results for Bucharest Exchange Trading Index

	BET 1 lag	BET 2 lags lag
R square	0.182966	0.062145
F-test	7.389973	2.120418
Significance F	0.010372	0.155089
Intercept	-0.19413	-0.09638
t-stat	-2.11341	-0.95614
X variable	0.005773	0.003423
t-stat	-1.56187	<b>-5.37585</b>

Source: own contribution

The bolded values are significantly distinct from 0 (for intercept) and from 1 (for dependent variable) at 95% confidence level. While all the intercepts aren't significant distinct from 0, not the same is observed in the case of the independent variables.

The CFA Romania Macroeconomic Confidence Index appears to be a good proxy for future evolution of overnight interest rate (both with one and with two lags) and for BET index with one lag. On the other hand, the CFA Index is not a good predictor for foreign exchange rates and for 2 lags values of BET Index.

#### 4. Conclusions

This paper focused on the impact that financial analysts’ opinions have on some of the macroeconomic indices. As it was shown, there are signs that, indeed, these opinions may affect the future of an economy.

We consider this work as being just a piece of the future research that may be concluded on this subject. At this moment no large amount of data is available. As more and more data will appear, more detailed and accurate results may be obtained.

#### 5. Acknowledgements

This work was co-financed from the European Social Fund through Sectorial Operational Program Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/134197 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

#### 6. References

- [1] Statman, M., “Behaviorial finance: Past battles and future engagements”, *Association for Investment Management and Research*, 1999, pp. 18-27.
- [2] Simon, H.A., “Models of Man“, Wiley & Sons, New York, 1957.
- [3] Friedman, M., Savage, L.J., “The utility analysis of choices involving risk”, *The Journal of Political Economy*, 1948, pp. 279-304.
- [4] Shiller, R. J., “Irrational Exuberance“, Princeton University Press, Ewing, 2005

# The Convergence of Accounting Standards: a Continuous Concern

Trăistaru Diana Andreea

University of Craiova, Faculty of Economics and Business Administration

[traistaru.diana@yahoo.com](mailto:traistaru.diana@yahoo.com)

## Abstract

*The global economy is passing through a transition period toward a system focused on a grouping of multinational companies that activate on a global level. Multinational companies include a large number of other individual entities which maintain commercial, financial or other type of relations.*

*The market local economy may be influenced by activities that take place at large distances, as a consequence to the spreading of corporations on large geographical areas, being also necessary to provide comparable financial information from various places of the world.*

**Keywords:** standardization, international accounting convergence, internationalization, International Financial Reporting Standards, multinational companies.

**JEL Classification:** M41.

## 1. Introduction

In the context of an international approach to financial reporting, the comparability of accounting information is strongly influenced, leading to the deterioration of the decision of a more efficient capital allocation and it also emphasizes the uncertainty level of the users of accounting information.

As a result, the regulators, practitioners, academics and state representatives have decided to initiate and support a process of accounting convergence seeking formal uniformity of accounting treatments and correct transposition concerning the accounting practice. This takes the shape of a long process of international accounting harmonization, allowing us to talk about a process of international accounting convergence.

International discrepancies between various accounting systems represented at the beginning of the globalization process a real impediment in achieving the fundamental objective of financial liberalization of capital movements from all over the world. Efforts made represented the basis of some comparative studies of national accounting systems and a set of proposals regarding financial reporting from the perspective of international experience.

## 2. Perspectives of accounting convergence process

The support for the proposed international accounting convergence is reiterated by publishing Mou (Memorandum of Understanding; 2006-2008), which reports the current status of normalising projects of different accounting treatments that are different between U.S. GAAP and IAS / IFRS. [1]

In order to ensure an efficient global comparability, the existence of qualitative international accounting standards as a basis of worldwide reporting becomes necessary. It is anticipated that differences between IASB and FASB will be reduced for the following 5 years and for the next 8 years there will be the possibility that the two sets of standards may support each other.

Within the IFAC (International Federation of Accountants) it has been noticed that achieving international convergence requires more than theoretical support. It is required to reach a consensus as to the international standards that may serve as background for financial reporting and globally auditing, determining the facilitation of adopting those standards and ultimately, the initiation of mandatory actions for encouraging their implementation.

The IFAC study revealed the factors that block convergence [2]:



- the adoption and application of international standards in a country take place in an environment influenced by unique factors in that country, for example, economy, politics, legislation, regulations and culture;
- the countries find necessary the amendment of international standards so as to ensure national identity.

FASB considers that the main objective of this process is represented by a single set of high quality, international accounting standards that companies worldwide would use for both national and international financial reporting. The way toward this aim is represented by the FASB and IASB efforts of improving US GAAP and IFRS and by eliminating the differences between them. In order to ensure an efficient global comparability, the existence of qualitative international accounting standards as a basis of worldwide reporting becomes mandatory.

Figure 1 describes the SEC progress in the context of adoption in The United States, working in cooperation with IASB and FASB:

The differences between cultural and business backgrounds of developed and developing countries are so big that, a single set of standards would be enough to the both types of states.

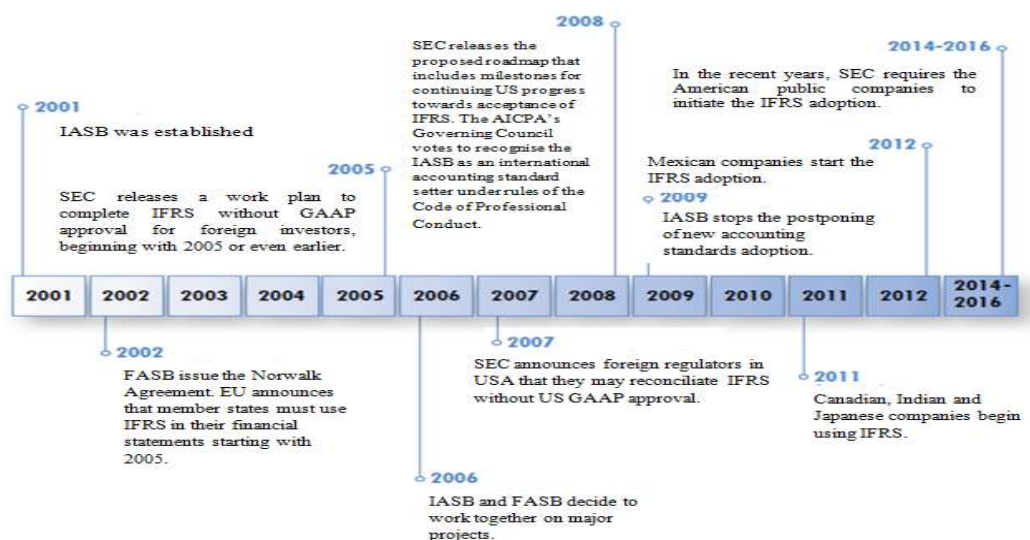
SEC plans for the following years and the duration for implementing the International Financial Reporting Standards (IFRS) can be uncertain and unpredictable; on the other hand, the impact on public companies is well known. [3]

The Securities and Exchange Commission, through the medium of FASB, is working on the establishment of a single set of standards which may not only be assimilated and improved, but it may also be useful for future comparable financial statements. [4]

The convergence of global accounting standards has benefited from a lot of attention in the accounting, academic and professional literature. Accounting professionals usually develop a positive attitude towards IFRS adoption.

Concerning the stakeholders and their interaction with standards' adoption, there are various opinions referring the positive or negative nature of IFRS application. It is clear that many aspects of the operations of American companies will be influenced by IFRS transition.

Figure 1 SEC Progress



Source: [5]

### 3. Multinational companies and accounting convergence

Multinational companies are among the supporters of accounting accelerated harmonization / convergence. Moreover, the IASB conceptual framework shows investors as the main beneficiaries of synthesis financial reports, because they are exposed to the highest risk in anticipation of bankruptcy. [6]

The quality of International Accounting Standards is many times confirmed in the literature, on the basis of a normalization process open to the public interest. The accounting convergence process itself is oriented toward compatibility of GAAP standards with the IASB issued standards, which once again attests the IAS/IFRS quality.

Despite the disadvantages regarding IFRS adoption by investors, researches show that the option of adopting IAS / IFRS rather than U.S. GAAP, doesn't register significant differences regarding the quality of accounting standards. However, the effects of adopting IAS / IFRS are more pronounced when the local IFRS standards differ significantly. Many countries have not yet decided on the adoption of IFRS. Some of them are represented by African countries (Angola, Cameroon, Chad, Algeria, Ivory Coast, Gabon, Guinea, Congo, Senegal, Tunisia). [7]

Most of these countries have decided to adopt the conceptual framework of regional professional body for the harmonization of business law in Africa.

However, most of the countries that prohibit the application of IAS / IFRS issued by the IASB either expressed their option for future adoption (Cameroon, Congo, Senegal in 2014, Bolivia, Colombia in 2015, USA in 2016, Saudi Arabia in 2017), or have taken full international accounting standards in the local accounting legislation (Trinidad and Tobago in 1988-1995, Bosnia-Herzegovina, Vietnam in 2002, Bahamas in 2007). So, the reporting consolidated financial statements of foreign companies was issued in conformity with Chinese GAAP, Canadian GAAP, Japanese GAAP, South Korean GAAP, while accepting Indian GAAP is being negotiated. Also, Canada, Mexico, Russia, and Switzerland accept using U.S. GAAP. [8]

Because of the more and more rare foreign consolidations and acquisition, the financial conditions have determined the downfall of Foreign Direct Investments (FDI). Developing countries represent an important part of the countries aimed at with the purpose of making investments.

The depreciation of the balance accounts of FDI companies influenced in a negative way the first years in which Romania became a EU member. [9]

The most significant profit raisings of FDI companies have been registered in Slovenia, Austria, Netherlands, Belgium, Hungary, our country remaining among the last countries as a consequence of losts and evidence of external payments, comparison which is being presented in Table 1.

*Table 1 Presentation of the relation between FDI and GDP in Romania comparing to member states EU27 (intra and extra)*

Country	Average periods		2010-2013/2003-2009
	2003-2009	2010-2013	
<b>Intra EU27</b>			
<i>Total intra EU27:</i>	-3.856,0	-12.588,6	4,00
Germany	-1.126,0	-2.566,3	2,55
Italy	-647,4	-925,4	1,87
Hungary	-215,9	-2.780,6	12,96
Netherlands	-55,4	-899,5	16,87
France	-425,5	-547,9	1,65
Austria	-410,5	-1.879,1	4,25
Poland	-634,3	-968,4	2,38
Portugal	-54,3	-45,9	0,89
Czech	-745,1	-698,7	1,64
Belgium	-93,4	-487,6	4,99
Greece	+102,8	-185,6	-1,95
Slovenia	-45,9	-255,8	6,77
Slovakia	-39,8	-364,7	1,88
Finland	-208,7	-18,9	1,65
Sweden	-88,6	-158,4	0,58
Britain	+239,8	+169,5	0,69
<b>Extra EU27</b>			
<i>Total extra EU27:</i>	-4.879,2	-4.996,4	1,22
Norway	96,8	+364,8	3,92
Switzerland	-168,9	+187,9	-0,89
Russia	-1.876,0	-1.877,6	1,05
USA	-198,6	-133,7	1,24
Canada	-68,5	-98,1	1,12
China	-697,5	-1.988,2	2,98
Japan	-308,9	-215,9	0,56

Source: [10]

International acquisitions and consolidations will present advantages for the transnational companies and they will substantially support FDI improvement.

#### 4. Conclusions

The accounting standards convergence describes the efforts of reducing the major differences between IFRS and the national accounting standards, in order to produce qualitative financial reporting.

Their convergence refers to the objective, but also to the way in which it can be achieved.

The benefits of accounting standards convergence are represented by low transaction costs for the initiators of financial reporting, because they are able to use a single set of standards and not multiple sets.

In addition, there are anticipated the following major benefits as a result of the accounting standards convergence:

- the network's general externalization which comes from the large use of common standards;
- improved comparability of financial reports belonging to different entities.

Through these co-operations, FASB and IASB seeked the compatibility of various divergent accounting treatments by prioritizing and categorizing them in short time project or long time projects. The list of projects may sometimes present changes, either by adding new accounting treatments, or by reprioritizing the existing ones.

#### 5. References

- [1] Istrate, C., *Impact of IFRS on Romanian accounting and tax rules for fixed tangibles assets*, *Accounting and Management Information Systems*, vol. 11, 2012, no. 2: 128–136;
- [2] Filip A., *IFRS and the value relevance of earnings: evidence from the emerging market of Romania*, *International Journal of Accounting, Auditing and Performance Evaluation*, Volume 6, 2010, Number 2-3 :198 – 223;
- [3] Achim, S., Bota Avram, C., *Fighting the enemy of fair view principle-getting to know creative accounting*, EBSCO, Scientific Annals of the „Alexandru Ioan Cuza”, 2010;
- [4] Albu, N., Albu, C.N., Bunea, S., Calu, D.A., Gîrbina, M., *A story about IAS/IFRS*

*implementation in Romania An institutional and structuration theory perspective*, *Journal of Accounting in Emerging Economies*, vol. 1, 2011, no. 1: 79-100;

- [5] \*\*\* UNCTAD, *Promoting standards for responsible investment in value chains: Item 1*. Report to the High-Level Development Working Group, September. New York and Geneva: United Nations, 2011c, available at: [http://unctad.org/en/publicationslibrary/wir2013\\_en.pdf](http://unctad.org/en/publicationslibrary/wir2013_en.pdf) (visited 27.08.2014).
- [6] Albu, C.N., Albu, N., Alexander, D., *When global accounting standards meet the local context — Insights from an emerging economy*, *Critical Perspectives on Accounting*, in press, 2013;
- [7] Heffes, E., *Global accounting firm CEOs on challenges - transitioning from GAAP to IFRS, and more*. In D. L. Street & B. E. Needles Jr. (Eds.), *IFRS Digest: What U.S. Practitioners and Entities Need to Know Now*. New York, NY: American Institute of Certified Public Accountants, Inc, 2008, pp. 187-188;
- [8] Ball, R., *International Financial Reporting Standards (IFRS): Pros and Cons for Investors*, *Accounting and Business Research*, vol. 36, 2006, supplement 1;
- [9] Barth, M., Landsman, W., Lang, M., *International Accounting Standards and Accounting Quality*, *Journal of Accounting Research*, vol. 46, 2008, nr. 3;
- [10] Hail, L., Leuz, C., Wysocki, P., *Global Accounting Convergence and the Potential Adoption of IFRS by the U.S. (Part II): Political Factors and Future Scenarios for U.S. Accounting Standards*, *Accounting Horizons*, vol. 24, 2010, no. 4.

## Using the "Efficient Frontier" in Analyzing the Activity of a Sample of Hotels from the Romanian Seaside

Trandafir Raluca-Andreea  
Ovidius University of Constanta, Romania,  
Faculty of Law, Administrative Sciences and Sociology  
[trandafirraluca@hotmail.com](mailto:trandafirraluca@hotmail.com)

### Abstract

*The purpose of this research is to emphasize the necessity of using the econometric and statistical-mathematical methods in the decision making process, in the hospitality industry.*

*This paper presents several modeling theories and concepts, and approaches, in particular, the econometric models that aimed at the presentation of the descriptive statistics for the variables analyzed, and testes several simple regression models. Thus, in order to capture more accurately the economic and financial performance of hotel companies, we have turned to a sample of 40 Romanian seaside hotels. We studied their effectiveness by applying the methodology for a period of 5 years in relation to a system of 6 economic and financial indicators.*

**Keywords:** the hospitality industry; frontier models; efficiency; econometric and statistical-mathematical models.

**JEL Classification:** C10; M40; M41

### 1. Introduction

Tourism has become a symbol of the modern Man, being one of the most complex global industry, which requires a good knowledge of the factors of the economic environment and of the transition to a decision-making system based on econometric and statistical-mathematical models.

Within this study, we have tried to present modeling related theories and concepts addressing, in particular, the econometric models, followed by the presentation of the descriptive statistics for the variables analyzed, and by testing simple regression

models. Thus, in order to present more accurately the economic and financial performance of hotel companies, we have used a sample of 40 hotels from the Romanian seaside.

### 2. Research methodology

In the literature, such issues are called DEA problems (Data Envelopment Analysis) and these models are developments of Farrell's ideas [3].

They were developed in a modern way by Charnes, Cooper and Rhodes [1].

These models are part of deterministic models: the deterministic nature is represented by the fact that all the activity data units involved are on the same side of the frontier. These techniques allow correction for the bias of the efficiency estimators and estimation of confidence intervals for the efficiency measures [5].

We are going to illustrate these concepts through a series of simple examples.

Consider the variables  $X$ ,  $Y$ , where  $X$  is the determinant variable and  $Y$  is the determined variable.

We admit that  $X$  is one of the factors determining  $Y$ , according to the econometric model:  $Y = a \cdot X + b + \varepsilon$ , where the random variable  $\varepsilon$  is distributed on  $R^+$ .

Then, we are going to consider the case where this variable has a negative exponential distribution, i.e.

$$\varepsilon = \begin{pmatrix} x \\ f(x) \end{pmatrix}; x \in R^+; f(x) = \frac{1}{k} \cdot \exp\left(-\frac{x}{k}\right), k > 0$$
$$M(\varepsilon) = k; \sigma(\varepsilon) = k$$

For  $\hat{y} = a \cdot \hat{x} + b$ , we have got  $\hat{y} \leq y$ , for any value of the determinant variable  $x$ . There is raised the problem of estimating the parameters  $a$ ,  $b$  of the model under optimal conditions and, of course, the determination

of the optimal concept appropriate to the problem.

The straight line for the equation  $Y = a \cdot X + b$  will be considered "the efficient frontier" for the respective data set, as shown below.

Consider such a set of survey data  $\{x_i, y_i\}_{i=1, n}$ ; we sought to determine the values  $a, b$  under the following conditions:

$$\begin{aligned} \hat{y}_i &= a \cdot x_i + b, i = \overline{1, n} \\ y_i &\leq \hat{y}_i, \text{pt. } \forall i = \overline{1, n} \\ \sum_{i=1}^n (y_i - \hat{y}_i) &= \min \end{aligned}$$

Because of the individual errors, i.e.

$e_i = y_i - \hat{y}_i$  are  $\geq 0$ , for  $\forall i = \overline{1, n}$ , we have chosen, as objective function, the sum of the individual errors: we believe that the proximity between the values  $\{\hat{y}_i\}$  and the values  $\{y_i\}$  is greater if the value  $\sum_{i=1}^n e_i$  is smaller.

We get the following results:

$$\begin{aligned} \sum_{i=1}^n (y_i - \hat{y}_i) &= \sum_{i=1}^n (y_i - a \cdot x_i - b) = \sum_{i=1}^n y_i - a \cdot \sum_{i=1}^n x_i - n \cdot b = \\ &= n \cdot (y - a \cdot \bar{x} - b) \end{aligned}$$

Therefore, the condition  $(\min) \sum_{i=1}^n (y_i - \hat{y}_i)$  is equivalent with the condition  $(\max) f = a \cdot \bar{x} + b$ .

Thus, determining the parameters for the values  $a, b$  of the model lies in solving the following mathematical programming model:

$$\begin{cases} (\max) f = a \cdot \bar{x} + b \\ a \cdot x_i + b \leq y_i, i = \overline{1, n} \end{cases}$$

This model, called "primal model", has got the free variables  $a, b$  and all the restrictions of the inequality " $\leq$ "; due to the large number of restrictions, we prefer to analyze the corresponding dual model. The dual model has a number of "n" nonnegative variables, noted as  $u_1, u_2, \dots, u_n$ , and the two restrictions will be equalities.

The dual model has the following aspect:

$$\begin{cases} (\min) g = y_1 \cdot u_1 + y_2 \cdot u_2 + \dots + y_n \cdot u_n \\ x_1 \cdot u_1 + x_2 \cdot u_2 + \dots + x_n \cdot u_n = \bar{x} \\ u_1 + u_2 + \dots + u_n = 1 \\ u_j \geq 0, j = \overline{1, n} \end{cases}$$

Note:

• the restriction system of the dual model is always compatible because its solution is:

$$u_1 = u_2 = \dots = u_n = \frac{1}{n}$$

• if the basic feasible solution of the restriction system of the dual model is  $\{u_i^0; u_j^0\}$  then it results that  $x_i^0 \leq \bar{x} \leq x_j^0$

• if  $x_i^0 = \bar{x} - \alpha; x_j^0 = \bar{x} + \beta; \alpha, \beta \geq 0$ , from the relation  $p \cdot x_i^0 + (1-p) \cdot x_j^0 = \bar{x}$  it results that

$$p = \frac{\beta}{\alpha + \beta}; 1-p = \frac{\alpha}{\alpha + \beta}, \text{ therefore, the basic}$$

feasible solution of the dual model is:

$$u_i^0 = \frac{\beta}{\alpha + \beta}; u_j^0 = \frac{\alpha}{\alpha + \beta}$$

Example: consider the data

$x_i$	1	2	4	6	7
$y_i$	9	3	7	5	11

We have got:  $\bar{x} = 4; \bar{y} = 7$

- the primal model has the following aspect:

$$\begin{cases} (\max) g = 4 \cdot a + b \\ a + b \leq 9 \\ 2 \cdot a + b \leq 3 \\ 4 \cdot a + b \leq 7 \\ 6 \cdot a + b \leq 5 \\ 7 \cdot a + b \leq 11 \end{cases} \Leftrightarrow \begin{cases} (\max) g = 4 \cdot a + b \\ a + b + h_1 = 9 \\ 2 \cdot a + b + h_2 = 3 \\ 4 \cdot a + b + h_3 = 7 \\ 6 \cdot a + b + h_4 = 5 \\ 7 \cdot a + b + h_5 = 11 \\ h_i \geq 0, i = \overline{1, 5} \end{cases}$$

The optimal table of the primal model is:

coef. g		4	1	0	0	0	0	0	
$C_B$	B	$v_B$	a	b	$h_1$	$h_2$	$h_3$	$h_4$	$h_5$
4	a	0,5	1	0	0	-0,25	0	0,25	0
1	b	2	0	1	0	1,5	0	-0,5	0
0	$h_1$	6,5	0	0	1	-1,25	0	0,25	0
0	$h_3$	3	0	0	0	-0,5	1	-0,5	0
0	$h_5$	5,5	0	0	0	0,25	0	-1,25	1
$\Delta$	$g = 4$		0	0	0	0,5	0	0,5	0

therefore, the optimal solution would be:

$a = 0.5; b = 2$ , and the equation of the consumer ship straight line is:

$$\hat{Y} = 0,5 \cdot X + 2$$

- the dual model has the following aspect:

$$\left\{ \begin{array}{l} (\min)h=9 \cdot u_1 + 3 \cdot u_2 + 7 \cdot u_3 + 5 \cdot u_4 + 11 \cdot u_5 \\ u_1 + 2 \cdot u_2 + 7 \cdot u_3 + 5 \cdot u_4 + 11 \cdot u_5 = 4 \\ u_1 + u_2 + u_3 + u_4 + u_5 = 1 \\ u_j \geq 0, j=1,5 \end{array} \right.$$

The optimal table of the dual model is:

coef.		h	9	3	7	5	11
C <sub>B</sub>	B	V <sub>b</sub>	u <sub>1</sub>	u <sub>2</sub>	u <sub>3</sub>	u <sub>4</sub>	u <sub>5</sub>
3	u <sub>2</sub>	0,5	1,25	1	0,5	0	-0,25
5	u <sub>4</sub>	0,5	-0,25	0	0,5	1	1,25
Δ		h=4	6,5	0	3	0	5,5

It is noticed that the dual model is more convenient, both because of the small number of restrictions and because its variables are nonnegative.

The dual table indicates that, within the primal model, for the optimal solution, restrictions 2 and 4 become equalities.

Another example:

x <sub>i</sub>	2	5	10	13	15
y <sub>i</sub>	6	12	8	10	17

The primal model:

$$\left\{ \begin{array}{l} (\max)g=9 \cdot a + b \\ 2 \cdot a + b \leq 6 \\ 5 \cdot a + b \leq 12 \\ 10 \cdot a + b \leq 8 \\ 13 \cdot a + b \leq 10 \\ 15 \cdot a + b \leq 17 \\ a, b \in R \end{array} \right.$$

The dual model:

$$\left\{ \begin{array}{l} (\min)h=6 \cdot u_1 + 12 \cdot u_2 + 8 \cdot u_3 + 10 \cdot u_4 + 17 \cdot u_5 \\ 2 \cdot u_1 + 5 \cdot u_2 + 10 \cdot u_3 + 13 \cdot u_4 + 15 \cdot u_5 = 9 \\ u_1 + u_2 + u_3 + u_4 + u_5 = 1 \\ u_j \geq 0, j=1,5 \end{array} \right.$$

The simplex optimum table of the dual model is:

C <sub>B</sub>		B	b	u <sub>1</sub>	u <sub>2</sub>	u <sub>3</sub>	u <sub>4</sub>	u <sub>5</sub>	e <sub>1</sub>	e <sub>2</sub>
6	u <sub>1</sub>		0,125	1	0,625	0	-0,375	-0,625	-0,125	1,25
8	u <sub>3</sub>		0,875	0	0,375	1	1,375	1,625	0,125	-0,25
f = 7,75			0	-5,25	0	-1,25	-7,75	a = 0,25	b = 5,5	

NOTE: the compensation variables for the primal model are: h<sub>1</sub> = 0; h<sub>2</sub> = 5,25; h<sub>3</sub> = 0; h<sub>4</sub> = 1,25; h<sub>5</sub> = 7,75; having the character of "errors"; for these errors, we have got:

$$m_\varepsilon = 2,85; \sigma_\varepsilon = 3,48$$

We check the consistency of errors, with the exponential distribution ε, for parameter k = 3.165, with the probability density of

$$f(x) = 0,316 \cdot e^{-0,316x}, x \geq 0$$

The econometric model is thus considered: Y = 0,25 · X + 5,5 + ε

For the models with multiple inputs (i.e. having several determinant variables) with only one determined variable, we have got the situation described below.[3]

Consider Y the determined variable and X<sub>1</sub>, X<sub>2</sub>, ..., X<sub>n</sub> – the determinant variables.

Y	X <sub>1</sub>	...	X <sub>j</sub>	...	X <sub>n</sub>	comp.
y <sub>1</sub>	x <sub>11</sub>	...	x <sub>1j</sub>	...	x <sub>1n</sub>	1/m
...	...	...	...	...	...	...
y <sub>i</sub>	x <sub>i1</sub>	...	x <sub>ij</sub>	...	x <sub>in</sub>	1/m
...	...	...	...	...	...	...
y <sub>m</sub>	x <sub>m1</sub>	...	x <sub>mj</sub>	...	x <sub>mn</sub>	1/m
$\sum_i x_{ij}$	p <sub>1</sub>	...	p <sub>j</sub>	...	p <sub>m</sub>	-
variable primal	a <sub>1</sub>	...	a <sub>j</sub>	...	a <sub>n</sub>	a <sub>n+1</sub>

We have got the following data:

The objective function of the linear model is:

$$\min \sum_{i=1}^m \left( y_i - \sum_{j=1}^n x_{ij} \right) \Leftrightarrow \max \sum_{j=1}^n a_j \left( \sum_{i=1}^m x_{ij} \right) \Leftrightarrow \max \sum_{j=1}^n a_j \cdot p_j$$

The restrictions of the primal model are:

$$\left\{ \begin{array}{l} a_1 \cdot x_{11} + \dots + a_j \cdot x_{1j} + \dots + a_n \cdot x_{1n} + \frac{1}{m} \cdot a_{n+1} \leq y_1 \\ \dots \dots \dots \\ a_1 \cdot x_{i1} + \dots + a_j \cdot x_{ij} + \dots + a_n \cdot x_{in} + \frac{1}{m} \cdot a_{n+1} \leq y_i \\ \dots \dots \dots \\ a_1 \cdot x_{m1} + \dots + a_j \cdot x_{mj} + \dots + a_n \cdot x_{mn} + \frac{1}{m} \cdot a_{n+1} \leq y_m \end{array} \right.$$

The primal variables a<sub>1</sub>, ..., a<sub>n+1</sub> are free variables, the primal problem is maximum and the primal restrictions are inequalities ≤; therefore, the dual model [2] will have m nonnegative variables denoted as b<sub>1</sub>, ..., b<sub>m</sub>; a number of n + 1 equality restrictions, and the extreme will be minimum.

Thus, we have got:

$$\left\{ \begin{array}{l} (\min) y_1 \cdot b_1 + \dots + y_i \cdot b_i + \dots + y_m \cdot b_m \\ b_1 \cdot x_{11} + \dots + b_i \cdot x_{i1} + \dots + b_m \cdot x_{m1} = p_1 \\ \dots \\ b_1 \cdot x_{1j} + \dots + b_i \cdot x_{ij} + \dots + b_m \cdot x_{mj} = p_j \\ \dots \\ b_1 \cdot x_{1n} + \dots + b_i \cdot x_{in} + \dots + b_m \cdot x_{mn} = p_m \\ b_1 + \dots + b_m = 1; b_i \geq 0, \forall i \end{array} \right.$$

If, for example, we use the primal model, unit A<sub>j</sub> (j = 1; n) is effective in relation to the system of the indicators used, if, in the

optimal iteration, the restriction number "j" becomes equal. Therefore:

- in the first stage, we solve the primal model and we select the units for which the restrictions are equal: these are the most efficient units and their group forms what we call *layer 1*;

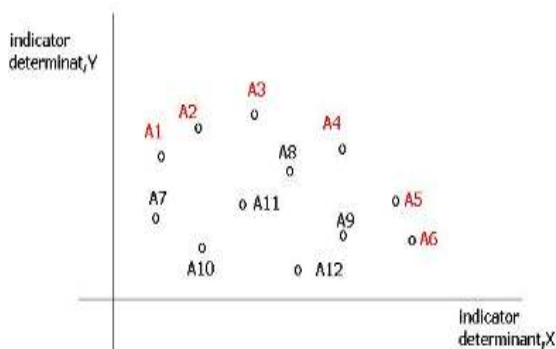
- in the next stage, we exclude from the assembly of units those units that are part of *layer 1* and we apply the linear model for the remaining units: the units wherefore the new constraints become equalities are those units whose efficiency degree is immediately following those from layer 1: they will be considered as belonging to *layer 2*;

- in a third stage, we also exclude the units from layer 2 and we get *layer 3* etc.

Consider a study on the efficiency of the activity carried out by 12 business units,  $A_1 \rightarrow A_{12}$ , with one determinant variable X and one determined variable Y: when representing the situations of the units in plan (XoY), we get:

Study data:

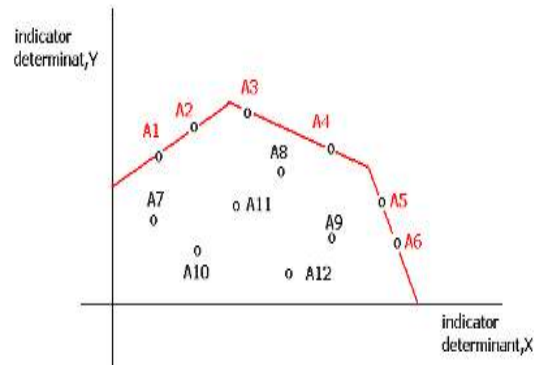
Chart 1. Study of the economic efficiency of the 12 units,  $A_1 \rightarrow A_{12}$



Each unit generates a restriction of the linear model: suppose that the first 6 restrictions become equalities in the optimal model: then the first 6 units,  $A_1 \rightarrow A_6$ , will form layer 1 and will be the most effective layer 1 and will be the most effective units of the 12 units studied.

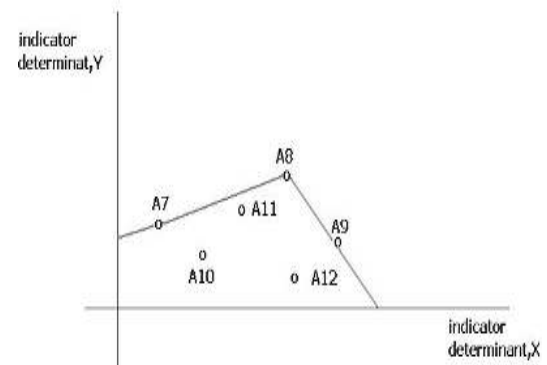
All these 6 units are regarded as effective, and comparisons can be made between them. We obtain the chart below:

Chart 2. Layer 1



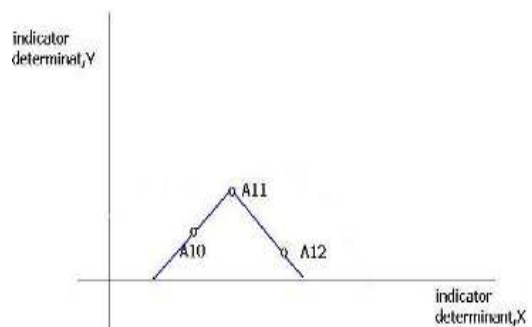
Now we exclude the first 6 units and apply the optimization model for the other 6 units left: after resolution, we find that the restrictions 7, 8 and 9 become equalities and we obtain the following diagram:

Chart 3. Layer 2



Finally, we apply the model for the other 3 units left and we get:

Chart 4. Layer 3



In conclusion, we have got:

- very efficient units:  $A_1 \rightarrow A_6$
- average efficiency units:  $A_7 \rightarrow A_9$
- inefficient units:  $A_{10} \rightarrow A_{12}$ .

### 3. Data processing and results

Returning to the main issue, we analyzed the efficiency of 40 hotel units. We studied their efficiency in relation to the system of indicators:

- turnover (determined indicator, Y);
- number of employees (determinant indicator, X<sub>1</sub>);
- equity (determinant indicator, X<sub>2</sub>);
- fixed assets (determinant indicator, X<sub>3</sub>);
- current assets (determinant indicator, X<sub>4</sub>);
- total debt (determinant indicator, X<sub>5</sub>);
- tourist classification (number of stars, determinant indicator, X<sub>6</sub>)

The study was conducted separately for the years n, n+1, n+2, n+3 and n+4.

For example, for year n+4, we got the following results and calculations:

*Table 1. The presentation of the main indicators for the 3 hotel units in year n+4*

no	Name of the hotel company	Turnover	No. of employees	Equity
		RON	No.	RON
2	APOLLO	459689	16	5892461
8	DACIA NORD	306715	12	724118
36	ASTORIA 36	24176	1	571106

no	Fixed assets	Current assets	Total debt	Stars	
	RON	RON	RON		
2	3766187	2181769	57882	2	A
8	321190	972500	569572	2	A
36	8036528	1740869	1853808	3	A

Source: The author's processing

This 3 hotel units belong to the efficient frontier, forming layer 1: they are the most efficient of the 40 units.

Applying the methodology for the five years, we get the following final summary table:

*Table 2. The efficient frontier of the 40 hotel units*

No	Name of the hotel company	n	n+1	n+2	n+3	n+4
1	ALCOR	E	-	E	-	-
2	APOLLO	C	B	B	B	B
3	ASTORIA	E	-	D	F	G
4	AURORA	E	-	E	-	-
5	BICAZ	C	B	A	C	C
6	CENTRAL	C	B	B	C	E
7	CONDOR	D	-	C	-	C
8	DACIA NORD	B	B	A	C	D
9	DACIA SUD	D	-	C	-	-
10	DOINA	E	-	D	-	G
11	DORNA	C	-	B	F	G
12	DUNAREA	E	-	D	-	-

13	FLORA	E	-	C	-	-
14	GOCIMAN	B	B	B	F	-
15	IAKI	C	-	C	E	-
16	JUPITER JUNONA	D	C	B	C	D
17	LIDO	D	-	D	-	-
18	LOTUS	-	-	-	-	-
19	MERCUR MINERVA	D	-	C	-	-
20	PALASPELICAN	C	B	E	F	
21	PALM BEACH	E	-	E	F	E
22	PARC	C	-	A	C	-
23	PATRIA	B	B	B	C	B
24	PERLA MAJESTIC	E	-	E	E	C
25	PESCARUS	E	-	D	-	-
26	PICADILLY	C	-	B	C	F
27	SAVOY	-	C	D	D	F
28	SIRET	B	-	B	C	E
29	SULINA	-	-	B	C	G
30	UNIREA	B	A	B	B	B
31	VEGA	B	A	A	D	G
32	VENUS	-	-	E	-	-
33	VICTORIA	C	-	C	F	G
34	AMFITEATRU	B	A	A	A	A
35	PALACE& RESORT	C	-	E	-	-
36	ASTORIA	A	B	A	A	A
37	DELTA	-	-	D	-	-
38	RIO	C	-	C	F	E
39	OPAL	E	-	D	-	-
40	THR MAREA NEAGRĂ	B	B	B	C	B

Source: The author's processing

The items marked by "-" represent a unit placed on an extremely bad place in that year, wherefore we did not record the result.

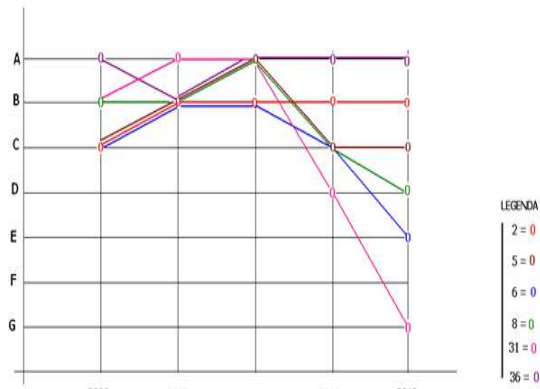
The letters represent the corresponding layer, i.e.:

- layer 1 (the most effective units) - marked by A
- layer 2 (the efficiency level situated immediately below) - marked by B, etc.

Only the units marked in the column "No" achieved significant levels of efficiency throughout the entire period. The chart (shown below) of the level efficiency dynamics is extremely eloquent:

*Chart 5. The dynamics of the classification of the 40 hotel units in years n –( n+4)*





#### 4. Conclusion

Our analysis reveals a steady decline in the efficiency of the most hotel companies considered throughout the study period.

In the early period (the first two years), the units revealed as efficient have achieved this level of efficiency on account of extensive factors, and, in the next period, most of them were marked by decline, as shown in the table above.

Thus, only nine units remained at a significant level of efficiency over the entire period (i.e. Apollo; Bicz; Central; Dacia Nord; Unirea; Vega; Amfiteatru; Astoria and THR Marea Neagra).

The others fell into lower categories because of their inconsistent policies regarding the management of certain factors, particularly of the number of staff: this number was too high in the early years of the study; in an attempt to redress the situation, they inadmissibly downsized it in the next years, which has resulted within the model by switching to stronger and stronger negative correlations. One can easily believe that the decisions were not generally scientifically based, that the action of the financial factors was not taken into account, which is also revealed in the study by the decrease in global correlations, leading to insignificant values.

It is thus necessary to better understand the environmental economic and transition factors towards a decision making system, which also use the econometric and the statistical-mathematical methods.

#### 5. References

- [1] Charnes, A., Cooper, W. W., Rhodes, E., „Measuring the Inefficiency of Decision Making units”, *European Journal of Operational Research* 2, 1978, pp. 429-444.
- [2] Bronson,R., Naadimuthu,G., *Schaum's outline of operational research*, McGraw-Hill Book Company, New York, 1997.
- [3] Kneip,A., Simar,A., „A general framework for Frontier Estimation with Panel Data”, *Journal of Productivity Analysis* 7, numbers 2/3, July 1996, pp. 187- 213.
- [4] Farrell, M.J., "The Measurement of Productive Efficiency", *Journal of the Royal Statistical Society A* 120, 1957, pp.253-281.
- [5] Simar,L., Wilson,P., „Statistical Inference in Nonparametric Frontier Models: The State of the Art”, *Journal of Productivity Analysis* 13,2000,pp.49-78.

## Measurement Indicators of the Value Creation within a company from the Romanian Seaside Hotel Industry

Trandafir Raluca-Andreea

*Ovidius University of Constanta, Romania,  
Faculty of Law, Administrative Sciences and Sociology*  
[trandafirraluca@hotmail.com](mailto:trandafirraluca@hotmail.com)

Mirea Marioara

*Ovidius University of Constanta, Romania, Faculty of Economical Sciences*  
[mm\\_mirea@yahoo.com](mailto:mm_mirea@yahoo.com)

### Abstract

*The purpose of this research is to highlight the role of value creation indicators measuring the financial performance of a hotel company from the Romanian seaside. The value creation indicators are the most appreciated indicators in terms of achieving performance that involve all used resources; these indicators can be adopted for the decentralization of management decisions. In order to highlight the importance of the value creation indicators assessment method, we performed a case study on a representative hotel company that gets positive financial results pursuant to conventional methods, aiming to outline the correlation between the value creation indicators and the traditional methods for performance assessment.*

**Key words:** value creation indicators; the cash value added; the market value added; the total shareholder return.

**JEL classification:** M40; M41

### 1. Introduction

For its success in the carried out activities (profitability) the tourism company has to master the basic elements of the strategy in such a manner that they organically and harmoniously integrate in the activity objectives of the company. These objectives will be achievable only under the terms that for every touristic product or service it will exist a strategic orientation clearly worded in concordance with the demands of the market and segments of the market capable to accept the offered items.[1]

The management of any company is faced with the dilemma of reconciling both the shareholders and the stakeholders' interests, in the conditions of increasing the company's welfare. The relevance of the value of these accounting and financial indicators depends on their impact on the market profitability of the company's capital. The management of value creation is a relatively new approach whose fundamental objective is to measure the financial performance of the enterprise.

The indicators which are often used in the analysis of the value created by the company are: the Economic Value Added (EVA), the Market Value Added (MVA), the Cash Value Added (CVA), the Total Return to Shareholders (TRS). In order to calculate the indicators of value creation, there was necessary to calculate a series of indicators, such as: the cost of equity, the cost of debt, the average cost, the risk-free interest rate and the market risk premium.

The role of the indicators of value creation is necessary to establish the company performance, but this should be made using profitability, efficiency or stock market indicators.

In order to obtain a conclusive outcome of our research, we chose to report data from the annual financial statements at the average euro exchange rate set by the RNB (the central bank) for the income and expenses cash flows, from the income and loss account and, for the balance sheet items, we used the Euro exchange rate from 31 December, set by the RNB. We considered necessary the expression of data in Euro as reference currency, given the dynamics in the analysed time horizon and the influence it had in the development of revenue and

expenditure, ensuring the comparability of results over time.

## 2. The Cash Value Added (CVA) - A measurement indicator of the value creation at SC Alfa SA

A modern indicator for measuring the company's financial and economic performance is the cash value added (CVA). The cash value added indicator (CVA) was standardized by the American consulting company The Boston Consulting Group [2]. The cash flow value added is determined from the company's gross cash flow for the period (GCF) wherefrom there are inferred the amortization (A) and the total cost of the capital used for financing the activities (CC), which is determined according to the relationship[4]:

$$CVA = GCF - A - CC \quad (1)$$

In its turn, the gross cash flow for the period is determined by adding to the net profit (net operating result), obtained by the company, the interest expense (IE) and the amount of amortization (A).

$$GCF = \text{net operational profit} + IE + A \quad (2)$$

Table 1. contains information on the indicators that we used in order to calculate the CVA indicator. The calculation was

exemplified based on the data from the company's annual financial statements.

After calculating the gross capital cost and the gross cash flow, there are obtained the CVA values for SC Alfa SA. These values are still negative but they register an accentuated value destruction. Indeed, in terms of progress during the five years, we witness a shareholder value destruction, which, in year n, had a negative value of 1640827euros; then, it decreased by 4999092euros compared to year n, i.e. a negative weight of 204.67% in year n+1 compared to year n. Since year n+2, this indicator still had a negative evolution but with a lower weight: in year n+2, compared to year n+1, it decreased by 36.64%; in year n+3, compared to year n+2, it decreased by 67.92%; and in year n+4, compared to year n+3, it decreased by 69.83 % - in this year it had the lowest value, i.e. -306594euros.

This was largely due to the overwhelming weight hold by the gross frozen assets in the gross investment but also to the net operating profit which recorded loss in the last two analysed years. This indicator allows a better appreciation of the company's performance exceeding the potentiality limits of the created value determined on the basis of profit, by its effectiveness [3].

Table 1. The CVA calculation method at SC Alfa SA, for the timeframe n - (n+4) (euro)

Indicators	n	n+1	n+2	n+3	n+4
GCF = net operational profit + IE	1686634	5078889	3247517	1300942	666095
Net quick assets euro	3964229	8328401	9558120	5611405	729790
Gross frozen assets euro	65274717	85424575	79260723	73726363	78925017
Gross investment = Net quick assets + Gross frozen assets	69238945	93752976	88818843	79337769	79654807
Weight of current assets in gross investment	0.05725	0.08883	0.10761	0.07073	0.00916
Weight of Gross frozen assets in gross investment	0.94275	0.91117	0.89239	0.92927	0.99084
Index of current assets = net profit/current assets	0.41969	0.60504	0.33556	0.20645	0.66642
Index of Gross frozen assets = Net Profit / Gross frozen assets	0.02549	0.05899	0.04047	0.01571	0.00616
GCC index – gross cost of capital (the average return rate)	0.04806	0.10750	0.07222	0.02920	0.01221
GCC (gross cost of capital) = Average return rate * Gross investment	3327461	10077982	6414723	2317000	972688
CVA = GCF - GCC	-1640827	-4999092	-3167206	-1016057	-306594

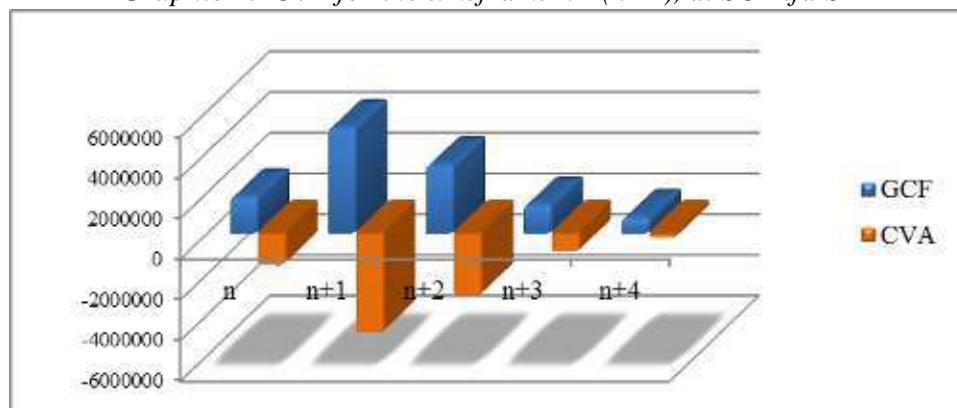
Table 2. The comparative presentation of indices for the timeframe n - (n+4) (%)

Indicators	n+4/n+3	n+3/n+2	n+2/n+1	n+1/n
GCF = net operational profit + IE	51.20	40.06	63.94	301.13

Net quick assets euro	13.01	58.71	114.77	210.09
Gross frozen assets euro	107.05	93.02	92.78	130.87
Gross investment = Net quick assets + Gross frozen assets	100.40	89.33	94.74	135.40
Weight of Gross frozen assets in gross investment	12.95	65.72	121.14	155.16
Weight of Gross frozen assets in gross investment	106.63	104.13	97.94	96.65
Index of current assets = net profit/current assets	322.79	61.52	55.46	144.16
Index of Gross frozen assets = Net Profit/ Gross frozen assets	39.22	38.83	68.60	231.43
GCC index – gross cost of capital (the average return rate)	41.81	40.44	67.19	223.68
GCC (gross cost of capital) = average return rate * gross investment	41.98	36.12	63.65	302.87
CVA = GCF - GCC	30.17	32.08	63.36	304.67

Source: Data taken over and calculated from the financial statements at SC Alfa SA

Graphic 1. CVA for the timeframe n - (n+4), at SC Alfa SA



### 3. The Market Value Added (MVA) - A measurement indicator of the value creation at SC Alfa SA

The market value added is the difference between the market value and the book value of a company. The MVA is an indicator of external performance and it reflects the additional value brought by managers to the

funds entrusted to them by investors.

The market value can be calculated according to the following formula:

$$MVA = \text{Stock value} - \text{Equity value} \quad (3)$$

The market value (MV) is determined by multiplying the number of shares (no.s.) with the stock quote of a share (sq), according to the relation:

$$MV = \text{no.s.} * \text{sq} \quad (4)$$

Table 3. The MVA calculation method at SC Alfa SA, for the timeframe n - (n+4)

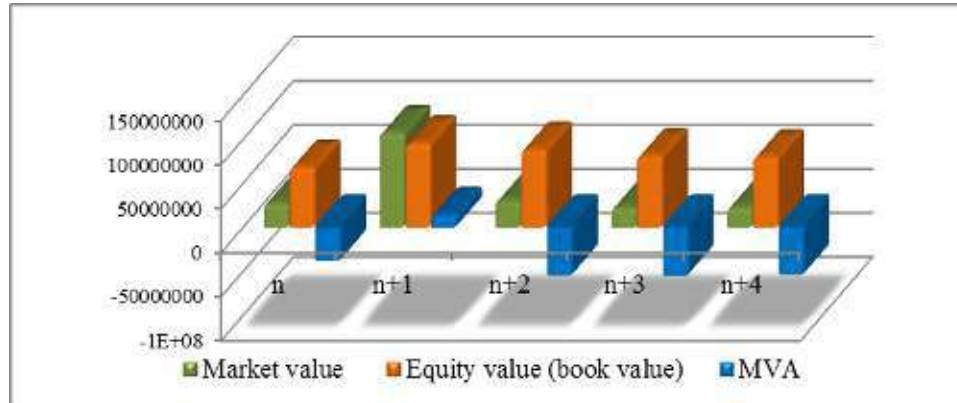
Indicators	measure	n	n+1	n+2	n+3	n+4
No. of shares		193114688	193114688	193070814	193058064	578949939
Stock quote in Romanian lei	lei	0.43	1.96	0.58	0.44	0.15
Market value in euro	euro	24555495	104843163	28099235	20090239	20267572
Equity value (book value)	euro	65698060	92993364	85863855	78373694	77092589
MVA = stock value – equity value	euro	-41142565	11849799	-57764620	-58283455	-56825017
Stock quote in euro	euro	0.13	0.54	0.15	0.10	0.04
Accounting quote in euro	euro	0.34	0.48	0.44	0.41	0.13

Table 4. The comparative presentation of the indicators for the timeframe n - (n+4) (%)

Indicators	n+4/n+3	n+3/n+2	n+2/n+1	n+1/n
No. of shares	299.88	99.99	99.98	100.00

Stock quote Romanian lei	34.09	75.86	29.59	455.81
Market value in euro	100.88	71.50	26.80	426.96
Equity value (book value)	98.37	91.28	92.33	141.55
MVA = stock value – equity value	97.50	100.90	-487.47	-28.80
Stock quote in euro	33.64	71.50	26.81	426.96
Accounting quote in euro	32.80	91.28	92.35	141.55

Source: Data taken over and calculated from the financial statements at SC Alfa SA  
Graphic 2. MVA for the timeframe n - (n+4), at SC Alfa SA



#### 4. The Total Shareholder Return (TSR) - A measurement indicator of the value creation at SC Alfa SA

The total shareholder return is an indicator used to estimate the value created. This indicator is determined using the stock quotes at the beginning and the end of the period and the dividend per share in the current period. The total shareholder return can be analysed in terms of the influences of the changes in the stock quotes of shares and in terms of the changes in the dividend flow.

$$TSR = (sq_1 - sq_0 + D_v) / sq_0 * 100 \quad (5)$$

where:

sq<sub>1</sub> = stock quotes at the end of the year

sq<sub>0</sub> = stock quotes at the beginning of the year

D<sub>v</sub> = dividend per share in the current year

Based on the information provided by Table 5., we present the results obtained within the timeframe n - (n+4). Thus, it is noted that year n+1 is the only year when the indicator had a positive value, i.e. 347.48 euros; in the remaining analysed period, this indicator had negative values. These results were influenced, on one hand, by external factors, such as the stock quote; however, the decisive factor had a domestic in nature, i.e. the decrease in the net profit recorded during the analysed period.

Table 5. The TSR calculation method at SC Alfa SA, for the timeframe n - (n+4) (euro)

Indicators	n	n+1	n+2	n+3	n+4
Stock quote	0.13	0.54	0.15	0.10	0.04
No. of shares	193114688	193114688	193070814	193058064	578949939
Net profit	1663730	5038991	3207362	1158500	486344
Dividend per share	0.01	0.03	0.02	0.01	0.00
TSR		347.48	-70.13	-24.37	-65.55

Table 6. The comparative presentation of the indicators for the timeframe n - (n+4) (%)

Indicators	n+4/n+3	n+3/n+2	n+2/n+1	n+1/n
Stock quote	33.64	71.50	26.81	426.96
No. of shares	299.88	99.99	99.98	100.00
Net profit	41.98	36.12	63.65	302.87
Dividend per share	14.00	36.12	63.67	302.87
TSR	268.94	34.76	-20.18	

Source: Data taken over and calculated from the financial statements at SC Alfa SA

## 5. Conclusions

This research approaches the value creation indicators, which are listed in the order of their appearance and importance, given by their use in practice and research. Among the indicators presented there are: the Cash Value Added, the Market Value Added, the Total Shareholder Return. The performance measurement methods and, in particular, the equity performance measurement methods based on accounting information, have many limitations due to the ways in which the accounting standards affect their calculation. The necessity of value creation indicators comes from the limits of the performance measurement indicators that are based on accounting information, including: the necessary adjustments for comparability (by applying different accounting treatments), the non-reflection of the risk and the non use of the opportunity cost of equity.

In order to calculate the value creation indicators, a number of indicators required calculation: the cost of equity, the cost of financial debts, the average cost.

In our analysis, through the entire study, it is noticed that the company succeeds to win enough to cover both the cost of the financial debt and the opportunity cost of equity.

This destruction of value is determined by the fact that the efforts for the return on the capital are much higher than the operational result. In other words, we find that the companies from the hotel industry lose money, even if they record a positive accounting result. Regarding the market value added indicator (MVA), it is noticed that the company creates value only in year  $n+1$ , when there was recorded a market value higher than the book value. In terms of the total shareholder return indicator (TSR), it is noticed that it has a positive value only in year  $n+1$  and, during the remaining analysed period, this indicator registered negative values.

During the remaining analysed period, this company destroys value, not reaching the performance targets set by shareholders. This company trades its shares well above the market value.

## 6. References

- [1] Asaloş,N., Georgescu,C.E.,“Aspects and interactions of competitiveness and efficiency in context of a durable development. Case study on touristic sector“, *Revista economică No.4 (57)*, 2011, pp.7-11.
- [2] The Boston Consulting Group, *Meeting the Value Challenge, Shareholder Value Management*, The Boston Consulting Group Inc., 1995.
- [3] Petcu,M, *Analiza Economico financiară a întreprinderii*, Ediția a II-a, București, Editura Economică, 2009, pp.407.
- [4] Vlceanu,Gh., Robu,V., Georgescu,N., *Analiză economico-financiară*, Editura Economică, București, 2005, pp.325.

## Governance Code - Solution to a Better Corporate Life

Tudose Geanina Gabriela  
Petroianu Grazia-Oana

*"Constantin Brancoveanu" University of Pitesti*  
*Bucharest University of Economic Studies*  
[geanina1c@yahoo.com](mailto:geanina1c@yahoo.com)  
[oana\\_petroianu@yahoo.com](mailto:oana_petroianu@yahoo.com)

### Abstract

*Transparency of financial information is an indispensable component for competitive capital market. Governance is the answer to what should be annulled idea of possible fraud due to lack of information transparency. All models of corporate governance places in center effectiveness of controls, but it remains the responsibility of entities to adopt a mechanism to ensure transparency of communication. All steps in this paper come to show how, why, and how relevant is the role of governance code for business today and especially the future. The need to ensure the transparency of investment potential financial position and financial performance of the business, they want to invest, may be one of the solutions to attract foreign capital for the development of the strategic points of the Romanian economy, Romanian capital with a vision to provide lasting support in terms of efficiency trivalent and points where there economies of scale.*

**Keywords:** corporate governance, governance code, management, performance

**JEL Classification:** M 41, M 42

### 1. Introduction

The term corporate governance is a set of rules by which a corporation is managed and controlled, ie it sets the "rules of the game" in the organization.

Moreover, corporate governance designates a set of control elements that act together to determine the relationship between all those with an interest in the company, also called stakeholders (shareholders, management,

employees, customers, suppliers, state), in order to increase company performance.

Important personalities in auditing, accounting (A. Morariu, N. Feleagă) of Romania, conducted various researches corporate governance in order to design and implement a model corporate governance for companies in Romania.

It's been almost 22 years (the first corporate governance code was developed in 1992) when he was given this principle, we can say that it is still of great interest for the Romanian economic environment. Throughout this period were issued numerous codes of corporate governance and will continue to deliver on. Each new version of code of corporate governance adds value, managing to improve corporate life.

### 2. Product of corporate governance - governance code

Corporate governance is a concept that came into literature and good practice in the field the last two decades.

Therefore, we can say that this concept - corporate governance - means "whole leadership of the entire organization by accepting all internal components, operating together, that ultimately will be integrated management and implementation of the organization's risk management (ERM) and financial management system and internal control (MFC), including internal audit." [2]

The reason that the concept of corporate governance is addressed with risk management across the enterprise and the development of financial management and internal control is given to companies attempting to implement systems risk analysis, testing, evaluation, supervision to contribute to a effective management for their operation.

Sir Adrian Cadbury presents, by definition of corporate governance, how organizations are directed and managed. In this sense, defined corporate governance as "the system by which companies are directed and controlled". [1] It is a simple description, but containing important elements referring to one of the most core concerns of a company - its performance.

Furthermore, companies must enroll in all the concepts, principles, standards and regulations relating to corporate governance in order to achieve relevant policies and performance expectations. Both codes and policies of this concept came to be a balance between conformance and performance.

Corporate governance has emerged as a response to the spectacular failures of the private sector. In a relatively short time, these failures have shaken, by their scale, investor confidence in how companies were run.

According to the World Bank, the purpose of corporate governance is to maintain a balance between economic and social objectives, between the joint and several, which helps to promote the efficient use of resources and accountability of managing them. Keywords in the definition of corporate governance are "balance" and "empowerment". [2]

The view of the World Bank findings correspond with Cadbury Report, namely: the purpose of corporate governance is to bring closer the interests of individuals, corporations and society.

In conclusion, the main actors of corporate governance are: shareholders, administrators, executives (managers), specialized committees (audit committee, remuneration committee, the Committee of financial management, etc.), internal audit and statutory audit (external).

### 3. Parallel between governance codes

The first Code of Corporate Leadership (1992) with 19 recommendations belongs to Sir Adrian Cadbury, president of Cadbury, which in the Report and Code of Best Practice, for the first time established the basics of managing a company to obtain increased efficiency, while discriminatory behavior towards shareholders. Over time, almost all transnational companies have defined their own codes of practice,

becoming more transparent to shareholders, in large part due to increasing their activism, but also because, being listed on the stock market, were interested to have a good image to fund providers.

*Progress in implementing corporate governance principles can be summarized as follows, depending on their contribution:* [4]

#### **1. ADRIAN CADBURY CODE (UK, 1992)**

- Sets for the first time basic rules for managing companies;
- Establishes the need for the establishment of audit committees;
- Widespread use of non-executive directors;
- Deems necessary to declare the degree of compliance with no penalties, the only sanction is the disapproval and the possibility of withdrawal of investors and shareholders.

#### **2. REPORT PAUL RUTTEMAN (UK 1993)**

- Recommend that any listed company to report on internal financial control.

#### **3. The standards of public life of Lord NOLAN**

- Consider necessary to ensure the development of an ethic in the public sector.

#### **4. RICHARD Greenbury Code (UK, 1995)**

- The need to set up a remuneration committee made up of non-executive directors to determine executive pay.

#### **5. RONNIE HAMPEL Report (UK 1995)**

- Directors must verify the effectiveness of internal control, no report on the results;
- Supports the idea of implementing internal audit, but not mandatory;
- However, recommend checking the internal audit function annually.

#### **6. Combined Code (UK 1998)**

- Is a combination of the other previous codes;
- Though voluntary, has become a mandatory requirement for listed companies;
- Code principle "comply or explain".

#### **7. CHARLIE Mc CREEVY**

- Launches "apply or explain principle", which obliges companies to justify any deviation from corporate governance codes;
- The principle of "comply or explain" is a central element of the European Corporate Governance type.

#### **8. REPORT NIGEL Turnbull (UK 1999)**

- Compliance with the combined code;
- Election of directors by shareholders at intervals not exceeding three years;
- Annual review of control systems;



- Confirm the need for internal control effectiveness reporting for the entire organization by issuing statements of internal control, not only of the internal financial control;

- Shows the connection with COSO Control Code and supports the need for risk assessment as a first step to a good system of internal control;

- Annual reports include a statement on how they have applied the principles of corporate governance.

#### **9. Sarbanes-Oxley Act (US, 2001-2002)**

- Adoption trenchant of the "comply or explain" principle, taken from the practice in the UK;

- Penalties for noncompliance are severe or fines up to ten mil. USD, repayment of bonuses received and criminal penalties of up to 25 years in prison;

- Other mandatory provisions countless independent directors, audit committees, nomination committees, codes of corporate governance and directors' statements;

- The audit committee to be constituted only of non-executive directors;

- Assessment of internal control in accordance with the recognized COSO model;

- Strategy approach to risk management in the new framework COSO-ERM, that the entire organization;

- Directors, every six months should renew the liability statement on the organization's internal control within the organization.

#### **10. ANDREW CHAMBERS (member of the board IIA)**

- Elaborates the first internal audit manual and proposes ten principles for ensuring implementation of corporate governance.

#### **11. REVISED COMBINED CODE (UK 2003)**

- Introduce principles and clauses tough on implementing corporate governance.

#### **13. SMITH REPORT(UK 2005)**

- Recommends implementation of audit committees.

#### **14. VIENOT REPORT (France, 1998)**

- Suggests examining corporate governance internationally and developing a Corporate Governance Guide for Europe.

#### **15. JAAP WINTER REPORT (France, 2002-2005)**

- Elaborates the final report to COMPANY LAW IN EUROPE;

- Contains recommendations for a modern regulatory framework legislation on European companies;

- Addresses issues regarding the role of non-executive directors, remuneration committee, statements of internal control;

- uses the British phrase "comply or explain".

#### **16. EU Commission, 2002**

- Believes that it is not necessary a European corporate governance code, but an approach based on principles of Sarbanes-Oxley.

#### **17. OECD, 2003 [5]**

- elaborates a "code of principles for healthy management of firms"

- elaborates the corporate governance principles, which completes the tasks of the Board, the rights and fair treatment of shareholders and transparency of financial information;

- OECD and the World Bank and International Monetary Fund have developed 12 standards based for sound financial systems which formed the foundation of a large number of national corporate governance codes.

#### **4. Corporate governance approaches in Romania**

Corporate governance appears in Romania, the conceptual and regulatory standpoint, only in the early 2000s.

The first corporate governance code was adopted in 2001. Also this year, BSE created, for admission to BSE, Category Plus ("a more transparent"). The companies that were listed on the BSE were able to promote the category Plus only after fully transposed into their articles of association provisions of the Code of Corporate Governance. But this was not the success hoped. There was one company that sought to promote the category Plus.

All companies seeking entry in this category must commit to include the maximum three months in the constitution all the rules of the Code of Management and Administration developed the BSE and also to eliminate all provisions contrary to this code. Unfortunately, only one company, Electroaparataj SA, requested inclusion in this category, at the suggestion of US investment fund Broadhurst Investments Ltd., which is the majority shareholder, which proves that Romanian managers are not

ready for this qualitative leap not understand or afraid of certain provisions, especially those related to transparency. Electroaparataj says clearly, this measure has improved its market position, even if efforts to implement the Standards were high and in addition is forced to permanently seek legal advice to protect confidential information, but without prejudice to the rights of shareholders. [4]

At one point, the BSE even questioned quitting Plus category because many managers agree with the Code of Management and Administration, but are not willing to implement it, because unlike capital markets in developed countries where good governance corporate lowers the cost of capital for listed firms, the standard of corporate governance is not so important for fund providers.

In the coming years, BSE has created Corporate Governance Institute. Its purpose was to educate issuers listed on promoting appropriate standards of corporate governance. Corporate Governance Institute has actively participated in the discovery of best practices of corporate governance and contributed to the adoption of the White Paper on Corporate Governance in South Eastern Europe countries.

In 2008, was adopted a new corporate governance code, which is based on the OECD principles. This new code came into effect from fiscal year 2009. The code is applied voluntarily by companies traded on the regulated market operated by the Exchange. Companies that decide to adopt all or part of it are required to submit annually a statement to BSE compliance or non-compliance with the Code of Corporate Governance (the "Comply or Explain"), stating which recommendations were actually implemented, and the method of implementation.

BSE Code of Corporate Governance is similar to those adopted by other Member States of the European Union and provides new recommendations conformation important for executives and boards of directors at the head of Romanian companies.

BSE considers the Code as having suppletive character to other acts of Romania, applicable to companies traded on the regulated market (for example, company law, accounting law, capital market law, etc.).

There are researches that reinforces the above mentioned, as you can notice the importance given to the principles of corporate governance in Romania: [3]

*Table 1. The importance given to the principles of corporate governance in Romania*

No	The indicators related to the attributes of the Board of Directors	The Governance code of BSE compared with the practice of 15 firms from the sample set	Requirements and European practice
1	Size of Board	The average number of members of the Board of Directors is six. This average is consistent with company law which requires a minimum of three one maximum of 11 members.	Romanian media is lower than the European average of 12.5 members, result which can be explained by size enterprises and shareholding structure.
2	Board Structure	-weighted foreign members of the board of directors is 16%; -Mean age of the board members is 51 years; -In Councils,	-weighted foreign members of the board of directors is 16%; -Mean age of the board members is 55 years; - In European Councils, the number of women

		the number of women increased from 6% to 16%.	7%.
3	Frequency of meetings	Average meetings through the sample is six	In the Board dualist 6.7 meetings and in those that have a unitary board 9.3 meetings
4	Independence	For 27% is ensured independence of the Board, and for the 53%, it is not ensured, and 20% of the companies did not provide information on the independence of the board.	Board independence varies on a scale of from 1.5% to 81.3% Germany Switzerland.
5	The distinction between the Chairman of the Board and Chief Executive	67% of companies, the functions of Chairman and CEO are held by the same person. At other companies, the two positions are held by different individuals.	
6	Disclosure of information on the remuneration of Board	None of Romanian companies analyzed did not disclose information on remuneration	The average of disclosure of information concerning the remuneration of Board members and

	members and senior	tion.	directors is 84%.
7	The existence of a code of ethics	Only 47% of companies provide information on the existence of a code of ethics.	73% of companies have a code of ethics significantly.

Source: N. Feleaga, L. Feleagă, V.D. Dragomir, A.D. Bigioi, *Corporate governance in emerging economies: the case of Romania*, Journal Theoretical and Applied Economics, Volume XVIII (2011), Nr. 9 (562), pg. 4

## 5. Conclusions

Corporate Governance is based on the organization's strategy and the costs involved, but also attempts to clarify the relationship between the various participants in determining the management and operation of corporations.

## 6. Acknowledgement:

„This paper was co-financed from the European Social Fund, through the Sectorial Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/138907 "Excellence in scientific interdisciplinary research, doctoral and postdoctoral, in the economic, social and medical fields -EXCELIS", coordinator The Bucharest University of Economic Studies”.

## 7. References:

- [1] Cadbury Report - Report of the Committee on the Financial Aspects of Corporate Governance, 1992
- [2] Marcel Ghiță, Marin Menu, Dan Vilaia, Maria Popescu, Ion Croitoru, *Corporate governance and internal audit*", Technica-Info Publishing House, Chisinau, pg. 11, 13, 17
- [3] Niculae Feleaga, Liliana Feleagă, Voicu Dan Dragomir, Adrian Doru Bigioi, *Corporate governance in emerging economies: the case of Romania*, Journal Theoretical and Applied Economics, Volume XVIII (2011), Nr. 9 (562), pg. 4,9
- [4] [http://megabyte.utm.ro/en/articole\\_noie\\_mbr/s\\_e/GuvenantaC.pdf](http://megabyte.utm.ro/en/articole_noie_mbr/s_e/GuvenantaC.pdf), Prof.univ.dr. Wagner

Pavel, prof. univ. dr. Negrutiu Magdalena,  
prof. univ. dr. Baloiu Liviu Mihai, lector univ.  
drd. Duca Ioana, lector univ. drd. Vaduva  
Florin, asist. univ. drd. Gherghina Rodica,  
asist. univ. Teodorescu Luiza, The principles  
of corporate governance, pg. 4

[5]OECD – The Organisation for Economic  
Cooperation and Development

# Determinants of Romania's Public Healthcare Expenditure. A Quantitative Approach

Văidean Viorela-Ligia

„Babeş-Bolyai” University Cluj-Napoca

Faculty of Economics and Business Administration, Finance Department

[viorela.vaidean@econ.ubbcluj.ro](mailto:viorela.vaidean@econ.ubbcluj.ro)

Maşca Simona-Gabriela

„Babeş-Bolyai” University Cluj-Napoca

Faculty of Economics and Business Administration, Finance Department

[simona.masca@econ.ubbcluj.ro](mailto:simona.masca@econ.ubbcluj.ro)

## Abstract

*Nowadays the financing of a country's healthcare system is, to a certain extent, relevant for that country's life standards and possibilities. The purpose of our paper is to analyze the per capita public healthcare expenditure of Romania in relation to several explanatory variables, through a time series analysis on quarterly data. This study reveals that the per capita GDP, the weight of population aged 65 and above in the total population and the number of doctors per one thousand inhabitants influence the Romanian per capita public healthcare expenditure. The results of our study have been interpreted and commented, through Matlab simulations on hyperplanes and hypersurfaces.*

**Keywords:** public healthcare expenditure, time series analysis, correlation, hyperplane, hypersurface.

**JEL Classification:** I18, H51.

## 1. Introduction

*Healthcare* is one of the most important components in one's life. The healthcare activity has a major influence upon the development of the national economy and Gross Domestic Product (GDP) increase. Basically the healthcare sector of a country is of a fundamental importance, as its architecture and financing means differ across countries and individuals, being largely influenced by social and economical conditions, as well as healthcare policies.

The evolution of the Romanian healthcare system in its classical shape of public per capita healthcare expenditure has been closely related to the socio-economic and political changes that took place in Romania in the last two decades. So, the events that took place at the end of 1989 and during the following successive political changes imposed a new strategy for acting upon Romania's healthcare sector. Up to the 1998 reform, the figures for the financing of the Romanian healthcare sector placed Romania at the end of the European top as percentage of GDP allocated towards the healthcare sector. After 1998, the percentage of public healthcare expenses in the GDP increased, so the contributions paid by both the employers and employees have become the main financing source of the new social health insurance system. Nevertheless, the increase hasn't proved to be significant (of appreciatively only 1% of GDP) and unfortunately that increase hasn't influenced the qualitative evolution of the Romanian healthcare system.

One of the main problems of the Romanian healthcare system is the under-financing of the health sector, as well as a poor management of the funds allocated towards this sector. The purpose of our study is to analyze the per capita public healthcare expenditure in Romania and draw some pertinent conclusions for the factors that influence the level of these public expenses.

The content of this paper is structured as follows: section 2 Literature review presents the main research trends in the healthcare expenditure field over the last decades; section 3 Methodology and results details the

time series analysis carried out as a multiple linear regression - the per capita healthcare expenditure of our country as an endogenous variable are determined as a function of the per capita GDP, the share of the population aged 65 and above in the total population of the country and the number of doctors per one thousand inhabitants, all functions being programmed, simulated and represented in Matlab as hyperplanes; section 4 Considerations regarding multiple correlations in  $R^4$  comes up with a new mathematical approach upon the correlation between the per capita public healthcare expenses and the same exogenous variables, all functions being programmed, simulated and represented in Matlab as hypersurfaces; section 5 Conclusions presents the usefulness of this study and the way it may be extrapolated in order to estimate and foresee the level of a country's public healthcare expenditure, as a function of the exogenous variables validated by the model.

## 2. Literature Review

Our present study tried to identify the exogenous variables that would explain to a certain extent the per capita public healthcare expenses of Romania. The recent timeline for the similar research papers of the healthcare expenditure field should include the works of Hoffmeyer and McCarthy [1]. In 1994 they concluded their research by affirming that "there was only one clear and well-defined statistical factor that influenced the healthcare costs, namely their correlation with the GDP. Other robust and stable correlations had not been found yet". These statements were confirmed by Roberts [2]. After examining the origins of healthcare expenditure and its determinants by Newhouse in 1977 and the worldwide research that had followed in the field, Roberts concluded that "In the past twenty year period, there had been little progress in that research field, apart from the fact that changes in the national income per capita were closely correlated with changes in the healthcare spending per capita"[2].

In fact, researchers consider there are two periods in the evolution of the literature devoted to this field. At first, during the 1970 – 1990 period, Cullins and West [3], Parkin, McGuire and Yule [4], Gerdtham and

Jöhnsson [5] and Hitiris and Posnett [6] have shown evidence of a positive correlation between the volume of public healthcare spending and the GDP of most OECD countries. This connection has proved to be robust over the years and even when studied by using conversion factors (such as deflators, exchange rates etc.). On the other hand, other intuitive exogenous variables could not be confirmed as being statistically significant.

The recent trend in research, which was originally established by Murthy and Ukpolo [7] and Hansen and King [8], has focused on the time series analysis of these variables. Unit root and cointegration tests have been applied to the public healthcare expenditures and the GDP. The results have been somehow inconclusive and relatively less robust to the testing methodology. The latest research papers have continued to analyze the factors that influence healthcare expenditure, like Hartwig [9], and have mostly relied on panel studies.

Little is known about the potential exogenous variables that would explicit the healthcare expenses of a nation as an endogenous variable. Over the past thirty years, research on the determinants of healthcare expenditure has focused on evaluating the strength of the relationship between the volume of public healthcare spending and the GDP. Attempts to determine other suitable exogenous variables have failed, as shown above, despite the fact that the correlation between public healthcare spending and GDP doesn't explain very much in terms of causal relationship. Even the apparent obvious weight of population aged 65 and above in the total population hasn't been proved to contribute and to explain the public healthcare spending in a certain extent, except for a very limited number of studies, such as Hitiris and Posnett [6] and Di Matteo [10]. Wilson [11] concluded that "economists haven't developed a formal theory that would explicit the health costs of a nation and that would predict the per capita healthcare expenses yet" and "without a strong theory, empirical research in this area have been based on ad-hoc thinking and they have depended on the availability of data". He further strengthened the importance of analyzing all these data and variables related

to the population, i.e. per capita data. Indeed, both Roberts [2] and Gerdtham and Jönsson [5] militate for improving the theoretical foundations of healthcare expenditure macroeconomic analysis. According to Roberts [2], this should be "the main goal of future research".

### 3. Methodology and Results

The study has as fundament a data basis with the real (deflated) per capita public healthcare expenditure of Romania over the 2006-2009 period, the real per capita GDP, the share of population aged 65 and above in the total population and the number of doctors per one thousand inhabitants, for the very same period. For these indicators we would verify the following hypothesis: does or doesn't there exist a dependency (correlation) between the per capita public healthcare expenditures on one hand and the per capita gross domestic product, the weight of the population aged 65 and above in the total population and the number of doctors per one thousand inhabitants respectively, on the other hand?

The linear multiple econometric model is considered to be of the following shape:

$$y_t = ax_{1t} + bx_{2t} + cx_{3t} + \epsilon_t,$$

where  $y_t$  = real per capita public healthcare expenditure (monetary units/inhabitant),  $y_t^{not}$ ChCorLoc;

$x_{1t}$  = real per capita Gross Domestic Product (m.u./inhabitant),  $x_{1t}^{not}$ PibCorLoc;

$x_{2t}$  = the weight of the population aged 65 and above in the total population,  $x_{2t}^{not}$ P;

$x_{3t}$  = the number of doctors per one thousand inhabitants,  $x_{3t}^{not}$ Mp.

The results obtained through the Matlab estimations are the following:

$$\text{ChCorLoc} = 2653.7 + 0.03 \text{PibCorLoc} - 220.1 \text{P} + 265.1 \text{Mp}$$

and the correlation coefficient for this model is  $R^2 = 0.7592$ . The  $\epsilon$  residual variables are normally distributed, there aren't any correlations between the exogenous variables and the residuals' vector for the population, the errors are not autocorrelated (DW = 1.93). The parameters of the model are significant.

Actually this multiple linear regression defines a hyperplane. A hyperplane is a geometrical concept, basically a generalization of the plane into a different number of dimensions. Because this hyperplane cannot be represented in the three dimensional space, we've successively replaced each independent variable with a fixed value, i.e. the average value of that exogenous variable. The regression equations were recomputed and the resulting planes belong to the three dimensional space. Furthermore, we've represented these planes as in Figure no.2. The field lines as in figure no. 1 represent the ChCorLoc levels obtained as a function of the exogenous variables considered on the abscissa and ordinate and as projections of the planes, by successively considering two explanatory variables and the average value of the third. Moreover, the planes differs in color intensity as a function of the higher or lower values obtained for ChCorLoc, when successively considering two exogenous variables and the average value of the third.

Figure no.1. ChCorLoc filed lines as a function of Mp and P, if PibCorLoc -> PibCorLocmed

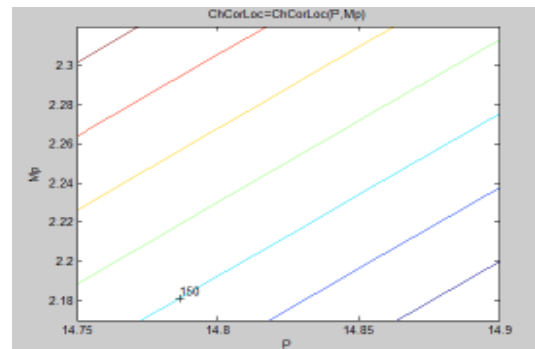
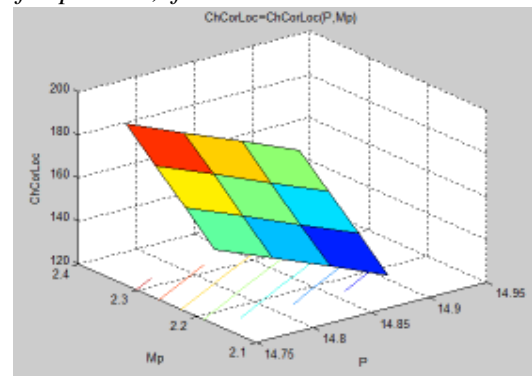


Figure no.2. ChCorLoc plane as a function of Mp and P, if PibCorLoc -> PibCorLocmed



Source: Authors' processings in Matlab

#### 4. Considerations regarding multiple correlations in $R^4$

By continuing our research, we have studied a correlation of the following shape:

$$u(x_1, x_2, x_3) = c_1 x_1^2 + c_2 x_2^2 + c_3 x_3^2 + c_4 x_1 x_2 + c_5 x_2 x_3 + c_6 x_3 x_1 + c_7 x_1 + c_8 x_2 + c_9 x_3 + c_{10}$$

where the following notations have been used:

$x_1, x_2, x_3$  – the independent variables

$u$  – the dependent variable

$c_1, c_2, \dots, c_{10}$  – the coefficients of terms.

By processing the experimental data through a *Matlab 300 line source code program* for the dependent variable  $u = \text{ChCorLoc}$ , and the independent variables  $x_1 = \text{PibCorLoc}$ ,  $x_2 = P$ ,  $x_3 = \text{Mp}$ , with the above established significances, we determine the equation of the regression hypersurface, the correlation coefficient and the standard deviation. Furthermore, the experimental data are compared with the theoretical ones, and we may determine the coordinates and the nature of the stationary point and we may exemplify the behavior of the function within its neighborhood.

Because of the fact that this hypersurface cannot be represented in  $R^3$ , we've successively replaced each independent variable with its average value. The so resulted surfaces belong to the three dimensional space. Furthermore, we've represented these surfaces and their corresponding field lines.

Table no. 1. Variation limits of variables

	Minimum value	Maximum value
PibCorLoc	2683.26	6866.49
P	14.7589	14.9618
Mp	2.1745	2.3143
ChCorLoc	85.675	259.7

Source: Authors' processings in Matlab

Table no. 2. Average values and deviations of variables

	Average value	Deviation
PibCorLoc	4771.6	1190.2
P	14.839	0.062337
Mp	2.2259	0.045163
ChCorLoc	150.32	46.782

Source: Authors' processings in Matlab

The values registered by the time series of variables range within the above inferior and superior variation limits, as in table no.1, having the average values and deviations of the variables presented in table no.2.

For the multidimensional processing of experimental data we've modeled the dependent variable  $u$  as a function of the independent variables  $x_1, x_2, x_3$ , of the shape:

$$u = c_1 x_1^2 + c_2 x_2^2 + c_3 x_3^2 + c_4 x_1 x_2 + c_5 x_2 x_3 + c_6 x_3 x_1 + c_7 x_1 + c_8 x_2 + c_9 x_3 + c_{10}$$

Because to each triplet  $(x_{1i}, x_{2i}, x_{3i})$ ,  $i = 1.. \text{length}(x_1) = 16$ , there corresponds an experimental value  $u_i$  and a theoretical value  $(u_i \text{tr})$ ,

$$u_i \text{tr} = c_1 x_{1i}^2 + c_2 x_{2i}^2 + c_3 x_{3i}^2 + c_4 x_{1i} x_{2i} + c_5 x_{2i} x_{3i} + c_6 x_{3i} x_{1i} + c_7 x_{1i} + c_8 x_{2i} + c_9 x_{3i} + c_{10}$$

the  $c_1, \dots, c_{10}$  coefficients would be determined through the method of least squares, i.e. by minimizing the expression

$$F(c_1, c_2, c_3, c_4, c_5, c_6, c_7, c_8, c_9, c_{10}) = \sum_{i=1}^{\text{length}(x_1)} [u_i \text{tr} - u_i]^2$$

i.e. the expression

$$\sum_{i=1}^{\text{length}(x_1)} \left[ u_i \text{tr} - (c_1 \cdot x_{1i}^2 + c_2 \cdot x_{2i}^2 + c_3 \cdot x_{3i}^2 + c_4 \cdot x_{1i} \cdot x_{2i} + c_5 \cdot x_{2i} \cdot x_{3i} + c_6 \cdot x_{3i} \cdot x_{1i} + c_7 \cdot x_{1i} + c_8 \cdot x_{2i} + c_9 \cdot x_{3i} + c_{10}) \right]^2$$

By computing the partial derivatives with respect to the unknown  $c_1, \dots, c_{10}$  coefficients and equaling these derivatives to zero, we determine the stationary points, i.e. the values of the  $c_1, \dots, c_{10}$  coefficients that minimize the modeling errors. We've further obtained the equation of the regression hypersurface that corresponds to the experimental data, having the shape:

$$\text{ChCorLoc} = 0.00002 \text{ PibCorLoc}^2 - 31389.7 \text{ P}^2 - 63053 \text{ Mp}^2 - 0.1 \text{ PibCorLoc} * \text{P} + 89730.7 \text{ P} * \text{Mp} - 0.8 \text{ Mp} * \text{PibCorLoc} + 3.1 \text{ PibCorLoc} + 732664.4 \text{ P} - 1046891.6 \text{ Mp} - 4280673.4$$

For the analyzed case, the coordinates of the *saddle point*, the stationary point for which the function's derivatives are zero, are the following: PibCorLoc 5430.56, P 14.91, Mp 2.27, ChCorLoc 185.17. The saddle point represents a point of stability for the system. We cannot state that the saddle point would



be a maximum yield point or a minimum expenditure point, but the saddle point represents a stability point of the system, for which the tangent plane to the regression surface is parallel to the plane of the considered exogenous variables.

Because this hypersurface cannot be represented in  $R^3$ , we've consecutively replaced each independent variable with its average value. The so-resulted surfaces belong to the three dimensional space. Furthermore, we've represented these surfaces and the corresponding field lines. By uniformly considering the PibCorLocmed value of 4771.6, which is relatively far away from the minimum and maximum values of this variable, the level lines of figure no.3 correspond to the  $ChCorLoc = ChCorLoc(PibCorLocmed, P, Mp)$  surface represented in figure no. 4 on a representation interval smaller than the range of P and Mp values.

Figure no.3. The ChCorLoc field lines as a function of P and Mp, if PibCorLoc ->PibCorLocmed

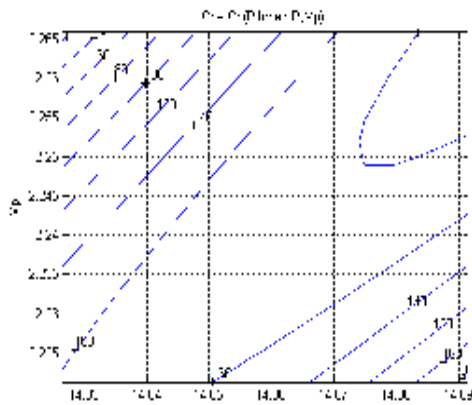
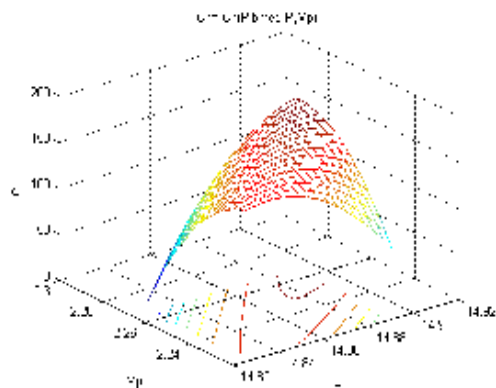


Figure no. 4. The ChCorLoc surface as a function of P and Mp, if PibCorLoc ->PibCorLocmed



Source: Authors' processings in Matlab

Then, by uniformly considering the Mpmmed value of 2.22, which is very close to the minimum and maximum values of this variable, the level lines of figure no.5 correspond to the  $ChCorLoc = ChCorLoc(PibCorLoc, P, Mpmmed)$  surface represented in figure no.6 on a representation interval smaller than especially the range of values of the PibCorLoc variable.

Figure no. 5 The ChCorLoc field lines as a function of PibCorLoc and P, if Mp ->Mpmmed

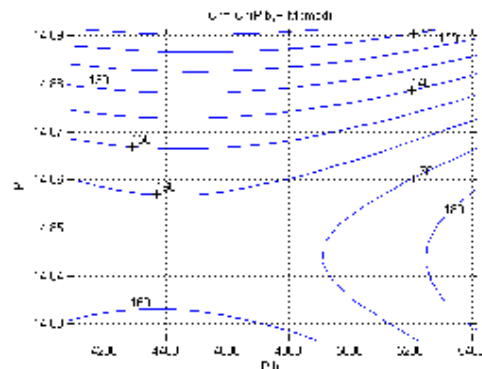
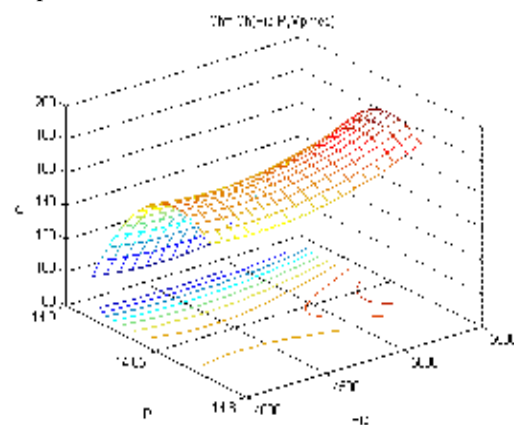


Figure no. 6. The ChCorLoc surface as a function of PibCorLoc and P, if Mp ->Mpmmed



Source: Authors' processings in Matlab

For these last two figures, the level lines have an increased density, so we may notice that the endogenous variable varies quickly if the population variable P is situated within the 14.86 – 14.89 interval. The minimum values of the variable are concentrated for a high P and a relatively small PIB, progressively rising in the colour range up to the maximum values obtained for a below average P and high values of the PIB.

Summing up, the Matlab software has several easy-to-use functions for creating three-dimensional surface graphs and

programming source codes. It has proved to be a handy tool for modeling the behavior of phenomena, i.e. the Romanian per capita public healthcare expenditure as a function of three exogenous variables from the field. Hyperplanes and hypersurfaces were further represented in a three dimensional space.

## 5. Conclusions

We may further state that in nowadays' healthcare environment, financial realities play an important role in the most decisions. The financing of a country's healthcare system is, to a certain extent, relevant for that country's life standards and possibilities. Nevertheless, decision factors should redirect a considerable amount of Romania's GDP towards the healthcare and education sector, although, so far, these sectors have often been underfinanced related to the needs in the field.

The usefulness of these studies resides in the fact that they would allow the estimation and foresight of a certain level for the public healthcare expenses, as a function of the known values for the other exogenous variables validated by the model. Although because of data inaccessibility, this study was carried out on a reduced number of observations, as new data become available, this study might be enlarged.

We consider our research to be an exploratory one, and admit it certainly needs to be extended and the hypotheses to be refined, by taking into consideration more variables, and by extending the tests in order to better explain the relationship between variables.

## 6. Acknowledgements

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”. There exist previous versions of this manuscript; one paper has been presented at the International workshop on Opportunities for Growth, Trade and Investments after the Crisis on November 9<sup>th</sup>-10<sup>th</sup> 2012, in Cluj-Napoca Romania,

organized by INFER-International Network for Economic Research and “Babeş-Bolyai” University.

## 7. References

- [1] Hoffmeyer U.K., McCarthy T.R., *Financing Health Care*, vol.1, Kluwer Academic Publishers, Dordrecht, 1994.
- [2] Roberts J., „Sensitivity of elasticity estimates for OECD health care spending: analysis of a dynamic heterogeneous data field”, *Health Economics* 8 (5), 1999, pp. 459-472.
- [3] Cullins J.G., West P.A., *The Economics of Health: An Introduction*, Martin Robertson, Oxford, 1979.
- [4] Parkin D., McGuire A., Yule B., „Aggregate health care expenditures and national income: is health care a luxury good?”, *Journal of Health Economics* 6 (2), 1987, pp. 109-127
- [5] Gerdtham U.G., Jönsson B., „Conversion factor instability in international comparisons of health care expenditure”, *Journal of Health Economics* 10 (2), 1991, pp.227-234.
- [6] Hitiris T., Posnett J., „The determinants and effects of health expenditure in developed countries”, *Journal of Health Economics*, 11 (2), 1992, pp.173-181
- [7] Murthy N.R.V., Ukpolo V., „Aggregate health care expenditure in the United States: evidence from cointegration tests”, *Applied Economics* 26 (8), 1994, pp. 797-802.
- [8] Hansen P., King A., „The determinants of health care expenditure: a cointegration approach”, *Journal of Health Economics* 15 (1), 1996, pp.127-137, and „Health care expenditure and GDP: panel data unit root test results – comment”, *Journal of Health Economics* 17 (3), 1998, pp. 377-381.
- [9] Hartwig J. (2008), „What drives health care expenditure?-Baumol's model of 'unbalanced growth' revisited”, *Journal of Health Economics*, 27 (3), 2008, pp. 603-623
- [10] Di Matteo L., Di Matteo R., „Evidence on the determinants of Canadian provincial health expenditures 1965-1991”, *Journal of Health Economics* 17 (2), 1998, pp. 211-228 and Di Matteo L., „The macro determinants of health expenditure in the United States and Canada: assessing the impact of income, age distribution and time”, *Health Policy* 71, 2005, pp. 23-42.
- [11] Wilson R.M., „Medical care expenditures and GDP growth in OECD nations”, *American Association of Behavioral and Social Sciences Journal* 2, 1999, pp.159-171.

## Accounting and Tax Treatment of VAT Collection

Velicescu Nicolae–Bogdan  
Academy of Economic Studies, Bucharest, Romania  
[venibocontab@yahoo.com](mailto:venibocontab@yahoo.com)

### Abstract

*In the pages of this article, I shall present a study whose main objective is to reflect how the treatment of VAT collection over the VAT invoicing treatment affects payment obligations to the state budget, namely the company's financial position. To achieve this objective I considered the legal provisions of the Tax Code (Law 571/2003) as amended and supplemented, the Methodological Norms for the application of the Tax Code, the Government Ordinance no. 15/2012 amending and supplementing Law no. 571/2003 regarding the Tax Code and the Government Emergency Ordinance no. 111/2013.*

**Keywords:** accounting treatment, tax treatment, payment obligations, VAT collection, VAT invoicing

**J.E.L. Classification:** M 41

### 1. Introduction

According to Government Ordinance no. 15/2012 amending and supplementing the Tax Code, a taxable corporation registered for VAT purposes whose turnover in the period 1 October 2011 - 30 September 2012 not exceed the limit of 2.250.000 lei apply VAT collection system beginning January 1, 2013, the remaining companies that have exceeded this limit applies VAT invoicing system[1].

A second amendment to the application of VAT collection was produced by Government Emergency Ordinance no. 111/2013 whose provisions applicable starting from 01.01.2014. A taxable company registered for VAT starting with 01.01.2014 has a choice about the tax treatment regarding VAT collection[2]. This option is available only for companies that don't exceed the minimum limit of turnover of

2.250.000 lei (RON equivalent of EUR 500.000) for the previous year, for those that exceed this limit applies the tax treatment of VAT invoicing.

### 2. Differences between tax treatment and accounting treatment of VAT

Before introducing the application of VAT collection system there was no difference between the tax and accounting treatment of VAT, in that chargeability of VAT was at the time of transfer of ownership and not at the time of payment or receiving.

VAT collection system assume collecting tax at the time of invoices encashment and deduct it from the payment date. In fact, VAT deduction and collection are strictly related to the movement of money applying a taxation of treasury, not a taxation of commitments as if incomes and expenses are. VAT invoicing means collection at the time of issuing the invoice and deduction at the time of the invoice, whether it was encashed or paid, with the risk of not collecting or not paying it, is basically a policy commitments.

The essential difference between VAT collection and VAT invoicing is the time of VAT collection or deduction. If VAT collection option the moment of collecting and deduction is given of money movement, in the VAT invoice option is signified by the time of transfer of ownership exactly the date of invoice[3].

As I pointed out in the above, rules for applying VAT collection has changed, in the first stage, a person registered for VAT who has not exceeded turnover related to period was strating to use VAT collection system with 01.01.2013 and deduct VAT at the time of payment to the suppliers VAT applies, but the collection of VAT was different in that it collected at the time of encashment or later than 90 days from the invoice if not encash earlier. VAT principle is one of equivalence meaning if a company collect another will

deduct, but in the situation above example if a company encash at 120 days from the date of invoice, it will collect VAT within 90 days and the company who was paying deducted to 120 days so there is a gap between the two moments. This was removed in 2014 when it was removed this collection within 90 days by Government Emergency Ordinance no. 111/2013. Also in the first stage if a newly established company registered for VAT it was applying the VAT collection system by default at the time of registration in VAT purposes.

In the current version, a company may choose for VAT collection system only upon registration for VAT purposes, otherwise it can not choose to apply VAT collection system in that year.

Under the new rules applying VAT collection system can only be made at the moment of registration in VAT collection and early next year if in the previous year did not exceed the turnover of 2.250.000 lei and will enter the system of VAT collection system from the first day of the second tax period the following year provided that the in the exercise did not exceed turnover threshold for the current year.

Given that the law allowed the option on the application of VAT collection system except that exceeds the threshold of 2.250.000 lei turnover, this is a very important decision in terms of cash flow.

To better understand this phenomenon is to take a practical example: It is assumed that the company Alfa buys from a supplier goods worth 248 lei including VAT, of which 48 lei VAT, invoice date is the 1st of the month, and the maturity is 30 days, such payment will be made on the 1st of the following month. The Alfa company is registered for VAT purposes and apply monthly VAT collection system. In this hypothesis does not matter whether or not the supplier apply to collection system because the buying company may deduct VAT on purchase only on the payment date, so the buyer is not affected by the VAT regime that applies his supplier. In the example given company will deduct the VAT on purchase in the second month because it will pay on the 1st of the following month and the VAT will have the submission deadline of the 25th of the third month. If the analyzed company does not apply VAT system in collection then it is

very important relationship with its suppliers, as if the supplier does not apply VAT collection system then the buyer will deduct VAT on invoice date. So there is no difference from VAT invoicing system, the company analyzed deduct VAT on their purchases and collects tax invoices related to sales to date.

In case the supplier apply VAT collection system, and the buyer (company Alfa) does not apply and receive a commercial loan from supplie's a longer period of time, the company buyer shall pay to the state budget VAT for selling goods, in fact it has received a commercial loan than a tax credit. Considering the fact that state penalties for late payment are high it appears that the VAT collection system is more advantageous than VAT invoicing system.

In terms of VAT collection depending on the type of system used, analyzing the two situations I present the following result: first alternative, the company apply VAT collection system, it will collect VAT for deliveries only when it will encash invoices, this is an advantage in that it will have cash to pay suppliers and thus decreasing commercial debts, as well as the fiscal debts; in the second version in which the company apply VAT invoicing system, the company will collect at the time of invoice, when there is a risk to pay VAT to the state budget that can not collect it never perhaps. In all situations must be taken into account trade margin just because in fact VAT is calculated and paid on the value added[4].

We can draw the following observations:

In the situation of a very small trade margins:

-if the term of encashment of customers is greater then the term of payment of suppliers, then VAT collection system is more advantageous practically collect later than deduct, the more so as the commercial margin is small;

-if the period of encashment of customers is approximately equal to the payment of suppliers, then VAT system does not influence both companies;

-if the period of encashment of customers is less then the payment providers so the VAT invoicing system is more advantageous;

In the situation of a higher trade margins:

-if the period of collection of customers is greater then the payment of suppliers so VAT collection system is more advantageous;

- if term customer collection is relatively close to that payment providers then VAT collection system is more advantageous;

-if the term collection of customers is less then the payment of suppliers it is important the size of margin trading, because VAT is calculated at the trade margin[5].

Depending on the application system of VAT collection there are four possibilities[6]:

- the supplier apply VAT invoicing system and the customer apply the VAT invoicing system, so the supplier and the client are not affected because they apply the same system;

-the supplier apply VAT collection system and the customer the VAT collection system, same situation both are not affected because they also apply the same system;

-the supplier apply VAT invoicing system and the customer the VAT collection system, the client also is not affected because collection outweigh the invoice;

-the supplier apply VAT collection system and the customer the VAT invoicing system, this situation is the most problematic because the client can deduct VAT only if it pays, it collecting at the time of invoice. This problem can lead to interruption of commercial relationship, between companies that apply VAT invoicing system and their suppliers who apply VAT collection system. This situation must be analyzed from both points of view.

If we look from the point of view of the supplier, as mentioned in the above the principle of equivalence of VAT is that one must collect and another one must deduct, and since the supplier who apply VAT collection system does not collect only when it encash it is not normal to deduct VAT the customer at the invoice date but the date of payment[7].

If we analyze the customer's point of view then it must consider that it collects at the invoice date and deduct VAT at the payment date for those who apply VAT invoicing system and at the moment of the invoice date from those who are in VAT invoicing system recorded[8].

Its interest is to play its debt and especially if it will pay those who apply VAT collection system, you will basically pay this amounts to suppliers and these payments will not be made to the state, but may have difficulties if they had problems with the encashments as it has VAT already collected and if it has no cash to pay suppliers, especially those with VAT collection system (especially if they have a large share in the total supply) then he is likely to enter into a financial difficulties because it has to pay VAT to the state.

### 3. Conclusions :

It can not say that there is a decision which if taken regarding the option of applying VAT collection system or invoicing is the best for an optimal cash flow as there are a number of factors that may influence such as:

-liquidity, if it is possible to cover this gap after making a decision even with some costs but not too big to exceed business opportunity;

-forecasts made may not be consistent with reality, at which finally proves that a decision initially considered as optimal, it is not the best for company.

In conclusion, legislation try to introduce alternative fiscal measures for taxpayers, depending on the specific activity of each entity, the introduction of these options being considered as a measure designed to help businesses in order to improve liquidity circuit.

It should be appreciated legislation initiatives for introducing the VAT system choice that apply a company unless the deposit ceiling turnover of 2,250,000 lei. The differences between the accounting and tax treatment of VAT are actually in terms of the presentation in the annual financial statements, chargeability of VAT if the system of VAT collection is on the payment date and chargeability of VAT invoicing when you invoice and accounting point of view in both versions go on the same position, so users information of annual financial statements are not influenced.

A measure which might be taken can be for a treasury policy for income and expenses also like this for VAT collection or VAT invoicing.

#### 4. References

- [1] Government Ordinance no. 15/2012 amending and supplementing Law no. 571/2003 regarding the Tax Code  
Financial Reports for 2010 and 2011;
- [2] Government Emergency Ordinance no. 111/2013.
- [3] Law no. 571/2003 regarding the Tax Code with amending and supplementing
- [4] Ministry of Public Finance Order 3055/2009;
- [5] [www.bvb.ro/Companies/ListedCompanies.aspx](http://www.bvb.ro/Companies/ListedCompanies.aspx)
- [6] [www.http://curierulnational.ro/Curierul%20contabilului/2014-02-27/Eficienta+sistemului+TVA+la+incasare](http://www.curierulnational.ro/Curierul%20contabilului/2014-02-27/Eficienta+sistemului+TVA+la+incasare)
- [7] [http://discutii.mfinante.ro/static/10/Mfp/infotva/Ghid\\_TVA\\_laincasare2012.pdf](http://discutii.mfinante.ro/static/10/Mfp/infotva/Ghid_TVA_laincasare2012.pdf)
- [8] <http://www.serban-accounting.ro/tva-la-incasare-sau-la-facturare/>

## Indicators for Measuring the Evolution of Local Budget Expenditure at the National Level, within the 2006-2012

Vezure Oana Sabina  
Lupulescu-Căruntu Roxana-Corina  
Faculty of Economics and Business Administration  
"Constantin Brâncuși" University of Târgu-Jiu  
[oanasabyne@yahoo.com](mailto:oanasabyne@yahoo.com), [r\\_caruntu@yahoo.com](mailto:r_caruntu@yahoo.com)

### Abstract

*It has been noted, over the years, that the legislation in the field of local public finances suffered, continuously, changes. Local public finances are objective in the present context, however, the difficulties faced by local authorities, the elements inherited from the old system requires further reform necessary, corresponding to the level of local public finances, the authorities closest to the citizen.*

**Key words:** indicators, evolution, variation expenses

**J.E.L Classification:** G01, H70, H 76

### Introduction

Against the backdrop of a financial crisis that still makes its presence felt, the local public administration is under pressure from income generation from local budgets, the pressure is transmitted to the taxpayers, the citizens paying the tax.

The package of laws on public administration reform, Romania has reconfirmed the aspirations of European integration post adjustment and, implicitly, of the reforms needed to achieve this priority objective.

Public administration reform is one of the priority themes of the current Government, with a particular emphasis on the financial component of it, taking into account the fact that our country is passing through a new stage, required, as regards the economic factor inextricably linked to social.

With the help of indicators, we can shape an accurate picture of the level of autonomy at the

local level, the first light of the expenditure incurred by the local public administration, as follows:

1. **The indicator of changes in the absolute magnitude of expenditure in local budgets ( $\Delta CH_{bt1/0}$ )** with which we can calculate the difference in spending between the two time periods, according to the relationship:

$$\Delta CH_{bt1/0} = CH_{bt1} - CH_{bt0}$$

Table 1 Change in expenditure in local budgets in nominal expression within the 2006-2012

Indicators	2007-2006	2008-2007	2009-2008	2010-2009	2011-2010	2012-2011
General public services	1211,9	1411,3	152,6	-586,5	-54,4	381,2
Social-cultural services	4273,2	4424,4	247,6	-1328,4	-835,5	1230,1
Education	1527,4	2435,3	-24,5	-1906,7	-791,9	780,6
Insurance and social assistance	-3306,9	1048	43,45	375	-973,7	121,6
Public development services, environment and water	778,7	1037	541,7	175,9	1839,8	343
Economic actions	2177,1	1132	-1124,6	993,9	1894,6	307,9
Total Expenditure	8589,5	8227,9	-135,7	-867,4	2796,7	2329,6

(Source: processing after data from the National Statistics Institute, -statistical database)

According to the data presented in the table, we notice a decrease in nominal public spending between 2006 and 2012, at 8589,5 mil. RON, at 2329,6 mil. RON, in 2012.

In terms of the amount allocated to general public services, in nominal expression, we

notice a decrease in the 2010-586,5 mil. RON compared to 2009.

The largest fluctuations were registered by the social-cultural services, for review.

2. **Nominal growth of expenditure local governments** may be calculated on the basis of the following relationships:

$$I_{CH_{bl}/b_{10}} = \frac{CH_{bl}}{CH_{b_{10}}} \times 100$$

Table No. 2 Nominal Growth of public expenditure in local budgets, from 2006-2012

Indicators	2007/ 2006	2008/ 2007	2009/ 2008	2010/ 2009	2011/ 2010	2012/ 2011
General public services	139,79	133,14	102,69	89,92	98,96	107,35
Social-cultural services	131,47	124,78	101,11	94,10	96,05	106,04
Education	117,58	123,84	99,80	84,89	92,60	107,86
Insurance and social assistance	164,64	119,86	100,68	106,22	85,56	102,10
Public development services, environment and water	125,95	127,44	111,24	103,28	133,25	104,65
Economic actions	139,32	114,67	87,28	112,87	121,74	102,90
Total Expenditure	133,82	124,21	99,67	97,93	106,78	105,29

(Source: processing after data from the National Statistics Institute, -statistical database)

According to the data presented in the table, in the period under review, the nominal growth of expenditure in the budgets of local governments registered a decrease of total expenditure, particularly in the years 2008, 2009 compared to previous years.

The index of growth in nominal expression of public expenditure has seen a setback in terms of expenditure on general public services, social services, cultural development, public services, the environment and water and economic actions.

3. **Transformation of the local budgets in expenditure from the nominal phase in actual expression** based on price index based on the following formula:

$$CH_{bl}^r = \frac{CH_{bl}}{I_{P1/0}}$$

Calculating spending local budgets in the actual expression, based on the price index the following:

Table No. 3: Expenditure in local budgets in the actual expression within the 2006-2012

Indicators	2006	2007	2008	2009	2010	2011	2012
Consumer price index	1,07	1,05	1,08	1,06	1,06	1,06	1,03
General public services	2846,44	4054,85	5248,98	5491,98	4938,67	5029,70	5399,80
Social cultural services	12661,40	16998	20622,5	21245,18	19991,98	19203,77	20957,37
Education	8115,70	9724,95	11709,72	11907,54	10108,77	9361,69	10392,23
Insurance and social assistance	2995,32	5025,61	5856,38	6007,92	6361,69	5443,11	5719,70
Public development services, environment and water	2803,45	3598,47	4458,70	5053,86	5219,81	6955,47	7491,06
Economic actions	5173,36	7345,33	8189,44	7283,20	8220,84	10008,20	10598,64
Total Expenditure	23731,58	32364,09	39083,51	39692,92	38874,62	41513,01	44983,88

(Source: processing after data from the National Statistics Institute, -statistical database)

According to data from the table above, we note that the consumer price index declines in 2009, from 1.03% to 1.06% in the year 2012.

By reference to the consumer price index, the cost of local government budgets do not know the very large fluctuations, taking into account that the consumer price index isn't very fluctuating.

In terms of overall expenditure reported in  $I_{PC}$ , they grow in the range studied, from 2006 to 2012, taking into account the fact that the decentralization process involves a higher volume spending alignment to European standards.

4. **Local budgetary expenses variation in the actual expression** can be determined as the difference between the costs of the two intervals,



in constant prices ( $CH_{bl1/0}^r$ ), according to the relationship: [1]  $\Delta CH_{bl1/0}^r = CH_{bl1}^r - CH_{bl0}^r$

Table No. 4 Expenditure from budgets of local  
Variation in the actual expression within the 2006-  
2012

Indicators	2007/ 2006	2008/ 2007	2009/ 2008	2010/ 2009	2011/ 2010	2012/ 2011
<b>General public services</b>	1208,41	1194,13	243	-553,31	91,03	370,1
<b>Social cultural services</b>	4336,6	3624,5	622,68	-1253,2	-788,21	1753,6
<b>Education</b>	1609,25	1984,77	197,82	-1798,77	-747,08	1030,54
<b>Insurance and social assistance</b>	2030,29	830,77	151,54	354,07	-918,58	276,59
<b>Public development services, environment and water</b>	795,02	860,23	595,16	165,95	1735,66	535,59
<b>Economic actions</b>	2171,97	844,11	-906,24	937,64	1787,36	590,44
<b>Total Expenditure</b>	8632,51	6719,42	609,41	-818,3	2632,39	3470,87

(Source: processing after data from the National Statistics Institute, -statistical database)

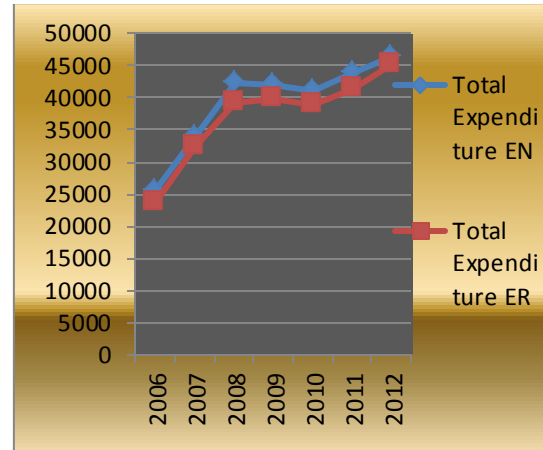
Analyzing the data presented in the table above, we see that in the year 2010, the general public services, in terms of the variance in the actual expression were considerably lower than in 2009, as well as expenditure on social and cultural services.

Total expenditures in the actual expression varied, in particular, to the middle of the interval analyzed, where in 2010 were much lower than in 2009.

Comparing data from this table and the table relating to "Changing expenditure in local budgets in nominal expression within the 2006-2012", we note that in the year 2007, expenditures in nominal expression was lower than spending in actual expression, compared with 2006, while in the year 2012 expenditure in

nominal expression, also lower than the actual expenditure in the expression for the same year, the following graph:

Figure No. 1 Comparative spending situation in nominal expression and expression in real spending of local budgets, from 2006-2012



(Source: processing after data from the National Statistics Institute, 2006-2012 -statistical database)

Looking at the chart above, we find that the variance of expenditure in local budgets values lower than the total expenditure in nominal expression. At the same time, due to the fact that the consumer price index is relatively stable, the total expenditure in nominal expression and the actual expression are relatively similar, within the time period analyzed.

5. Real growth of expenditure in local budgets is another indicator that we can determine the actual level of increase in public spending of local budgets, according to the formula:

$$I_{CH_{bl1/0}^r} = \frac{CH_{bl1}^r}{CH_{bl0}^r} \times 100$$

Table No. 5 Index which expresses the real growth of expenditure in local budgets, from 2006-2012

Indicators	2006	2007	2008	2009	2010	2011	2012
<b>Local budget expenditure</b>	25392	33982	42210	42074	41207	44003	46333
<b>State budget expenditure</b>	512356	643735	808864	898517	1026278	1060887	1045698
<b>Local budget expenditures in the State budget (%)</b>	49,5%	52,7%	52,1%	46,8%	40,15%	41,47%	44,30%

(Source: processing after data from the National Statistics Institute, -statistical database, www.insse.ro)

According to the data presented in the table, we see that the share of spending on local budgets (BL) in the State budget (B.S) have seen a slight increase in 2006, from 49.55% to 52.78% in 2007, following the fall of up to 40,15% of the total expenditure from the State budget in 2010.

The costs of locally recorded a slight increase in 2011, from 41.47% to 44.30% in 2012.

On average, between 2006 and 2012, expenditures in the local budgets are in decline.

## Conclusions

Local finances have been mutations in terms of quantitative and qualitative financial resources mobilized by the level of territorial administrative units and local public services.

Regarding the development of local budgets, it is imperative to list their destination development, as follows:

-operating expenses registered an increase directly proportional increase in total expenditure in local budgets, as follows: personal expenses, materials and services had significant share in the budget of the year 2012, 80,94% of the total expenditure;

- the biggest administrative territorial units transfers have taken place in 2010, as opposed to 2006, where spending on transfers have been much lower; with regard to the amounts earmarked for loans owed to the public debt, we find that the local public administration was more in debt in the last year analyzed, having regard to the obligation to pay 812,3 million lei RON interest burden of loans contracted. Expenditure on public services and social security had increased and those earmarked for health.

Also, administrative-territorial units were allocated for national defense, public order and national security, only between 0.93% at 1.19%, from the total outlay (rose, what's right, but their share still remains insignificant in the local budget).

Instead, the amounts intended for education dropped considerably since their share in 2006 was quite high in relation to the year 2012, from 34% to 23%.

The amounts allocated to social services and cultural decline steadily since 2006, from 53,45% to 46,58%, in 2012.

Also, subtract the costs for public authorities and external actions.

Expenditure on culture, recreation, religion and environmental protection have increased as a result of the increase in the social and cultural needs of the local community. At the same time, have risen and the amounts allocated to public transport services. Increased spending for public housing development, the environment and water (from 11,81% in 2006 from 16,65% in 2012).

-the expenses for the development of the local community have increased during the analysis period, as follows: capital expenditures increased in 2007, following the fall in the middle of the interval analyzed, and in 2011, the amounts allocated are higher.

Also increase spending on projects with funding from foreign grants, funds allocated in 2009 and up to 15 times more in 2012.

At the same time, expenditure on financial operations increased considerably and those intended for public authorities and external actions are dropping during the analysis period.

The size of public spending varies from one company to another, from one period to another, depending on the technological development and demographic factors of a political, social, etc.

## References

- [1] Elena Cigu, *Finanțe Publice Locale, Rolul lor în întărirea autonomiei unităților administrativ-teritoriale*, Editura Tehnopress, Iași, 2011.
- [2] Filip, Petru, *Managementul administrației publice locale. O abordare proactivă*, Editura Economică, București, 2007;
- [3] Institutul Național de Statistică, [www.insse.ro](http://www.insse.ro)

## Discussing a Title

Vârlan Cecilia-Iuliana

"Ovidius" University of Constanța, Faculty of Letters

[varlan\\_c@yahoo.com](mailto:varlan_c@yahoo.com)

### Abstract

*The present paper aims to discuss the difficulties raised by translating prepositions from one language into another, in this case from German into Romanian. The main discussion concerns the title of a German philosophical text and its Romanian translation, with a special focus on the prepositions used in both languages that are involved in the translation process. An additional example from the body of the respective philosophical text will be brought to attention in order to emphasize the importance of prepositions in text understanding and the creativity a translator should employ when dealing with such cases.*

**Key words:** translation studies, preposition, contrastivity, German language, Romanian language.

**JEL Classification:** Z00

### 1. Introduction

The present paper deals with the Romanian translation from Arthur Schopenhauer's *Aphorismen zur Lebensweisheit* [1], (Eng.: *Aphorisms on the Wisdom of life*<sup>1</sup>). The translation was made in several versions by Titu Maiorescu - a famous Romanian literary critic - who decided towards the end of the 19th century to introduce Arthur Schopenhauer, the great German philosopher, to Romanian readers by translating his most successful work. The exegetes of A. Schopenhauer's work described the two volumes of *Parerga and Paralipomena*<sup>2</sup>, in which these *Aphorisms* are included, as a "collection of fragments and essays, some of which only having but an

*indirect relation with his philosophy*" [2]. The author himself considered them merely "singular thoughts, nevertheless presented systematically and in an orderly manner" [3]. Ironically, these "thoughts" were the ones that made him famous within the philosophical world of his time, while his *opus magnum* (Germ.: *Die Welt als Wille und Vorstellung*; Eng: *The World as Will and Idea*) remained unobserved by his fellow philosophers and by the public as well. According to A. Schopenhauer's critics, the success of the *Aphorisms* resided in the fact that the German pessimist changed his attitude toward the readers by giving them advice and recommendations instead of affirming the fundamental pessimism of his philosophical system of which all his previous works were strongly impregnated. Thus, the *Aphorisms* resulted in a real treatise of eudemonology, a term explained by the author himself in the first paragraph of his work:

*„In these pages I shall speak of The Wisdom of Life in the common meaning of the term, as the art, namely, of ordering our lives so as to obtain the greatest possible amount of pleasure and success; an art the theory of which may be called Eudaemonology, for it teaches us how to lead a happy existence.”* [4]

The Romanian translation of the *Aphorisms* has several versions, all made by Titu Maiorescu, who repeatedly decided to revise his own work as a translator during a period of forty years (1872-1912). The first attempt was registered in 1872 by the literary journal *Convorbiri literare*, where the Romanian critic published two chapters of the *Aphorisms* only: *Introduction* and *Chapter 1. Division of the Subject*. In 1876/1877 he resumed the publication and succeeded in producing a whole version of the respective translation.

In 1890, almost twenty years after the first attempt, he decided to publish his translation

<sup>1</sup> Hereinafter referred to as *Aphorisms*.

<sup>2</sup> This work was firstly published in two volumes in Berlin, in 1851.

in a volume, at a publishing house in Bucharest, but not after having revised it thoroughly. The revision implied bestowing greater attention to stylistic particularities of Romanian language, which he initially neglected in favour of remaining true to the German text, as the translator himself admitted in the preface of his published volume [5].

The following revisions were successively published in 1891, 1902 and 1912 at the same publishing house in Bucharest as the 1890 version. The 1912 version of the *Aphorisms*, authored by T. Maiorescu, is considered to be definitive and is still being published in Romania in the present day (with slight orthographic changes), although other works of A. Schopenhauer have been reinterpreted by contemporary translators in the recent years.

The discussion that follows aims to emphasize the importance of prepositions in text understanding and to consider the difficulties in translating them from one language into another. A brief analysis shall be conducted by contrastively discussing the title of a German philosophical text (*Aphorisms*) and its Romanian translation, with a special focus on the prepositions used in both languages that are involved in the translation process.

## 2. On the Translation of the Title

With regard to the title of the work the present paper is dealing with, Titu Maiorescu initially translated it (from the German original *Aphorismen zur Lebensweisheit*) into Romanian as „Aforisme pentru înțelepciunea în viață”. When we said “initially”, we meant the 1872 partial version and the 1976 whole one, both published in *Convorbiri literare*. Later, in 1890, he slightly changed the title, by using another preposition: „Aforisme asupra înțelepciunii în viață”. The latter version remained as yet definitive.

Thus, our discussion shall regard the two above-mentioned Romanian versions, hereinafter referred to as:

A<sub>72/76</sub>: „Aforisme pentru înțelepciunea în viață”

and

A<sub>90</sub>: „Aforisme asupra înțelepciunii în viață”.

We shall further discuss a series of

syntactic, semantic, and pragmatic problems that became apparent when comparing the two versions A<sub>72/76</sub> and A<sub>90</sub> of the title.

The first difference to be noticed between A<sub>72/76</sub> and A<sub>90</sub> consists in the preposition used for the German lexical unit *zur*, which is placed between the two nouns of the original title and which represents a contraction of a preposition (*zu*) and an article (*der*). According to German syntax, *zu* requires the dative case for its complement, *Lebensweisheit*. The realization of the dative case in this specific situation is marked by the proclitic article for the feminine, *der*.

In order to translate the lexeme *zur*, Titu Maiorescu chose the Romanian preposition „pentru” in A<sub>72/76</sub>, while in A<sub>90</sub> he changed it with „asupra”. This very fact proves, on one hand, that the German preposition *zu* is polysemic and, on the other hand, that prepositions in general are highly difficult to translate. Nevertheless, this seemingly minor change in prepositional selection modifies not only the case of the corresponding noun, but also the semantics of the title.

In German language the preposition *zu* may be spatial, temporal, or causative; yet, the context it occurs in excludes both spatial and temporal aspects. Semantically speaking, *zu* belongs to the same paradigm as the German preposition *für* (Rom. „pentru”, Eng. “for”) and is being used when causality is expressed through abstract nouns [6], in our case, through the feminine noun *Lebensweisheit*.

On another hand, the Romanian connector „pentru”, used in A<sub>72/76</sub> version, is a lexical preposition, which requires the accusative case for the articulated noun „înțelepciunea” [Eng.: “wisdom”] and assigns the role of beneficiary to it. One can accordingly infer that the respective aphorisms might have a purpose, in other words that one becomes wiser through or by reading them. In A<sub>90</sub>, the use of the Romanian preposition “asupra” implies that the reader shall discover some dicta about wisdom in life, some memorable and concise sayings on the respective topic. Yet, the style of Schopenhauer’s writing is nowise sententious and concise, but elaborate, with long sentences which are sometimes even difficult to understand.

Therefore, although A<sub>90</sub> is the version that remained as yet definitive as far as the work title is concerned, the translation in A<sub>72/76</sub>

seems to be more adequate in our opinion, since the original author intended to offer his reader advice on how to live wisely, which, according to the German philosopher, would lead to happiness and contentment in life [7]. Our opinion is endorsed by the fact that Schopenhauer’s *Aphorisms* are rather an explanatory philosophical handbook that combines – in a relatively accessible style - theory (the axiology of the most important aspects of human life) and practice (A. Schopenhauer very practically illustrated his philosophical thoughts with examples available to anyone) and has an explicit purpose (living wisely and becoming as happy and as content as possible), which has been often expressed throughout the text by the author himself.

Another instance of the difficulties a translator would encounter as far as prepositions are concerned is the very case of translating German compound nouns. This is the case of the word *Lebensweisheit*, a German compound included in the same title we discuss here. Romanian language does not possess the appropriate linguistic resources in order to admit a single noun (may it be a compound one) as an ideal equivalent for such a word. The perfect transposition into Romanian of a German compound is thus impossible, yet it is usually solved by decomposing it into its constituents and recomposing them into a nominal group. Therefore, the translation strategy that should be used in such cases implies the deconstruction of the German compound and the translation of the deconstructed elements (*Leben* and *Weisheit*) into a nominal group with two nouns. The first one is the group centre, though it semantically corresponds to the second noun of the German compound, whereas the second - corresponding to the first German noun - is the subordinate element within the nominal group. The subordination may be realized by means of genitive or by including it in a prepositional group. Sometimes, the two nouns may occur as coordinated (see, for instance, „copil-minune” [Eng.: “wonder child”, “prodigy”] for the German compound *Wunderkind*), but these situations are not relevant to our discussion [8].

In both A<sub>72/76</sub> and A<sub>90</sub>, Titu Maiorescu chose to translate *Lebensweisheit* using the included prepositional group and selected the

preposition „în” [Eng.: “in”] as its regent. Yet, the very first words of the text published in 1890 surprisingly reveal that the translator turned to decomposing the German compound by using the genitive: „*Înțelepciunea vieții o iau aici în înțelesul obicinuit [...]*” [9].

What seems here to be an inconstancy in translation is, in fact, determined by the stylistics of the Romanian sentence. The translator was compelled to resort to genitival subordination in order to avoid repetition, since the preposition „în” occurs once again in the sentence at a very short distance. The relative instability of the subordinate element (which may occur as a genitive or as a prepositional group) is due to the fact that there is no unique principle in Romanian language for translating German compounds and much less some prescribed preposition to be used for the recomposing into a prepositional group. The only requirement, linguistically speaking, is for the last noun of the German compound - the so-called ‘determiner’ - to become the centre of the Romanian nominal group.

Another illustration of the difficulty in translating prepositions is included in the third sentence of the *Introduction*. After having dealt in the first two sentences with the problem of definitions - which is difficult in itself, yet when abstract philosophical terms are involved the difficulty becomes enormous - the third sentence is included in a series of explanations designed to additionally clarify the operational terms. Sentence no. (3) gives the opportunity to observe how the transfer from abstract to concrete is being made within the philosophical discourse. In the table below, the original sentence is referred to as (3), whereas the versions of the Romanian translations maintain the previously used notations.

(3)	<i>Aus diesem Begriffe desselben folgt, daß wir daran hängen seiner selbst wegen, nicht aber bloß aus Furcht vor dem Tode; und hieraus wieder, daß wir es von endloser Dauer sehn möchten.</i> [10]
A <sub>72/76</sub>	Din acest înțeles al ei urmează, că am iubi-o pentru ea însași, nu numai de frica morții; și din aceasta earăși, că am dori să o vedem de o durată nesfârșită.

A <sub>90</sub>	Din acest înțeles al ei urmează, că am iubi-o pentru ea însăși, nu numai de frica morții; și din aceasta iarăș, că am dori să o vedem nesfârșit de lungă.
-----------------	---

The point of interest within sentence (3) is the phrase *von endloser Dauer* which was literally transposed in A<sub>72/76</sub> as “de o durată nesfârșită” by using the Romanian equivalent „de” for the German preposition *von*. Starting with A<sub>90</sub> version, which - in this case - is equivalent to the definitive one published in 1912, some of the literal transpositions have been revised and stylistically refined, as far as Romanian language was concerned. Consequently, the Romanian equivalent for the respective phrase became „nesfârșit de lungă”, which - by using an adverbial adverb („lungă”; Eng.: “long”) along the adverbial modifier to express the superlative („nesfârșit de”; Eng.: “endlessly”) - preserves the meaning of the original and is a more appropriate realization as an adverbial adjunct for the verb „să (o) vedem” (Eng: “to see (it as)”). In any case, we must notice that the final result is not an explanation that has been concretised or objectified, but merely a more accessible explanatory paraphrase.

### 3. Conclusion

In the context in which the language used by A. Schopenhauer is sometimes quite difficult even for German scholars, and Romanian language at the time the *Aphorisms* have been translated had not yet reached the level of development to enable it to include high-level philosophical terminology as its German counterpart, Titu Maiorescu proved to be a highly creative translator, whose employment of various translation methods and strategies are worth studying by those who want to observe and use, at their turn, the compensating possibilities of the Romanian language in translating German philosophical texts.

Great translation difficulties were determined by the fact that several German lexical, morphological or syntactic structures have no direct equivalent in Romanian language: compound nouns (by juxtaposition), the verbal mode *Konjunktiv I* or the gerundive construction with attributive function. In many of those cases, the

translator Titu Maiorescu creatively succeeded in finding the most adequate translation solutions for his text. The present paper discussed the case of German compound nouns, whose Romanian equivalents cannot be equal to the sum of its translated constituents, but it demands a far more complex syntactic structure than the mere juxtaposition of the nouns which build the respective compound in the source-language. When translators choose a prepositional group and select a preposition as its regent, they should activate both their linguistic competence in the target-language and their creativity, since the preposition itself is absent from the source-language correspondent.

### 4. Acknowledgement:

This work was supported by the project "Sustainable performance in doctoral and post-doctoral research - PERFORM" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/159/1.5/S/138963.

### 5. Abbreviations:

Eng. – English language.  
Germ. – German Language.  
Rom. – Romanian language.

### 6. References

- [1] Schopenhauer, Arthur „Aphorismen zur Lebensweisheit“, in: Frauenstädt, Julius (Hrsg.), *Arthur Schopenhauer's Sämmtliche Werke*. 2. Aufl. Neue ausg. Fünfter Band. F. A. Brockhaus, Leipzig, 1891, pp. 331 – 530.
- [2] Ribot, Th., *Filosofia lui Schopenhauer*, traducere din limba franceză de Cornel Sterian, Editura Tehnică, București, 1993, p. 13 (English translation mine).
- [3] *Apud* Safranski, Rüdiger, *Schopenhauer și anii sălbatici ai filozofiei. O biografie*. Traducere din germană de Daniel Necșa. Editura Humanitas, București, 1998, p. 348 (English translation mine).
- [4] Schopenhauer, Arthur, *The Wisdom of Life*. Translated by T. Bailey Saunders. <<http://www.egs.edu/library/arthur-schopenhauer/articles/the-essays-of-arthur-schopenhauer-the-wisdom-of-life/introduction/>>
- [5] Maiorescu, T., „Prefața traducătorului”, in: Arthur Schopenhauer, *Aforisme asupra*

- înțelepciunii în viață*. Translated by Titu Maiorescu. Editura Librăriei Socecu & Comp., București, 1890, pp. VIII-IX.
- [6] Engel, Ulrich, 1993, *Kontrastive Grammatik deutsch-rumänisch*, Julius Groos Verlag, Heidelberg, 1993, pp. 850-851.
- [7] Arthur Schopenhauer, *Gesammelte Briefe*, A. Hübscher Verlag, Bonn, 1978, p. 244. *Apud* Safranski, Rüdiger, *Schopenhauer și anii sălbatici ai filozofiei. O Biografie*. Translated from German by Daniel Necșa. Editura Humanitas, București, 1998, p. 348. See also: Ribot, Th., *Filosofia lui Schopenhauer*. Translated from French by Cornel Sterian. Editura Tehnică, București, 1993, p. 13.
- [8] Idem [6], pp. 463 – 471.
- [9] Schopenhauer, Arthur, *Aforisme asupra înțelepciunii în viață*. Translated by Titu Maiorescu. Editura Librăriei Socecu & Comp., București, 1890, p. 3. (underlining mine).
- [10] Eng.: „Such an existence might perhaps be defined as one which, looked at from a purely objective point of view, or, rather, after cool and mature reflection - for the question necessarily involves subjective considerations, - would be decidedly preferable to non-existence; implying that we should cling to it for its own sake, and not merely from the fear of death; and further, that we should never like it to come to an end.”

